
Office of Gas and Electricity Markets

Resource Accounts 2009-10

(For the year ended 31 March 2010)

Ordered by the House of Commons to be printed 15 July 2010

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Introduction

These Resource Accounts have been prepared and published by the Office of Gas and Electricity Markets (Ofgem). The Accounts have been prepared under a direction issued by HM Treasury in accordance with section 5(2) of the Government Resources and Accounts Act 2000. The Accounts demonstrate the resources that have been used in an efficient and effective manner 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 2009 to 31 March 2010. It should be read in conjunction with the Ofgem Annual Report for 2009-10, 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 relies on competition powers and licence conditions, including the recent Retail Market Probe measures, 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.

In September 2009 Ofgem announced a major organisational restructure with the aim of further increasing our role in helping to meet Britain's targets to cut carbon emissions by 34 percent compared to 1990 levels by 2020. The creation of a new Sustainable Development Division reflects the increased profile of sustainable development within Ofgem, with an executive member of the Authority now holding responsibility for sustainable development. A new business unit, Ofgem E-Serve, was set up to respond to the rapid growth of climate change programmes and offshore transmission, together now worth £3.9 billion annually. Meeting the challenges of sustainable development and reforming electricity networks to enable them to support renewable energy are key themes of the reorganisation; it has also redoubled our European focus which is more than ever vital given the significance of greater internal energy market integration and issues relating to security of energy supplies.

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, the Energy Act 2008, the Climate Change Act 2008 and related legislation. In addition, the Energy Act 2010 received Royal Assent on 8 April 2010. The Act provides the legal framework for a number of Ofgem activities including provisions on delivering a new financial incentive for carbon capture and storage, implementing mandatory social price support, and introducing a package of measures designed to ensure that the energy markets are working fairly for consumers and delivering secure and sustainable energy supplies. The Government has also issued revised Social and Environmental Guidance to which Ofgem must have regard.

In fulfilling its obligations Ofgem works closely with the Department of Energy and Climate Change (DECC), Department for Business, Innovation and Skills (BIS), the Department for Environment, Food and Rural Affairs (DEFRA), Consumer Direct, and Consumer Focus.

The Consumers, Estate Agents and Redress Act 2007 made provision for the establishment of the National Consumer Council, known as Consumer Focus, and the abolition of energywatch and a number of other consumer bodies. Consumer Focus is an advocacy body, looking at consumer issues across sectors, not just energy. It has a duty to investigate complaints about actual or threatened disconnection, and a power to investigate complaints from vulnerable consumers. Consumer Direct is a telephone and online advice and information service for domestic customers. They give advice to customers raising complaints or enquiries. Consumer Direct also acts as a gateway for contacts with Consumer Focus. Ofgem works closely with both bodies.

As part of the new arrangements Ofgem appointed the Ombudsman Supply Limited to become the new independent ombudsman for gas and electricity customers. The new energy services ombudsman replaced the voluntary scheme that Ofgem ordered the industry to put in place in 2006. A review of the energy services ombudsman first year of operation is due to be completed in 2010-11.

Aim

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

To protect the interests of consumers, existing and future, wherever appropriate by promoting effective competition. Competitive solutions are promoted wherever appropriate, but direct regulation of network monopolies is essential to protect the interests of consumers.

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 2009-2014 identified seven themes:

1. Creating and sustaining competition,
2. Regulating networks effectively,
3. Helping to protect the security of Britain's energy supplies,
4. A leading voice in Europe,
5. Helping to achieve sustainable development,
6. Helping to tackle fuel poverty, and
7. Better regulation

During the year, the above themes were reviewed and the revised themes set out in the Corporate Strategy 2010-2015. These themes are shown in the 'Business Focus in Year and for the Future' section on page 15.

The Gas and Electricity Markets Authority

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

Basis of appointment

The Chairman of the Authority, Lord Mogg KCMG, was appointed for a period of five years as non-executive Chairman on 1 October 2003 by the Secretary of State for Trade and Industry following open competition. In February 2008 he was reappointed for a further five years on an increased level of hours arising from additional responsibilities until September 2013. Prior to taking up his role, he was appointed as a non-executive member of the Authority from May 2003. The other non-executive members of the Authority are also appointed by the Secretary of State in consultation with the Chairman of the Authority.

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

The appointment of the other executive members of the Authority is undertaken in accordance with the Civil Service Management Code some of whom were appointed as members of the Authority so long as they hold these posts. These arrangements will be examined to ensure that they are in line with the adoption of the EU's Third Energy Package.

Details of the remunerations paid to Authority members can be found in the Remuneration Report.

Executive Members of the Authority who served during the year

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

Sarah Harrison, Senior Partner, Sustainable Development, appointed to the Authority in May 2005. She was previously Managing Director, Corporate Affairs.

Steve Smith, Senior Partner, Local Grids and RPI-X@20, appointed to the Authority in May 2004. He was previously Managing Director, Networks.

Dr Andrew Wright, Senior Partner, Markets, appointed to the Authority in January 2008.

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

Lord Mogg KCMG joined the Authority as a non-executive member in May 2003. He was appointed for a period of five years as non-executive Chairman on 1 October 2003 by the Secretary of State for Trade and Industry following open competition. In February 2008 he was reappointed for a further five years until September 2013 on an increased level of hours arising from additional responsibilities.

Dr Robin Bidwell CBE joined the Authority as a non-executive member in February 2003. His final term ended in February 2010.

Professor David Fisk CB, joined the Authority as a non-executive member in July 2009. Unless renewed, his current appointment ends in July 2012.

Miriam Greenwood OBE DL joined the Authority as a non-executive member in May 2004. She was reappointed from January 2010. Her appointment ends in January 2013.

Judith Hanratty joined the Authority as a non-executive member in January 2005. Her term ended in December 2009.

David Harker OBE joined the Authority as a non-executive member in January 2009. Unless renewed, his current appointment ends in January 2012.

John Howard joined the Authority as a non-executive member in July 2009. Unless renewed, his current appointment ends in July 2012.

Jim Keohane joined the Authority as a non-executive member in January 2009. Unless renewed, his current appointment ends in January 2013.

Jayne Scott joined the Authority as a non-executive member in May 2004. She was reappointed from January 2010. Her appointment ends in January 2013.

John Wybrew joined the Authority as a non-executive member in May 2004. In May 2009 he was reappointed. His appointment ends in May 2012.

Professor George Yarrow joined the Authority as a non-executive member in December 2006. He resigned from the Authority in April 2009.

The non-executive members are considered to be independent of management and comprise a majority of the Authority. Apart from the following issues in respect of shareholdings and their treatment, there were no company appointments or consultancy arrangements, 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. A close family member of John Wybrew holds shares in Shell and BP. Both have undertaken that they will not deal in these shares during the period in which they are members of the Authority and for a period of 12 months thereafter.

Jim Keohane, Andrew Wright and John Wybrew having served in the past on the staff of energy companies, are members of their former energy companies' pension schemes. These schemes are administered in line with the rulings of the Pensions Regulator and are separate from the business of the regulated companies.

Citizens Advice, of which David Harker is its Chief Executive, receives funding from three regulated companies for specific projects, representing less than 1% of its total funding.

Authority Meetings and Activities

Meetings and attendance records of non-executive members for the full Authority and Authority Committee meetings during the year were as follows:

	The Authority* ¹	Audit Committee	Offshore Electricity Transmission Committee	Sustainable Development Committee* ²	Distribution Price Control Review Committee	Remuneration Committee
Lord Mogg	14/14	-	-	-	9/9	2/2
Dr Robin Bidwell	12/13	-	-	1/1	-	-
David Fisk	11/11	1/1	-	-	-	-
Miriam Greenwood	14/14	-	4/4	-	9/9	-
Judith Hanratty	6/10	2/3	-	1/1	-	-
David Harker	13/14	1/1	-	-	-	-
John Howard	10/11	-	-	-	-	-
Jim Keohane	13/14	1/1	-	-	6/6	-
Jayne Scott	13/14	4/4	-	-	9/9	2/2
John Wybrew	14/14	3/3	2/4	1/1	-	2/2
George Yarrow	0/1	-	-	-	-	-

*¹ One Authority meeting date was revised at short notice. A number of Authority members were therefore unable to attend the rescheduled meeting.

*² The Sustainable Development Committee was disbanded during the year.

Working closely with the European Commission, European Parliament and others, the Chairman, Lord Mogg, has continued to contribute to the development of EU regulatory policy for energy in his role as President of the Council of European Energy Regulators (CEER); Chairman of the European Group for Electricity and Gas Regulators (ERGEG) and Chairman of the Agency for the Cooperation of Energy Regulators (ACER). He is also Chairman of the International Confederation of Energy Regulators (ICER).

The Chairman and non-executives have continued to play a full part in Authority business through their attendance and contributions at Authority meetings and meetings of committees of the Authority as indicated above. They have attended Ofgem "Powering the Energy Debate" seminars, briefing sessions and an open session of the Authority in June 2009 to which the public were invited. The Authority met in Scotland in September 2009, using the occasion to host a meeting in Glasgow with senior energy interests from the public and private sectors.

The Authority held an "Awayday" meeting in June 2009, in part in closed session, involving the Chairman and non-executives, to consider a detailed survey of its performance during the year, and a range of topics on Authority governance and procedures. These were designed to build on its overall efficiency and effectiveness. Meetings with interested parties, held after its main meetings, have been a regular feature of the Authority's work in 2009-10.

Non-executives have maintained their close and regular contacts with Ofgem teams dealing with those areas of special responsibility assigned to each of them by the Chairman. The Chairman reviewed these assignments and non-executives' membership of Committees of the Authority in light of changes in membership of the Authority and forthcoming business needs. In addition to the work of the Audit and Remuneration Committees, and the Sustainable Development and Offshore Electricity Transmission Committees, the Chairman and some non-executives have taken a major part in assessing and formulating price control proposals during the course of the year involving meetings with the electricity distribution industry. Members have attended several additional briefing sessions organised for the Authority during the course of the year – for example on Ofgem's investigations into market prices for energy, work on Project Discovery which is considering medium term security of supply issues and their modelling, and the RPI-X@20 project which is considering the possibility of new regulatory approaches for the future.

On governance issues, the Authority's corporate structure - with sub-committees having clear terms of reference – continues to provide assurance that there is a strong framework of internal control throughout the organisation. In particular, the Audit Committee has been active in risk assessment

and mitigation strategies across the organisation on both financial and policy matters, concentrating especially on administrative work undertaken by Ofgem for Government, and in the development of its new role in devising and implementing a new offshore electricity transmission regime.

During the year, the Authority reviewed its rules and procedures in respect of delegated powers with minor amendments and updating. It agreed a resolution to delegate to Senior Partners certain levels of decision-making on more minor infringements of licence conditions or procedures.

Minutes of the Authority's meetings are published on the Ofgem website and work has continued to improve further other aspects of communication of the Authorities activities.

Senior Management Team

The Senior Management Team (SMT) comprises 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.

Senior Management Team – Ofgem E-Serve

As part of Ofgem's restructure, this separate SMT comprises all the executive members involved in running E-Serve. Members are the Chief Executive, Managing Director E-Serve, Group Secretary, Group Finance Director and Managing Director Commercial. Its role is to assist the Chief Executive in the day-to-day running of Ofgem E-Serve business. It meets monthly, and decides, subject to the overall direction and control of the Authority, on all matters relating to management and resources.

Management Committee

As part of Ofgem's restructure, the Management Committee was set up to assist in the day to day running of the new business unit Ofgem E-Serve. It is chaired by the Managing Director E-Serve and members include the Group Secretary and all E-Serve team heads. Subject to the overall direction and control of the Authority, it decides on all operational matters relating to management and resources of the Ofgem E-Serve Business Unit. It meets weekly.

Governance

The following paragraphs set out Ofgem's response to HM Treasury's Corporate Governance Code for Central Government Departments.

Audit Committee

The Audit Committee is chaired by Jayne Scott. In January 2010 the non-executive members David Fisk, David Harker and Jim Keohane were appointed to the Audit Committee. Judith Hanratty and John Wybrev left the Audit Committee. The Chief Executive, the newly appointed Group Finance Director, Group Secretary and other staff, the external auditors (National Audit Office) and the internal auditors (Chiene and Tait during 2009-10) attend by invitation.

The Committee's role is to advise the Accounting Officer and the Authority on all matters affecting the financial health, probity, external reputation or wider risk management and internal controls of the organisation. The Committee also oversees Ofgem's RPI-3% cost control regime. The Committee met four times during 2009-10, including a workshop which facilitated discussion and review of a number of topics including risk management and Ofgem's RPI-3% cost control regime.

Sustainable Development Committee

The Energy Act 2004 added a duty for Ofgem "to carry out its functions in the manner best calculated to contribute to the achievement of sustainable development". The Energy Act 2008 made two further changes to Ofgem's duties. The first was to highlight that Ofgem's principal objective refers to future as well as existing customers and the second relates to the promotion of the duty to contribute to the achievement of sustainable development.

The Authority's Committee on Sustainable Development, chaired by Dr Robin Bidwell, has continued its work of advising the Authority on a wide range of issues. A detailed report was first prepared in 2006 on Ofgem's sustainable development policies, priorities and activities. Subsequent annual reports have addressed Ofgem's work relevant to this theme including its contributions to managing the transition

to a low carbon economy; eradicating fuel poverty and protecting vulnerable customers; promoting energy saving; ensuring secure and reliable gas and electricity supply; and in supporting improvement in all aspects of the environment. The Committee's future role was subject to review as part of the Sustainable Development divisional restructure and has now been discontinued.

Offshore Electricity Transmission Committee

The Committee was set up in June 2008 to provide advice to the Authority and Ofgem on the development and implementation of the offshore electricity transmission regime. The Committee is chaired by Miriam Greenwood. The Committee met four times during 2009-10.

Distribution Price Control Review Committee

The Committee was set up in June 2008. The purpose of the Committee is to provide advice to the Distribution team and to the Authority on the development of Ofgem's proposals for the electricity distribution price control review (DPCR5). The Committee also meets separately with each of the distribution companies to debate and challenge its approaches to price controls. The Committee is chaired by Lord Mogg.

Enforcement Committees

Under the Rules of Procedure, the Authority in 2003 created two types of Enforcement Committee. One is established when appropriate to consider enforcement action in relation to possible licence breaches. The second considers compliance by companies with the Competition Act 1998. Each Enforcement Committee is established with differing membership 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, and succession planning. Full details of the Committee's membership, role and senior staff salary and pension entitlements are given in the Remuneration Report on pages 17 to 20. The Committee is chaired by Lord Mogg.

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 in respect of the Resource Accounts was £42,000. An additional notional amount of £4,000 was charged for the audit of a comparative set of financial statements for the year ended 31 March 2009 prepared under International Financial Reporting Standards (Trigger Point 4). There was no auditor remuneration (actual or notional) for non-audit work.

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 makes 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 the internal audit service to ensure wholly independent and fully professional analysis and recommendations. For 2009-10, Ofgem's provider is Chiene and Tait, who were first appointed on 1 April 2003 and subsequently reappointed for another term commencing 1 July 2007. With effect from 1 April 2010, Deloitte have been chosen, following a competitive tendering process, to provide this service to Ofgem.

Sustainability Report

Helping to achieve sustainable development

One of Ofgem's main objectives is helping to achieve sustainable development. Ofgem has had secondary duties in relation to the environment and certain groups of consumers (future as well as present) for some time. Parliament, by way of the Energy Act 2008, has made two changes to Ofgem's duties on sustainable development. The first is to our principal objective, which now refers to future as well as existing customers. The second is the promotion of our duty to contribute to the achievement of sustainable development.

Ofgem is committed to sustainable development and our economic, social and environmental duties put sustainability at the centre of its work. While other government departments have the lead responsibility for sustainable development, Ofgem is committed to use its legal powers to make a difference and its independent voice to influence the debate. The Energy Act 2010 will help ensure the long term delivery of the UK's energy and climate change strategy.

Ofgem administers a number of the schemes and arrangements established by the Government under its Climate Change Programme. The main schemes are the Renewables Obligation (RO), which creates obligations for electricity suppliers, and the Carbon Emissions Reduction Target (CERT), which creates obligations for both gas and electricity suppliers. Ofgem also administers the Renewable Energy Guarantees of Origin arrangements, exemptions from the Climate Change Levy for renewables and CHP generators and from December has started administering the Community Energy Saving Programme (CESP).

Ofgem has gained extensive knowledge of the environmental programmes we administer. We have used this experience to inform the discussions across a wide range of environmental and other issues as well as in relation to the long-term reforms of the RO and the development of amendments to the CERT programme. We are also working with Government on new environmental programmes. These include schemes such as the Feed in Tariff for renewable electricity, an incentive for renewable heat and an incentive for Carbon Capture and Storage.

On 20 November 2009 Ofgem published its fourth Sustainable Development Report. The report sets out the progress Ofgem has made in encouraging the development of a more sustainable energy industry and the actions to be taken during 2009-10.

Sustainable development action plan (Internal Ofgem Operations)

In September 2007 Ofgem introduced an internal sustainability development action plan. The sustainability work focuses on five key areas:

- *Climate change and energy efficiency.* To minimise our consumption of natural resources, including water, as far as reasonably and economically practicable, and to incorporate long term strategies for energy efficiency into planning and capital purchases,
- *Waste management and recycling.* To reduce waste, increase the proportion of waste that is recycled and eliminate our use of landfill sites,
- *Procurement.* To promote a purchasing policy which will give preference, as far as practical, to those products and services which cause the least harm to the environment by incorporating specific environmental requirements into contracts with principal suppliers,
- *Travel.* To encourage travel options that minimise the environmental impact, and to promote the use of technology, such as videoconferencing, as alternatives to travel where practical,
- *People.* To seek to embed the principle of sustainable development through increasing awareness of sustainability responsibilities among staff and all who work with us.

Targets are set annually in order to achieve continuous improvement and our environmental performance is reported on annually. Of the 34 targets set for 2009-10, initial results show that 30 have been achieved or are on course, and 4 have not been achieved.

The following table shows Ofgem's achievement of government set sustainability targets:

Target 2009-10	Target Performance	Actual 2009-10 Performance
Reduce carbon emissions by 12.5% by 2010-11 relative to 2001-02	Reduce to 1,243 tonnes	Achieved: Reduced to 974 tonnes
Increase energy efficiency per m2 by 15% by 2010 relative to 2001-02	Reduce to 511 kWh/m2/yr	Achieved: Reduced to 421 kWh/m2/yr
Source at least 15% of electricity from Combined Heat and Power (CHP) by 2010	15%	Achieved: 25% sourced from CHP
Source at least 10% of electricity from renewable sources	10%	Achieved: 75% sourced from renewable sources
Reduce water consumption by 25% by 2020, relative to 2004-05 levels	Reduce to 10.68 m3/person	Achieved: Reduced to 8.44 m3/person
Increase recycling figures to 40% of total waste arising by 2010	40%	Achieved: 56% of total waste recycled
Reduce waste by 5% by 2010, relative to 2004-05	Reduce waste to 157 tonnes	Achieved: Waste reduced to 87 tonnes

In setting a new sustainability challenge, Ofgem is building on what has already been achieved over the past few years. Ofgem gained ISO14001 certification for environmental management in 2002 and has retained this each year since.

In September 2007 Ofgem also gained Energy Efficiency Accreditation Status from the National Energy Foundation. Part of the requirements of this award were to demonstrate that energy initiatives have been implemented, senior management were involved and staff were energy efficient aware.

We have also implemented many energy saving initiatives including a Combined Heat and Power unit, which significantly reduces our carbon emissions. A 'binless office' has also led to an increase in the amount of recycling and reduced waste collection. The installation of a voltage optimisation unit in December 2008 led to a reduction in energy consumption of 9.1%.

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.

In March 2010, Ofgem was awarded the Standard of Excellence Certification by the Chartered Institute of Purchasing and Supply. This is a recognised global accreditation for achieving procurement excellence through an organisation's procurement and supply chain policies, procedures and strategies.

Creditor Payment, Policy and Performance

Ofgem is signed up to the Better Payment Practice Code. The Code is laid down 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 makes payment within 30 days or other agreed credit terms, following receipt of goods or services or valid invoice, whichever is the later. During 2009-10 Ofgem paid 100 per cent (99.49 per cent in 2008-09) of undisputed bills within these deadlines.

In October 2008, the Government set a new challenge to departments to pay all suppliers within 10 working days with effect from 1 December 2008. During 2009-10 Ofgem paid 97.59 per cent (98.83 per cent during the period December 2008 to March 2009) of undisputed bills within this deadline.

Employees

Training and Development

Ofgem's most important investment is its people. Learning and Development is a key tool for Ofgem in attracting and retaining staff and building its long-term capability.

Ofgem's Learning and Development strategy focuses on ensuring that all learning and development interventions are aligned to the needs of the business and support key processes. In 2009-10 Ofgem:

- reviewed how it inducted new starters, including non-executive members of the Authority, helping them to learn about the organisation from an early stage and become effective in their roles as quickly as possible to support the increase in staff numbers,
- worked with teams to ensure the right interventions were in place to support the delivery of their key objectives, and
- built on the success of its management development programme, known as Generating Excellence in Management (GEM), continuing to review and update the offering at all levels to further enhance people management competence.

This commitment is reflected in expenditure: £0.480m (£0.869 million in 2008-09) was spent on learning and development in 2009-10.

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 does 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.

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

Personal Data

Ofgem's data security policy aims to ensure that all official information is safeguarded and kept securely. There was no recorded loss of data incidents during the 2009-10 financial year.

Pensions

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 HM Treasury's instructions, and are described in the Remuneration Report and Note 1.7 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:

- 0.2 per cent (0.6 per cent in 2008-09) of all staff were known to be disabled,
- 44 per cent (44 per cent in 2008-09) of all staff were women,
- 39 per cent (41 per cent in 2008-09) of staff in managerial grades were women,
- 32 per cent (29 per cent in 2008-09) of Senior Civil Service members in Ofgem were women,
- 23 per cent (17 per cent in 2008-09) of staff were known to be of ethnic minority origin, and
- 15 per cent (11 per cent in 2008-09) of staff known to be of ethnic minority origin were in managerial grades.

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

Days lost due to absence

Ofgem encourages a culture where good attendance is expected and valued. However, it recognises that from time to time absences for medical reasons may be unavoidable. Ofgem aims to treat its staff who are ill with sympathy and fairness and where possible to provide them with support which will enable them to recover their health and attend work regularly.

In 2009-10, the percentage of working days lost was 1.4% or 5 days per annum per employee. This compares favourably to the public sector average of 7 days per annum per employee.

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.

Management Commentary

Income Generation

In 2009-10 income of £50.578 million was received in respect of licence fees (£35.219 million) and other income (£15.359 million). The main sources of other income were from the Offshore Transmission Tender recharge (£6.037 million), and new environmental scheme funding (£5.220 million). In addition, £6.694 million was received from licence fee payers in respect of consumer advocacy arrangements, relating to Consumer Focus and Consumer Direct. This amount was transferred to the Department for Business, Innovation and Skills (BIS). £0.949 million was collected and transferred to the National Measurement Office (NMO) in respect of metrology services carried out under the Consumers, Estate Agents and Redress Act 2007. A full transfer of responsibility from Ofgem to NMO for metrology services took place on 1 April 2009 under the Energy Act 2008.

In addition to operating income of £50.578 million, public funds were provided to meet the cost of work undertaken in respect of the Climate Change Levy (£0.482 million).

A saving of £1.429 million from licence fees has been made during 2009-10, arising from expenditure being lower than planned, particularly on staff costs and consultancy costs. This will be offset against future licence fee charges as determined under Ofgem's RPI-3% cost regime.

This is the last year of the original five year RPI-3% cost regime. During the five years, total savings of £11.9 million have been made and returned to licence fee payers. This significantly exceeds the original planned savings of £5.3 million. It has been agreed by the Audit Committee that a further five year RPI-3% cost regime should be commenced from 1 April 2010 with planned savings of £12.5 million.

Spending

Total gross operating costs amounted to £51.061 million. Two areas of expenditure absorbed 69.1 per cent of the total, staff costs (51.3 per cent) and contractors (17.8 per cent). Further information is provided in Note 11 and 12. Accommodation totalled 17.7 per cent of gross costs but 6.8 per cent is recovered from DEFRA with whom the building is shared. Capital expenditure in the year totalled £0.906 million in respect of office equipment and information technology.

Output

Ofgem's financial performance in pursuit of its objectives is detailed in the Statement of Operating Costs by Departmental Strategic Objectives on page 33. In terms of deliverables, 25 deliverables were met on target, 2 were met in a subsequent period during 2009-10, 1 was superseded, and 4 have been deferred until 2010-11. 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 2009-10, Parliament approved a gross resource budget of £53.909 million, a capital budget of £1.0 million and a net cash requirement of £14.157 million. A Winter Supplementary Estimate allowed Ofgem to increase its budget by £4.001 million from RPI-3% cost regime reserves and additional planned income from administration of environmental schemes.

Two additional amounts were collected via licence fees. BIS directed that a sum of £6.694 million should be collected on behalf of Consumer Focus and Consumer Direct. NMO directed that £0.949 million should be collected to recover their costs arising from metrology services. Both amounts were transferred in full.

Reconciliation between resource outturn and the resource budget outturn

	2009-10 £000s	2008-09 £000s
Net Resource Outturn (Estimates)	483	695
Net Operating Costs (Accounts)	483	695
Resource Budget Outturn (Budget)	483	695
Of which:		
Departmental Expenditure Limits (DEL)	483	695
Annually Managed Expenditure (AME)	-	-

In February 2008, Ofgem's Authority reached its findings of competition law breach by National Grid plc in respect of abusing its dominant position in the market in Great Britain for the provision of installed domestic-sized gas meters and the ancillary service of meter maintenance. This was an infringement of Section 18 of the Competition Act 1998 and Article 82 of the EC Treaty. National Grid plc initiated appeal proceedings and the hearing in the Competition Appeal Tribunal (CAT) was held in January 2009. In April 2009 the CAT upheld Ofgem's findings. National Grid appealed to the Court of Appeal, who in February 2010, upheld Ofgem's findings and confirmed that National Grid should face a financial penalty of £15 million to be paid to Ofgem for subsequent transfer to the Exchequer. National Grid has had permission to appeal refused by the Court of Appeal, and is currently seeking permission from the Supreme Court.

On 3 November 2009 a financial penalty of £2.0 million was imposed on EDF Energy Networks for failing to meet statutory timescales for providing offers to customers requesting a connection to its electricity networks. The penalty was received on 17 November 2009 and paid over to the Exchequer.

A Contingency Fund advance of £15.0 million was drawn down in April 2009 to provide short term liquidity until the first receipt of licence fees. This was fully repaid in August 2009.

The net cash requirement outturn of £6.898 million is lower than the Estimate net cash requirement of £14.157 million due to lower than budgeted expenditure for the year, and a significant increase in the level of accrued expenditure at year-end.

An amount of £3.235 million due to be surrendered to the Exchequer will be retained to fund operations in 2010-11 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 in 2003-04 which now total £0.301 million. From 1 April 2006 Ofgem transferred its metrology activities to the National Measurement Office (formerly National Weights and Measures Laboratory) under an administrative arrangement. A full transfer of responsibility to NMO took place on 1 April 2009 under the Energy Act 2008.

Other early retirement provision totalling £0.786 million relates to the costs of pensions for individuals who have retired early from Ofgem.

A provision of £0.685 million is included within the accounts in respect of the unfunded pension liabilities which fall to Ofgem for a previous Chief Executive, and a previous Director General.

The Statement of Financial Position at 31 March 2010 shows positive Taxpayer's Equity of £3.994 million. As announced by the Chancellor in the 2008 Budget Report, International Financial Reporting Standards (IFRS) have been adopted by Ofgem and other departments from 2009-10. A project team was set up to ensure that Ofgem's resource accounts are IFRS compliant. HM Treasury set out a four stage 'trigger point' process for Departments to manage the transition from FRS based accounts to IFRS accounts. Ofgem met all four 'trigger points'.

Business Focus in Year and for the Future

As mentioned in the Introduction section, Ofgem announced its third major reorganisation since Mr Buchanan and Lord Mogg joined. Over the coming years Ofgem intends to focus on four vital areas in support of the consumer interest. The Corporate Strategy 2010-15 set out our work plan under the new corporate themes which are as follows:

- contribute to the achievement of a low carbon energy sector,
- help to maintain the security of Britain's energy supplies,
- promoting consumer choice and value and protecting vulnerable consumers, and
- via Ofgem E-Serve, ensure the timely and efficient delivery of Government programmes for a sustainable energy sector.

Laying the ground for delivery of our strategy is a key action and will be reviewed in the light of any change of policy as a result of the new government. In the coming year Ofgem will be responding to legislative reform and embedding change following our 2009 internal restructuring.

Legislative change is occurring at European and national level. Ofgem will advise DECC on the effective implementation of all aspects of the EU's 3rd package of energy legislation. At the same time Ofgem will consider and ensure the effective implementation of changes to Ofgem's principal objective, duties and powers made by the Energy Act 2010. Ofgem will also have regard to the revised statutory Social and Environmental Guidance that took effect on 18 January 2010.

Revising our corporate themes to give greater prominence to reducing carbon emissions and ensuring the security of energy supplies is a first step in response to Parliament's proposed clarification of Ofgem's statutory duties. Over the coming year Ofgem will ensure that the resources are in place to deliver what is widely acknowledged to be a very challenging agenda.

Project Discovery stimulated timely debate about the best ways of meeting Britain's energy needs and climate change targets across a range of plausible scenarios. Ofgem will continue to examine and propose solutions to the issues highlighted so that Ofgem can help Britain meet its environmental targets while maintaining secure and affordable energy supplies.

In 2008 Ofgem instigated a two year review of the future of network regulation (the RPI-X@20 review). Ofgem is reviewing whether any significant changes to the regulatory arrangements are needed to strengthen further the incentives on the companies to run the energy networks in the interests of existing and future consumers, particularly in relation to decarbonising the sector. Ofgem will formally consult on recommendations in 2010-11.

Ofgem will continue to help Britain meet its climate change commitments and maintain security of supply by working to reduce demand for electricity, both through existing programmes and through new initiatives such as the Carbon Emissions Reduction Targets and the substantial programme to roll-out smart meters to every household by the end of 2020. Smart meters can empower customers to increase their energy efficiency by providing them with better information about how they use energy.

During 2009-10, Ofgem completed a retail markets Probe which delivered direct benefits for some consumers in terms of reduced bills. It also introduced new rules on market practices. Ofgem will continue to monitor suppliers' behaviour closely to be sure that the remedies do enable energy consumers to engage more confidently and effectively with the market.

Increasing investment in the Government's low carbon policies will mean an increase in the overall percentage of the consumers' final bills used to fund climate change incentives and investments. Increasing global energy prices and the costs of additional measures to tackle fuel poverty also put upward pressure on energy prices. Ofgem will seek to ensure that any price increases introduced by suppliers are fully justified and in the best interests of present and future consumers. Ofgem will also seek to ensure that the costs of moving to a low carbon energy sector are not borne disproportionately by those consumers least able to pay.

To help inform policy thinking Ofgem will develop a new research capability for example to build our understanding of carbon capture and storage, new renewable and new nuclear build. Ofgem will also promote the implementation of DPCR5 policies such as the Low Carbon Networks Fund.

Ofgem will continue to press companies to deal with consumers fairly and respond to complaints quickly, courteously and effectively. Through Ofgem's new Consumer and Demand Side Insight team, ongoing Consumer First programme and work with consumer groups, Ofgem will continue to strengthen its understanding of consumer priorities and concerns, for example in relation to sustainable development. A key area of work will be to encourage greater consumer engagement.

The Government is already influencing market behaviour towards its goal of building a low carbon economy through a combination of requirements and incentives. Ofgem E-Serve has been given the responsibility for ensuring the efficient development and delivery of some of these schemes. Our remit is expected to grow sharply during the coming years, with a step change in 2010-11 as we take on responsibility for smart metering, feed-in tariffs and the development of the renewable heat incentive. Ofgem E-Serve already runs the offshore transmission tendering regime and administers environmental programmes.

The annual RPI-3% cost control regime that Ofgem announced in 2004 continues to give an incentive to reduce costs in real terms although it should be noted that where Ofgem is asked to undertake additional work, notably by Government, additional budgetary provision will be required.

The Audit Committee recommended, and approved by the Authority, that Ofgem should be subject to a second 5 year cost control regime to run from 2010-11 to 2015-16. The first 5 year period resulted in savings of £11.9 million. The committee has also determined that the regime should continue on the basis of RPI-3% with a maximum year-end carryover of £5m. Given the advent of Ofgem E-Serve and the significant rise in expenditure arising from an increasing number of environmental projects that Ofgem is being asked to administer, the committee has determined that these costs should also be subjected to the regime. This means that, in future, all Ofgem's costs will be subject to the self-imposed efficiency regime of RPI-3%.

Remuneration report

Remuneration Committee

The Remuneration Committee comprises 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 Lord Mogg, Chairman of the Authority. Other members are non-executives Jayne Scott, Chairman of the Audit Committee and John Wybrew. The Chief Executive attends as an observer and the Group Secretary provides a secretariat function.

The Committee's role is to review and approve the annual 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. Performance 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. The committee also reviews succession planning.

Salary and pension entitlements

The following information has been subject to external audit.

The salary, pension entitlements and the value of any taxable benefits in kind of the most senior members of Ofgem (not all of whom are Authority members) during 2009-10 were as follows:

Remuneration	2009-10			2008-09		
	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
Executive members of the Authority						
Alistair Buchanan <i>Chief Executive</i>	290-295* ¹	N/A	N/A	260-265	N/A	N/A
Stuart Cook (from January 2010) <i>Senior Partner</i>	30-35* ²	N/A	N/A	-	-	-
Roy Field <i>Group Secretary</i>	155-160	N/A	N/A	165-170	N/A	N/A
Sarah Harrison <i>Senior Partner</i>	155-160	N/A	N/A	155-160	N/A	N/A
Robert Hull (from December 2009) <i>Managing Director</i>	30-35* ²	N/A	N/A	-	-	-
David Pimm (from January 2010) <i>Group Finance Director</i>	30-35* ²	N/A	N/A	-	-	-
Steve Smith <i>Senior Partner</i>	200-205	N/A	N/A	215-220	N/A	N/A
Dr Andrew Wright <i>Senior Partner</i>	210-215	N/A	N/A	195-200	N/A	N/A
Non-executive members of the Authority						
Lord Mogg	180-185	30	9,400	140-145* ³	30	9,800

*¹ Whilst Alistair Buchanan received no increase to his basic salary, a one-off incentive retention arrangement was proposed by the Remuneration Committee and approved by the Cabinet Office in 2006.

*² Annual equivalent basic salary (excluding performance pay): Stuart Cook: 130-135, Robert Hull: 125-130, David Pimm: 140-145

*³ Annual equivalent salary 180-185. With the agreement of the Secretary of State for Energy and Climate Change, part-time appointment hours were increased from October 2008 to reflect increasing responsibilities for the development of EU regulatory policy in his role as Chairman of the European Regulators Group for Electricity and Gas (EREG), and as President of the Council of European Energy Regulators (CEER).

'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 actual expenses evidenced by receipts.

Expenses claimed by senior members of Ofgem and non-executive directors are published on Ofgem's website (www.ofgem.gov.uk).

'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.

'Benefits in kind' covers any monetary benefits provided by the employer and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HMRC. Travel arrangements for Lord Mogg fell into this category.

Other non-executive members of the Authority who were remunerated by payment of an honorarium	Honorarium 2009-10	Honorarium 2008-09
Robin Bidwell	£24,916*	£22,667
David Fisk	£18,750*	-
Miriam Greenwood	£28,000	£22,667
Judith Hanratty	£19,750*	£22,167
David Harker	£25,000	£6,250*
John Howard	£18,750*	-
Jim Keohane	£25,000	£6,250*
Jayne Scott	£28,000	£22,667
John Wybrew	£25,000	£21,667
George Yarrow	£2,083*	£21,667

* 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 2010 and related lump sum	CETV at 31 March 2010	CETV at 31 March 2009	Real increase in CETV	Employer's contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
Executive members of the Authority						
Alistair Buchanan <i>Chief Executive</i>	2.5-5.0	10-15	193	146	33	N/A
Stuart Cook <i>Senior Partner</i>	N/A	N/A	N/A	N/A	N/A	N/A
Roy Field <i>Group Secretary</i>	2.5-5.0 plus 10-15 lump sum	70-75 plus 210-215 lump sum	1,669	1,501	91	N/A
Sarah Harrison <i>Senior Partner</i>	2.5-5.0	20-25	268	215	34	N/A
Robert Hull <i>Managing Director</i>	2.5-5.0	5-10	163	114	39	N/A
David Pimm <i>Group Finance Director</i>	0-2.5	0-5	9	0	8	N/A
Steve Smith <i>Senior Partner</i>	2.5-5.0	15-20	195	156	25	N/A
Dr Andrew Wright <i>Senior Partner</i>	2.5-5.0	5-10	105	53	44	N/A
Non-executive member of the Authority						
Lord Mogg	N/A	N/A	N/A	N/A	N/A	N/A

The remaining information has not been subject to external audit.

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. Senior members of Ofgem, apart from Lord Mogg, are all permanent members of staff. 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.

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 Energy and Climate Change after consulting the Chairman. Their remuneration is by payment of an honorarium of £25,000 per annum plus an additional allowance where any Authority Sub-Committee chairman duties are undertaken. 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, Lord Mogg, has an appointment which commenced on 1 October 2003 for five years. In February 2008 it was announced that he had been reappointed for a further five years until September 2013. The Secretary of State decided that, given his considerable additional responsibilities at the EU level, President of the Council of European Energy Regulators (CEER) and Chairman of the European Group for Electricity and Gas Regulators (ERGEG) Lord Mogg's part time hours should be increased. His remuneration details are set out in the above table.

The following salary and pension details are provided in accordance with the 2009-10 Government Financial Reporting Manual issued by HM Treasury and EPN notice 268 issued by Cabinet Office.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members who joined from October 2002 could opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension 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**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings 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. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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 panel of three providers. 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).

The accrued pension quoted, is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension 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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include 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
28 May 2010

Statement of Accounting Officer's Responsibilities

Under the Government Resources 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 Managing Public Money published by the Treasury.

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, aim 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 Managing Public Money.

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 Energy and Climate Change (DECC), Department for Business, Innovation and Skills (BIS), Department for Environment, Food and Rural Affairs (DEFRA) and the consumer bodies, Consumer Direct and Consumer Focus.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level as determined by the Authority's risk appetite, 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 2010 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.

Under the strategy, risk is embedded in policymaking, planning and delivery. Partners/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 was updated in December 2009 and April 2010 and is available to all staff via the intranet.

4. The risk and control framework

Ofgem's current work is being undertaken at a time when Britain's energy industry is facing a very great challenge. Demanding targets for carbon reduction have already been set at European Union and national level. Britain has already made a firm commitment to a timetable for carbon reduction and the amount of energy which will be generated from renewable sources. At the same time Britain will need to replace both the coal and oil fired generation plants that in the coming years will close under EU legislation and the existing fleet of ageing nuclear capacity.

Ofgem intends to focus on four vital areas in support of the consumer interest. Ofgem will:

- contribute to the achievement of a low carbon energy sector,
- at the same time help to ensure the security of Britain's energy supplies,
- encourage energy companies to achieve a high level of consumer care characterised by choice, value and protecting vulnerable customers, and
- via E-Serve, ensure the timely and efficient delivery of Government environmental programmes.

Ofgem has radically restructured so it can further increase its role in helping to meet Britain's target to cut carbon emissions by 34 per cent by 2020. The new business unit, Ofgem E-Serve, was set-up to respond to the rapid growth of climate change programmes and offshore transmissions already worth £3.9 billion annually. The new business unit is subject to the overall direction and control of the Authority.

In order to respond effectively to these challenges, Ofgem recognises and embraces the key role risk management can play in assisting the organisation in delivery of complex objectives, all of which are subject to risk. A separate top risks profile has been prepared by the Management Committee to cover Ofgem E-Serve risks.

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 and Management Committee 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 their likelihood and impact,
- All risks identified in quarterly reports are reviewed by senior managers during the quarterly review process,
- Audit Committee considers risk on a regular basis, including in 2009, a review of Ofgem's strategic risks,
- Risk Committee, Senior Management Team, Management Committee and Partners/Directors review strategic risks 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 owner who will be responsible for applying practical and proportionate countermeasures.

5. Personal data related incidents

There were no protected personal data related incidents reportable to the Information Commissioner's Office in 2009-10. Neither were there any centrally recorded protected personal data related incidents not formally reported to the Information Commissioner's Office in 2009-10.

6. 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 48 recommendations made by internal audit and due for implementation by 31 January 2010, 33 have been fully implemented by year-end, 11 have been partially implemented, and 4 have not been implemented.

During the year, a number of key activities have been undertaken to monitor and enhance Ofgem's internal control environment:

- Ofgem's strategic risks were reviewed by the Senior Management Team, Management Committee and the Audit Committee,
- Two separate top risk profiles were approved, one for each of Ofgem's business units, Ofgem (excluding E-Serve) and Ofgem E-Serve,
- An Audit Committee workshop was undertaken in September 2009. The workshop facilitated discussion and review of a number of topics including Ofgem's management of the RPI-3% cost regime, and risk management. Whilst Ofgem's approach to risk management was acknowledged to be very close to best practice, one of the workshop proposals was for a review of risk management to be undertaken,
- In November 2009, the key recommendation of the risk management review was the setting up of an executive risk committee,
- In December 2009, Chiene & Tait, Ofgem's outsourced internal audit service provider, undertook a risk management assurance audit. The report gave an overall opinion of 'Substantial Assurance',
- Regular one to one meetings were held between the Accounting Officer and Senior Partners/Managing Directors to review resources, progress towards set objectives and to identify and evaluate associated risks,
- In December 2009 an independent fraud risk review was undertaken on the planned Community Energy Saving Programme,
- In January 2010 a Group Finance Director was appointed. The role included being in charge of risk management,
- In March 2010 the executive risk committee held its first meeting. Ofgem's strategic top risks were discussed and agreed,
- The risk management strategy was updated to reflect new processes in December 2009 and April 2010,
- Updated internal control statements require all Partners/Directors to consider and report on all aspects of financial and risk management, and other governance control issues 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 I am a member of, meets at least ten times a year to consider the plans and overall strategic direction of Ofgem. An "Awayday" meeting was held in June 2009 to consider a detailed survey of its performance during the year, and a range of topics on Authority governance and procedures. The top risks to Ofgem are reviewed, based on the risk framework, on an annual basis;

The **Senior Management Team**, which I am a member of, 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;

The **Management Committee**, was set up to assist the Chief Executive in the day to day running of the business unit Ofgem E-Serve. Subject to the overall direction and control of the Authority it decides on all operational matters relating to management and resources of Ofgem E-Serve;

An **Audit Committee**, which I am invited to, comprising non-executive members of the Authority which reports directly to the Authority and is responsible for advising the Authority as to the adequacy of risk management procedures and processes in Ofgem. In January 2010, two members left the Committee and three new members joined. The new members received an Audit Committee briefing pack and attended a one to one risk management briefing with the Group Finance Director;

Internal Audit (provided under contract) offers an independent assurance on the managerial, financial and operational controls. They are independent of management and work to standards defined in the Government Internal Audit Standard. Internal audit reports are a key element of the Accounting Officer's review of the effectiveness of the system of internal control. The Audit Committee 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 2010 has an overall opinion of 'Substantial Assurance'; and

Partners/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 Partners/Director-level as appropriate. A signed internal control statement is provided annually to the Accounting Officer by each Partner/Director to report on all aspects of control within their own area.

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

Alistair Buchanan
Accounting Officer
28 May 2010

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 (Ofgem) for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Taxpayer's Equity, Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, 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.

Opinion on Financial Statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objects, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the introduction, the sustainability report and the management commentary contained within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP

7 June 2010

Statement of Parliamentary Supply

Summary of Resource Outturn 2009-10 (£000s)

	2009-10						2008-09	
	Estimate			Outturn			Net total outturn compared with estimate: saving/ (excess)	Net total
	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, and expenditure in connection with environmental programmes							
A: Gas and Electricity Markets Authority: Administration	36,981	(36,979)	2	37,940	(37,939)	1	1	1
B: Climate Change Levy & Renewable Energy Guarantees of Origin: Administration	700	-	700	482	-	482	218	694
C: Energy Efficiency and Other Environmental Schemes: Administration	9,128	(9,128)	-	6,602	(6,602)	-	-	-
D: Offshore Transmission Tender: Administration	7,100	(7,100)	-	6,037	(6,037)	-	-	-
Total resources	53,909	(53,207)	702	51,061	(50,578)	483	219	695
Non-operating cost A in A	-	(50)	(50)	-	-	-	50	-

Net Cash Requirement 2009-10

	Note	Estimate	Outturn	Net total outturn compared with estimate: saving/ (excess)	Prior year outturn
Net cash requirement	5	14,157	6,898	7,259	3,424

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 2009-10		Outturn 2009-10	
		Income	Receipts	Income	Receipts
Total	6	-	-	132,235	132,235

Explanations of variances between Estimate and Outturn are given in the Management Commentary on page 13.

Operating Cost Statement

for the year ended 31 March 2010

		2009-10			2008-09
		£000			£000
	Note	Staff costs	Other Costs	Income	
Administration costs					
Staff costs	11	26,199			20,625
Other administration costs	12		24,862		21,394
Operating income	10			(50,578)	(41,324)
Totals		26,199	24,862	(50,578)	695
Net operating cost	3			483	695

All income and expenditure are derived from continuing operations.

Statement of Financial Position

as at 31 March 2010

	Note	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Non-current assets:				
Property, Plant and Equipment	13	<u>3,784</u>	<u>3,865</u>	<u>3,946</u>
Total non-current assets:		3,784	3,865	3,946
Current assets:				
Trade and other receivables	15	12,802	4,604	4,220
Cash and cash equivalents	16	<u>3,235</u>	<u>133</u>	<u>1,471</u>
Total current assets:		16,037	4,737	5,691
Total assets:		<u>19,821</u>	<u>8,602</u>	<u>9,637</u>
Current liabilities				
Trade and other payables	17	<u>(12,082)</u>	<u>(6,923)</u>	<u>(9,889)</u>
Total current liabilities		(12,082)	(6,923)	(9,889)
Non-current assets plus/less net current assets/liabilities		7,739	1,679	(252)
Non-current liabilities				
Provisions	18	(1,772)	(1,778)	(1,657)
Other payables	17	<u>(1,973)</u>	<u>(2,290)</u>	<u>(3,184)</u>
Total non-current liabilities		(3,745)	(4,068)	(4,841)
Assets less liabilities		<u>3,994</u>	<u>(2,389)</u>	<u>(5,093)</u>
Taxpayers' equity:				
General fund		3,994	(2,389)	(5,097)
Revaluation reserve		-	-	4
Total taxpayers' equity		<u>3,994</u>	<u>(2,389)</u>	<u>(5,093)</u>

Alistair Buchanan
Accounting Officer
28 May 2010

The notes on pages 34 to 52 form part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2010

		2009-10 £000	2008-09 £000
	Note		
Cash flows from operating activities			
Net operating cost	3	(483)	(695)
Adjustments for non-cash transactions	12	1,305	931
Increase in trade and other receivables <i>less movements in receivables relating to items not passing through the OCS</i>	15	(8,198)	(384)
Increase/(Decrease) in trade payables <i>less movements in payables relating to items not passing through the OCS</i>	17	4,842	(3,282)
Use of provisions	17	(3,102)	1,338
	18	(356)	(475)
Net cash outflow from operating activities		(5,992)	(2,567)
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(906)	(857)
Proceeds of disposal of property, plant and equipment		-	-
Net cash outflow from investing activities		(906)	(857)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		10,000	2,086
Advances from the Contingencies Fund		15,000	10,000
Payments to the Contingencies Fund		(15,000)	(10,000)
Net financing		10,000	2,086
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		3,102	(1,338)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	9	129,000	224,800
Payments of amounts due to the Consolidated Fund	9	(129,000)	(224,800)
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		3,102	(1,338)
Cash and cash equivalents at the beginning of the period	16	133	1,471
Cash and cash equivalents at the end of the period	16	3,235	133

The notes on pages 34 to 52 form part of these accounts.

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2010

	Note	General Fund £000	Revaluation Reserve £000
Balance at 31 March 2008 under UK GAAP		(4,349)	4
Changes as a result of the implementation of IFRS		(748)	-
Balance at 1 April 2008 under IFRS		(5,097)	4
Changes in taxpayers' equity for 2008-09			
Non-cash charges – cost of capital		(102)	-
Non-cash charges – auditor's remuneration		46	-
Transfer between reserves		4	(4)
Net operating cost for the year		(695)	-
Gains relating to pension liabilities		31	-
Total recognised income and expense for 2008-09		(716)	-
Net Parliamentary Funding – drawn down		2,086	-
Net Parliamentary Funding – deemed		1,471	-
Supply payable adjustment		(133)	-
Balance at 31 March 2009		(2,389)	-
Changes in taxpayers' equity for 2009-10			
Non-cash charges – cost of capital	12	28	-
Non-cash charges – auditor's remuneration	12	46	-
Net operating cost for the year	3	(483)	-
Losses relating to pension liabilities	18	(106)	-
Total recognised income and expense for 2009-10		(515)	-
Net Parliamentary Funding – drawn down		10,000	-
Net Parliamentary Funding – deemed		133	-
Supply payable adjustment		(3,235)	-
Balance at 31 March 2010		3,994	-

Statement of Operating Costs by Departmental Strategic Objectives

For the year ended 31 March 2010

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

Objective	2009-10 £000			2008-09 £000		
	Gross	Income	Net total	Gross	Income	Net total
1. Creating and sustaining competition	13,755	(13,755)	-	13,398	(13,398)	-
2. Regulating networks effectively	16,222	(16,222)	-	18,754	(18,754)	-
3. Helping to protect the security of Britain's energy supplies	1,489	(1,489)	-	1,749	(1,749)	-
4. A leading voice in Europe	2,245	(2,245)	-	1,749	(1,749)	-
5. Helping to achieve sustainable development	15,214	(14,731)	483	4,186	(3,491)	695
6. Helping to tackle fuel poverty	1,888	(1,888)	-	1,837	(1,837)	-
7. Better regulation	248	(248)	-	346	(340)	-
Net operating cost	51,061	(50,578)	483	42,019	(41,324)	695

An explanation of the methodology for allocating costs to objectives is given in Note 1.10.

Notes to the departmental resource accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Ofgem for the purpose of giving a true and fair view has been selected. The particular policies adopted by Ofgem are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, 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 Strategic Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

1.2 Property, Plant, Equipment and depreciation

Property, plant and equipment are no longer revalued on an annual basis using indices. Depreciated historical cost is now used as a proxy for current value as this realistically reflects consumption of the asset. Revaluations would not cause a material difference.

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

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

The minimum level for the capitalisation of property, plant and equipment is £2,000. The grouping of assets below the threshold has been restricted to IT items only.

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.

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 Payables and any under recovery as accrued income within Receivables.

1.5 Capital charge

A charge, reflecting the cost of capital utilised by Ofgem, is included in operating costs. The charge is calculated at the real rate set by HM Treasury, 3.5 per cent for 2009-10, on the average carrying amount of all assets less liabilities, except for:

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

1.6 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.

1.7 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which are described at Note 11. The PCSPS is both non-contributory, and unfunded. 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 Director 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 IAS 37.

1.8 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.

1.9 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 Receivables and Payables within the Statement of Financial Position.

1.10 The Statement of Parliamentary Supply and the Statement of Operating Costs by Departmental Strategic Objectives

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

The Statement of Operating Costs by Departmental Strategic 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.

1.11 Operating leases

Rentals due under operating leases are charged to the Operating Cost Statement over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage. Future payments, disclosed at Note 21, "Commitments under leases", are not discounted.

1.12 Comparative amounts

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

1.13 Going concern

The Statement of Financial Position at 31 March 2010 shows a positive taxpayer's equity of £3.994 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 2010-11 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.

1.14 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, Ofgem discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of *Managing Public Money*.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.15 Assets belonging to third parties

Assets belonging to third parties (such as money held in relation to the Fossil Fuel Levy, Offshore Tender Developer's security and the Renewables Obligation) are not recognised in the Statement of Financial Position since Ofgem has no beneficial interest in them.

2. First-time adoption of IFRS

(a) Reconciliation of UK GAAP reported taxpayers' equity to IFRS at the date of transition 1 April 2008

	General Fund
	£000
Taxpayers' equity at 31 March 2008 under UK GAAP	(4,345)
Adjustments on transition to IFRS:	
IAS16 (Property, Plant and Equipment)	(66)
IAS19 (Employee Benefits)	(682)
Taxpayers' equity at 1 April 2008 under IFRS	<u>(5,093)</u>

(b) Reconciliation of UK GAAP reported taxpayers' equity to IFRS at 31 March 2009

	General Fund
	£000
Taxpayers' equity at 31 March 2009 under UK GAAP	(1,641)
Adjustments on transition to IFRS:	
IAS16 (Property, Plant and Equipment)	(66)
IAS19 (Employee Benefits)	(682)
Taxpayers' equity at 1 April 2009 under IFRS	<u>(2,389)</u>

(c) Reconciliation of UK GAAP reported deficit to IFRS at 31 March 2009

Deficit for the year ended 31 March 2009 under UK GAAP	695
Adjustments on transition to IFRS:	-
Deficit for the year ended 31 March 2009 under IFRS	<u>695</u>

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

3. Analysis of net resource outturn by section

	2009-10		Outturn			Estimate		Net total outturn compared with Estimate £000	2008-09
	Admin	Other current	Gross resource expenditure	A in A	Net total	Net total	Prior-year outturn		
	£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, and expenditure in connection with environmental programmes									
A Gas and Electricity Markets Authority : Administration	37,940	-	37,940	(37,939)	1	2	1	1	
B Climate Change Levy and Renewable Energy Guarantees of Origin : Administration	482	-	482	-	482	700	218	694	
C Energy Efficiency and other Environmental Schemes : Administration	6,602	-	6,602	(6,602)	-	-	-	-	
D Offshore Transmission Tender: Administration	6,037	-	6,037	(6,037)	-	-	-	-	
Resource outturn	51,061	-	51,061	(50,578)	483	702	219	695	

4. Reconciliation of Outturn to net operating cost and against Administration Budget**4(a) Reconciliation of net resource outturn to net operating cost**

	Note	2009-10 £000	2008-09 £000
Net Resource Outturn	3	483	695
Prior period adjustments		-	-
Non supply income (CFERs)	6	-	-
Non supply expenditure		-	-
Net operating cost		483	695

4(b) Outturn against final Administration Budget

	Note	2009-10		2008-09	
		Budget	Outturn	Budget	Outturn
		£000	£000	£000	£000
Gross Administration Budget	3	53,909	51,061	42,186	42,019
Income allowable against the Administration Budget	3	(53,207)	(50,578)	(41,484)	(41,324)
Net outturn against the Administration Budget		702	483	702	695

5. Reconciliation of net resource outturn to net cash requirement

	Note	Estimate £000	Outturn £000	Net total outturn compared with estimate: saving/ (excess) £000
Resource Outturn	3	702	483	219
Capital:				
• Acquisition of property, plant and equipment	13	1,000	906	94
• Investments		-	-	-
Non-operating A-in-A:				
• Proceeds of property, plant and equipment disposals		(50)	-	(50)
Accruals adjustments:				
• Non-cash items	12	250	(28)	278
• Depreciation	13	(1,000)	(987)	(13)
• New provisions and adjustments to provisions	18	-	(244)	244
• Other non-cash items	12	(45)	(46)	1
• Movement in working capital		12,600	6,458	6,142
• Use of provision	18	700	356	344
Excess cash receipts surrenderable to the Consolidated Fund	6	-	-	-
Net cash requirement		14,157	6,898	7,259

6. 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 2009-10		Outturn 2009-10	
		Income £000	Receipts £000	Income £000	Receipts £000
Operating income and receipts - excess A in A	7	-	-	-	-
Other operating income and receipts not classified as A in A	7	-	-	-	-
Non operating income and receipts – excess A in A	8	-	-	-	-
Other non-operating income and receipts not classified as A in A	9	-	-	2,000	2,000
Surplus supply surrenderable to the Consolidated Fund	16	-	-	3,235	3,235
Other amounts collectable on behalf of the Consolidated Fund	9	-	-	127,000	127,000
Excess cash surrenderable to the Consolidated Fund		-	-	-	-
Total income payable to the Consolidated Fund		-	-	132,235	132,235

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

	Note	2009-10 £000	2008-09 £000
Operating Income	10	50,578	41,324
Income authorised to be appropriated in aid		(50,578)	(41,324)
Operating Income payable to the Consolidated Fund	6	-	-

8. Non-operating income – Excess appropriations in aid

	2009-10 £000	2008-09 £000
Proceeds on disposal of property, plant and equipment	-	-
Allowable A in A	(50)	(50)
Excess A in A	-	-

9. Non-operating income not classified as appropriations in aid

	Note	Income £000	Receipts £000
Fines		2,000	2,000
Fossil Fuel Levy receipts	26	127,000	127,000
Other amounts collectable		129,000	129,000

10. Income and appropriations in aid**10.1 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 2009-10, there was no operating income not classified as A in A.

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

	2009-10		2008-09	
	A in A £000	Income £000	A in A £000	Income £000
Administrative income:				
Fees and charges to external customers	41,299	41,299	36,758	36,758
Fees and charges to other departments	9,279	9,279	4,566	4,566
Total	50,578	50,578	41,324	41,324

10.2 Operating income analysis

	2009-10			2008-09		
	Income £000	Full costs £000	(Deficit) £000	Income £000	Full costs £000	(Deficit) £000
Administration income						
Gas and Electricity:						
Licence fees (external)	(35,219)	35,702	483	(36,243)	36,938	695
Other	(15,359)	15,359	-	(5,081)	5,081	-
Total	(50,578)	51,061	483	(41,324)	42,019	695

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 Consolidated Fund Extra Receipts, which are remitted by Ofgem to the Consolidated Fund.

Other income includes:

	2009-10 £000	2008-09 £000
Offshore Transmission Tender Recharge	6,037	500
Department of Energy and Climate Change (DECC) (relating to environmental programmes)	5,220	-
Department for Environment, Food and Rural Affairs (DEFRA) (relating to shared accommodation costs)	3,450	3,910
Other departments	609	656
Miscellaneous	43	15
	15,359	5,081

Miscellaneous income includes licence application fees, and other minor items.

11. Staff numbers and related costs

	2009-10			2008-09
	£000			£000
	Permanently employed staff	Others	Total	Total
Wages and salaries	17,673	3,057	20,730	16,156
Social security costs	1,634	-	1,634	1,383
Other pension costs	3,306	-	3,306	2,918
Other staff costs	529	-	529	168
Total	23,142	3,057	26,199	20,625
Less recoveries in respect of outward secondments	(102)	-	(102)	(143)
Total net costs*	23,040	3,057	26,097	20,482

* 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 2007. Details can be found in the resource accounts of the **Cabinet Office**: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009-10, employers' contributions of £3,187,000 were payable to the PCSPS (2008-09 £2,800,000) at one of four rates in the range 16.7 per cent to 24.3 per cent (2008-09 17.1 to 25.5 per cent) of pensionable pay, based on salary bands. The contribution rates reflect benefits accruing during 2009-10 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 £82,284 (2008-09 £82,330) 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 £6,649 (2008-09 £6,103), 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 zero.

Average number of persons employed

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

Objective	2009-10			2008-09
	Permanently employed staff	Others	Total	Total
Creating and sustaining competition	107	12	119	101
Regulating networks effectively	117	13	130	144
Helping to protect the security of Britain's energy supplies	13	1	14	15
Providing a leading voice in Europe	16	2	18	15
Helping to achieve sustainable development	88	14	102	38
Helping tackle fuel poverty	17	1	18	18
Better regulation	2	-	2	4
Total	360	43	403	335

12. Other administration costs

	Note	2009-10 £000	2008-09 £000
Rental under operating leases:			
Hire of office equipment		4	1
Other operating leases		5,551	5,639
		5,555	5,640
Non-cash items (see below):			
Auditors' remuneration and expenses*		46	46
Depreciation	13	987	924
Loss on disposal of property, plant and equipment		-	14
Cost of capital charge/(credit)		28	(102)
		1,061	882
Other expenditure:			
Contractors:			
• New environmental schemes		1,526	-
• Offshore tender		3,146	766
• Other		4,405	5,533
Other accommodation costs		3,482	2,986
Office supplies and services			
• Office equipment and furniture		491	67
• Computer software		584	194
• Other		864	648
Travel and subsistence		485	603
Contracted laboratory costs		-	526
Training		480	869
Recruitment		919	974
Telecoms		223	202
Media and Communications		161	229
Library Services		194	150
Hospitality		138	202
Other expenditure		904	874
		18,002	14,823
Provisions (non-cash):			
Provided in year	18	244	30
Provision not required written back	18	-	-
Unwinding of the discount	18	-	19
Movement in provision		244	49
		24,862	21,394

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

13. Property, Plant and Equipment

	Furniture	Office equipment	Information Technology	Leasehold works	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2009	423	2,134	2,007	4,297	8,861
Additions	20	112	602	172	906
Disposals	(20)	(3)	(132)	-	(155)
At 31 March 2010	423	2,243	2,477	4,469	9,612
Depreciation					
At 1 April 2009	353	1,102	1,365	2,176	4,996
Charged in year	29	337	353	268	987
Disposals	(20)	(3)	(132)	-	(155)
At 31 March 2010	362	1,436	1,586	2,444	5,828
Net book value at 31 March 2010	61	807	891	2,025	3,784
Net book value at 31 March 2009	70	1,032	642	2,121	3,865
Asset financing:					
Net book value of owned assets at 31 March 2010	61	807	891	2,025	3,784

	Furniture	Office equipment	Information Technology	Leasehold works	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2008	356	1,750	1,724	4,297	8,127
Additions	67	428	362	-	857
Disposals	-	(44)	(79)	-	(123)
At 31 March 2009	423	2,134	2,007	4,297	8,861
Depreciation					
At 1 April 2009	326	806	1,133	1,916	4,181
Charged in year	27	331	306	260	924
Disposals	-	(35)	(74)	-	(109)
At 31 March 2009	353	1,102	1,365	2,176	4,996
Net book value at 31 March 2009	70	1,032	642	2,121	3,865
Net book value at 31 March 2008	30	944	591	2,381	3,946
Asset financing:					
Net book value of owned assets at 31 March 2009	70	1,032	642	2,121	3,865

14. Financial Instruments

As the cash requirements of the department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than might apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's expected purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk.

15. Trade receivables and other current assets

	2009-10	2008-09	2007-08
	£000	£000	£000
Amounts falling due within one year:			
Trade receivables	3,560	1,141	1,376
Accrued income	6,133	665	126
Prepayments	2,567	2,447	2,317
HM Revenue and Customs (VAT)	388	206	263
Staff receivables	154	145	138
At 31 March	12,802	4,604	4,220

Staff receivables include loans outstanding, of which £122,000 relates to season ticket loans for 104 employees; and £30,000 relates to housing advances in respect of 4 employees.

Staff receivables due after more than one year: The balance of £30,000 (2008-09: £41,000) relating to housing advances comprises £19,000 (2008-09: £30,000) which is repayable in instalments after one year.

15.1 Intra-government balances

	2009-10	2008-09	2007-08
	£000	£000	£000
Balances with other central government bodies	3,610	1,481	1,732
Balances with local authorities	1,021	854	813
Balances with bodies external to government	8,171	2,269	1,675
Total receivables at 31 March	12,802	4,604	4,220

16. Cash and cash equivalents

	£000
Balance at 1 April 2008	1,471
Net change in cash and cash equivalents	(1,338)
Balance at 31 March 2009	133
Net change in cash and cash equivalents	3,102
Balance at 31 March 2010	3,235

The following balances were held at:	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Office of HM Paymaster General and Government Banking Service	3,231	131	1,316
Commercial banks and cash in hand	4	2	155
Total	3,235	133	1,471

17. Trade payables and other current liabilities

	2009-10	2008-09	2007-08
	£000	£000	£000
Amounts falling due within one year:			
Other Taxation and Social Security	572	791	474
Trade payables	310	814	641
Staff payables	820	686	684
Deferred licence fees	1,429	2,289	3,924
Leasehold reverse premium	316	316	316
Accruals and other deferred income	5,400	1,894	2,379
Amounts issued from the Consolidated Fund for supply but not spent at year end	3,235	133	1,471
Excess cash receipts	-	-	-
Consolidated Fund Extra Receipts due to be paid to the Consolidated Fund:			
received	-	-	-
receivable	-	-	-
Balance at 31 March	12,082	6,923	9,889
	2009-10	2008-09	2007-08
	£000	£000	£000
Amounts falling due after more than one year:			
Leasehold reverse premium	1,973	2,290	2,606
Balance at 31 March	1,973	2,290	2,606

When Ofgem entered into a lease on its Millbank headquarters in 2000, it received a leasehold reverse premium from the landlord. The remainder of the reverse premium is £2.290m and will be utilised on a straight-line basis over the lease term up to the first break in the lease, being 23 June 2017.

17.1 Intra-government balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	31 March 2010	31 March 2009	1 April 2008	31 March 2010	31 March 2009	1 April 2008
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies	4,877	1,706	2,811	-	-	-
Balances with local authorities	-	-	-	-	-	-
Balances with public corporations and trading funds	-	-	-	-	-	-
<i>Subtotal: intra-government balances</i>	<i>4,877</i>	<i>1,706</i>	<i>2,811</i>	<i>-</i>	<i>-</i>	<i>-</i>
Balances with bodies external to government	7,205	5,217	7,078	1,973	2,290	2,606
Total creditors at 31 March	12,082	6,923	9,889	1,973	2,290	2,606

18. Provisions for liabilities and charges**18.1 Early Retirement**

	£000
Balance at 1 April 2008	1,657
Provided in the year	-
Unwinding of the discount	19
Provisions not required written back	-
Provision utilised in the year	(460)
Balance at 31 March 2009	1,216
Provided in the year	211
Unwinding of discount	-
Provisions not required written back	-
Provisions utilised in the year	(340)
Balance at 31 March 2010	1,087

Analysis of expected timings of discounted flows

	£000
2010-2011	311
2011-2012/2016-2017	566
2017-2018/2022-2023	194
Thereafter	16
Balance at 31 March 2010	1,087

The department meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts monthly to the PCSPS over the period between early departure and normal retirement date. The department provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 2.2% in real terms.

18.2 Pension liabilities

	2009-10	2008-09
	£000	£000
Provision at 1 April	562	578
Interest cost	33	30
Actual benefit payments	(16)	(15)
Actuarial loss/(gain)	106	(31)
Provision at 31 March	685	562
Net movement in year (excluding actuarial loss or gain)	17	15

History of experience losses

	2009-10	2008-09
	£000	£000
Experience losses arising on the scheme liabilities	12	10
Amount recognised as a percentage of present value of scheme liabilities	1.8%	1.7%
Total amount recognised in statement of Changes in Taxpayers' Equity	(106)	(31)

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

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2010. The major assumptions used by the actuary were:

	At 31 March 2010	At 31 March 2009
	% (per annum)	% (per annum)
Inflation assumption	2.75	2.75
Rate of increase in salaries	4.29	4.3
Investment return in excess of price increases	1.8	3.2
Rate of increase for pensions in payment and deferred income	2.75	2.75

Analysis of Actuarial Loss/(Gain)

	2009-10	2008-09	2007-08
	£000	£000	£000
Changes in assumptions underlying the present value of scheme liabilities	94	(41)	(10)
Experience losses arising on the scheme liabilities	12	10	107
Per statement of Changes in Taxpayers' Equity	106	(31)	97

From 31 March 2010, the discount rate for pension scheme liabilities changed from 3.2 per cent to 1.8 per cent. This rate is reflected in the valuation of the pension scheme liability as at 31 March 2010.

19. Notes to the Statement of Operating Costs by Departmental Strategic 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.

20. Capital commitments

	2009-10	2008-09	2007-08
	£000	£000	£000
Contracted capital commitments at 31 March for which no provision has been made	-	-	-

21. Commitments under leases**Operating leases**

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	31 March	31 March
	2010	2009
	£000	£000
Obligation under operating leases comprise:		
Buildings:		
Not later than one year	5,828	5,767
Later than one year and not later than five years	23,592	23,312
Later than five years	13,404	18,825
	42,824	47,904
Other:		
Not later than one year	2	4
Later than one year and not later than five years	5	7
Later than five years	-	-
	7	11

22. Other financial commitments

Ofgem had not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2010.

23. Contingent liabilities disclosed under IAS 37

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 2010 there were no contingent liabilities requiring disclosure.

24. Related Party Transactions

During the year, Ofgem transferred £6.694m to the Department for Business, Innovation and Skills in respect of the energy sector related costs of Consumer Focus and Consumer Direct. Additionally, £0.949m was transferred to the National Measurement Office in respect of metrology services.

Ofgem sublets part of its Millbank premises to DEFRA, provides financial and payroll services to Postcomm, and administers the Northern Ireland Renewables Obligation on behalf of the NI Authority for Utility Regulation. Income recognised in year was £5.220m from DEFRA, £69k from Postcomm, £159k from NI Authority for Utility Regulation.

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

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

25. Events after the reporting period

There were no reportable events between the end of the reporting period, and 7 June 2010, the authorised for issue date. The financial statements do not reflect events after this date.

26. Third-Party Assets

Fossil Fuel Levy

Ofgem is responsible for setting, collecting and administering the Fossil Fuel Levy (FFL) via commercial bank accounts. The Department for Business, Innovation and Skills has overall responsibility for the making of regulations governing the FFL. 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 Government.

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 Business, Innovation and Skills 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 Scottish Government relating to 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 29 June 2009, 22 January 2010 and 22 March 2010, £52m, £60m and £15m respectively, were transferred to the Consolidated Fund from the England and Wales account on this basis.

The balance held at 31 March 2010 in the England and Wales account was £30.2 million and the Scotland account held £182.7 million.

Under Section 187 of the Energy Act 2004, the Scottish Government may direct Ofgem to pay an amount from the Scottish Levy account to the Scottish Consolidated Fund. No such direction has yet been made.

In accordance with the 2009-10 Government Financial Reporting Manual (FReM) issued by HM Treasury, Ofgem is required to disclose any monies held on behalf of third-parties. All monies collected through the FFL have in the past fallen into this category. Prior to 2006-07 under Managing Public Money rules, the account balances were defined as third-party assets where neither Ofgem nor the Government more generally had any direct beneficial interest. They were therefore not included in our Resource Account.

From 2006-07, the surplus over and above the core third-party balance of £30 million in the England and Wales account is now treated as CFER income in our Resource Account and reflected in the Statement of Parliamentary Supply. The change in treatment arises due to an increased certainty that the surplus will go to the Consolidated Fund. This does not score against resource expenditure. The total balance held in the Scotland levy account continues to be treated as monies held on behalf of third-parties.

Renewables Obligation

Under the Renewables Obligation Order 2006, Ofgem on behalf of the Secretary of State for Business, Innovation and Skills is responsible for administering the Renewables Obligation. The Renewables Obligation requires suppliers to source a certain portion of the electricity they supply from renewable sources. Alternatively, suppliers can buy out of the obligation.

Buyout payments for a particular compliance period are redistributed to suppliers by 1 November following the end of the compliance period (which runs from April to March each year). The balance on the Renewables Obligation account at year-end is normally zero.

In 2008, a company failed to comply with its obligations resulting in buyout payments being withheld. The amount held as at 31 March 2010 was £27,900.



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