# Resource Accounts

# Statement of Comprehensive Net (Income)/ Expenditure for the year ended 31 March 2022

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

| | Note | 2021-22 £000 | 2020-21 £000 |
|---|---|---|---|
| Operating income | 4 | (142,812) | (109,119) |
| **Total Operating Income** | | **(142,812)** | **(109,119)** |
| Staff costs | 3 | 86,125 | 76,548 |
| Other operating expenditure | 3 | 43,747 | 44,565 |
| **Total operating expenditure** | | **129,872** | **121,113** |
| **Net operating (income)/ expenditure for the year** | 2 | **(12,940)** | **11,994** |
| **Comprehensive net (income)/expenditure for the year** | | **(12,940)** | **11,994** |

The notes on pages 83 to 99 form part of these accounts.

# Statement of Financial Position as at 31 March 2022

This statement presents the financial position of the department. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

| | Note | | 2021-22<br>£000 | | 2020-21<br>£000 |
|---|---|---|---|---|---|
| **Non-current assets:** | | | | | |
| Property, plant and equipment | 5 | 2,999 | | 2,285 | |
| Intangible assets | 6 | 4,651 | | - | |
| ***Total non-current assets*** | | | **7,650** | | **2,285** |
| **Current assets:** | | | | | |
| Trade and other receivables | 10 | 23,731 | | 15,575 | |
| Cash and cash equivalents | 9 | 14,366 | | 3,604 | |
| ***Total current assets*** | | | **38,097** | | **19,179** |
| ***Total assets*** | | | **45,747** | | **21,464** |
| **Current liabilities:** | | | | | |
| Trade and other payables | 11 | (43,857) | | (23,137) | |
| Provisions | 12 | (15,278) | | (14,308) | |
| ***Total current liabilities*** | | | **(59,135)** | | **(37,445)** |
| **Total assets less current liabilities** | | | **(13,388)** | | **(15,981)** |
| **Non-current liabilities:** | | | | | |
| Provisions | 12 | (1,791) | | (2,298) | |
| ***Total non-current liabilities*** | | | **(1,791)** | | **(2,298)** |
| **Total assets less total liabili-ties** | | | **(15,179)** | | **(18,279)** |
| **Taxpayers' equity:** | | | | | |
| General fund | | (15,179) | | (18,279) | |
| **Total equity** | | | **(15,179)** | | **(18,279)** |

**Jonathan Brearley**
Chief Executive

**11 July 2022**

The notes on pages 83 to 99 form part of these accounts.

# Statement of cash flows for the year ended 31 March 2022

The Statement of Cash Flows shows the changes in cash and cash equivalents of the department during the reporting period. The statement shows how the department generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by the department. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the department's future public service delivery.

| | Note | 2021-22 £000 | 2020-21 £000 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net operating income/(expenditure) | SoCNE | 12,940 | (11,994) |
| Adjustments for non-cash transactions | SoPS3 | 6,223 | 12,432 |
| Increase in trade and other receivables | 10 | (8,156) | (7,873) |
| Increase/(decrease) in trade and other payables | 11 | 20,720 | (5,153) |
| less movements in payables relating to items not passing through the SoCNE | 11 | (10,762) | 8,665 |
| Use of provisions | 12 | (3,503) | (690) |
| **Net cash inflow/(outflow) from operating activities** | | **17,462** | **(4,613)** |
| **Cash flows from investing activities:** | | | |
| Purchase of property, plant and equipment | 5 | (2,049) | (2,199) |
| Purchase of intangible assets | 6 | (4,651) | - |
| **Net cash outflow from investing activities** | | **(6,700)** | **(2,199)** |
| **Cash flows from financing activities:** | | | |
| From the Consolidated Fund (supply) current year | SOCiTE | - | 6,893 |
| Advances from the Contingencies Fund | | 37,600 | 27,000 |
| Payments to the Contingencies Fund | | (37,600) | (27,000) |
| **Net financing** | | **-** | **6,893** |
| **Net increase in cash and cash equivalents in the period before adjustment for payments to the Consolidated Fund** | | **10,762** | **81** |
| Payments of amounts to the Consolidated Fund | | - | (8,746) |
| **Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund** | | **10,762** | **(8,665)** |
| Cash and cash equivalents at the beginning of the period | 9 | 3,604 | 12,269 |
| **Cash and cash equivalents at the end of the period** | 9 | **14,366** | **3,604** |

The notes on pages 83 to 99 form part of these accounts.

# Statement of changes in taxpayers' equity for the year ended 31 March 2022

This statement shows the movement in the year on the different reserves held by the department, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

| | | General fund |
|---|---|---|
| | **Note** | **£000** |
| **Balance at 31 March 2020** | | **(13,189)** |
| Auditors remuneration | 3 | 100 |
| Comprehensive net expenditure for the year | SoCNE | (11,994) |
| Net Parliamentary Funding - deemed | | 3,523 |
| Net Parliamentary Funding - drawn down | | 6,893 |
| Supply payable adjustment | | (3,604) |
| Cash receipts from 2019-20 not due to the Consolidated Fund | | (8) |
| **Balance at 31 March 2021** | | **(18,279)** |
| Auditors remuneration | 3 | 107 |
| Comprehensive net income for the year | SoCNE | 12,940 |
| Net Parliamentary Funding - deemed | | 3,604 |
| Net Parliamentary Funding - drawn down | | - |
| Supply payable adjustment | | (14,366) |
| Deferred income released to the general fund | | 442 |
| Other reserve movements | | 373 |
| **Balance at 31 March 2022** | | **(15,179)** |

The notes on pages 83 to 99 form part of these accounts.

# Notes to the departmental resource accounts

## 1. Statement of accounting policies

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

As well as the primary statements prepared under IFRS, the FReM requires the department to prepare one additional primary statement. The Statement of Outturn against Parliamentary Supply (SoPS) and supporting notes show outturn against estimate in terms of the net resource requirement and the net cash requirement, and are included in the Parliamentary Accountability and Audit Report section starting on page 69.

### 1.1 Accounting convention

These accounts have been prepared on a going concern basis under the historical cost convention. The accounts are presented to the nearest £'000.

## Going concern

In common with other government departments, the future financing of our liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by Parliament. Approval for amounts required for 2022-23 has already been given and there is no reason to believe that future approvals will not be granted. We expect to continue to deliver services into the future. We have therefore considered it appropriate to adopt a going-concern basis for the preparation of these financial statements.

### 1.2 Operating income

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

- **Licence fees -** In each financial year, Ofgem is required to balance its expenditure with its income. Ofgem is required to raise income from the sector it regulates such that it covers the costs to be incurred by Ofgem in regulating that sector. Therefore, Legislation provides the enforceability on both parties to enable Ofgem to recover its costs from third parties. The performance obligations relate to the underlying work to be undertaken by Ofgem as regulator of the Gas & Electricity Market, and as set out in the published Forward Work Programme. Revenue is recognised in the year the performance obligation (cost) is incurred.

- **Income from BEIS and Scheme funded recharges -** Under service level agreements/ contracts with the Department for Business, Energy and Industrial Strategy and other government bodies, Ofgem administers energy and environmental schemes on their behalf. These services are provided on a full-cost basis. Income is recognised on an accruals basis as the performance obligations outlined within the service level agreements/ contracts are satisfied over time. Administration costs funded directly by BEIS, rather than by the scheme itself or by other governments, is separated out in Note 4 and explained in Note 14.

- **Green gas levy -** The Green Gas Levy places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments, in order to fund the Green Gas Support Scheme, a government environmental scheme that provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid. There are no obligations to transfer goods or services to those who pay the levy (it is treated as a type of taxation), because those funds will be used to pay for Green Gas Support Scheme payments and running costs. The FReM adapts IFRS 15 to require that taxation revenue received which is wholly non-refundable and leads to no obligations should be recognised when: an equivalent to a taxable event has occurred; the revenue can be measured reliably; and it is probable that the assisted economic benefits from the taxable event will flow to the collecting entity. These criteria are considered to be met for the Green Gas Levy when the meter point data is provided by gas suppliers to Ofgem.

- **Other income -** Other income is accounted for on an accruals basis.

## 1.3 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and the Civil Servants and Others Pension Scheme (CSOPS). These are described in the Staff Report. Both schemes are non-contributory and unfunded. Departments, agencies and other bodies covered by both schemes meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. Liability for payment of future benefits is a charge on the schemes. There is a separate scheme statement for the PCSPS and the CSOPS as a whole.

## 1.4 Early departure costs

Ofgem are required to meet the additional cost of benefits beyond the normal PCSPS benefits for employees who retire early. The full cost is provided for when the early retirement programme has been announced and is binding.

## 1.5 Property, plant, equipment and depreciation

Property, plant and equipment are held at depreciated historical cost as a proxy for current value, as this realistically reflects consumption of the asset. Revaluations would not cause a material difference.

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

| | |
|---|---|
| Leasehold improvements | Life of the lease |
| Office equipment, furniture and fittings | Four years |
| IT equipment | Three years. |

The minimum level for the capitalisation of property, plant and equipment is £2,000. IT equipment and furniture, where individual assets may cost less than £2,000, are capitalised on a grouped basis.

## 1.6 Intangible assets and amortisation

Intangible assets relating to bespoke software developed by Ofgem for use in the running of various schemes, are recognised at historic cost and amortised over the life of the scheme or four years, whichever is lower. Whilst being developed, they are classified as assets under construction and are not amortised until they are commissioned. Development costs that are directly attributable to the design and testing of the bespoke software are capitalised when they meet the criteria specified in IAS 38 Intangible Assets (as adapted by the FReM). Expenditure which does not meet the criteria is expensed as incurred.

## 1.7 Operating leases

Rentals due under operating leases are charged to the statement of comprehensive net (income)/ expenditure over the lease term on a straight-line basis, or on the basis of actual rentals payable which fairly reflects the usage.

This will change in 2022-23, please see note 1.15.

## 1.8 Cash and Cash equivalents

Cash and cash equivalents in the statement of financial position comprises of cash at bank and in hand. For the purpose of the cash flow statement, cash and cash equivalents consist of cash only.

## 1.9 Provisions

Where Ofgem has a legal or constructive obligation to meet certain costs, Ofgem will make a provision based on a management estimate of the value, probability and timing of future payments. Although there is a higher degree of estimation uncertainty associated with legal provisions, management will make their best estimate based on information available.

Where the time-value of money is material, the provision is discounted to its present value using the government's standard discount rate (currently a nominal rate of 0.47% for up to the first five years, 0.70% from after five years and up to and including ten years, and 0.95% from after ten years and up to and including forty years). Each year the financing charges in the statement of comprehensive net (income)/expenditure include the adjustments to amortise one year's discount and restate liabilities to current price levels.

## 1.10 Value added tax

Amounts are shown net of value-added tax (VAT), except:

- irrecoverable VAT is charged to the statement of comprehensive net (income)/expenditure and included under the heading relevant to the type of expenditure
- irrecoverable VAT on the purchase of an asset is included in the capitalised purchase cost of the asset.

The amount due from HM Revenue and Customs for VAT is included in receivables within the Statement of Financial Position.

## 1.11 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the rate of exchange ruling on the date of each transaction.

## 1.12 Financial risks

Ofgem has no significant exposure to liquidity, interest rate or currency risks. Due to the nature of its activities and the way in which Ofgem is financed, it is not exposed to the degree of financial risk faced by business entities.

## 1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), certain statutory and non-statutory contingent liabilities are reported for parliamentary reporting and accountability purposes. This occurs where management deem the likelihood of a transfer of economic benefit as remote, but where the liabilities have been reported to parliament in accordance with the requirements of Managing Public Money.

## 1.14 Assets belonging to third parties

Assets belonging to third parties as disclosed in Note 15 (such as money held in relation to the Renewables Obligation and Feed-In Tariff schemes) are not recognised in the Statement of Financial Position since Ofgem have no beneficial interest in them.

## 1.15 Adoption of new and revised accounting standards

- **IFRS 16**

IFRS 16 Leases is applicable from 1 April 2022 (delayed from 1 April 2021) for FReM bodies and replaces IAS 17 Leases. IFRS 16 Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset meets the IFRS 16 criteria to be classified as of “low value”.

IFRS 16 requires that assets and liabilities will be recognised initially at the discounted value of the minimum lease payments. Therefore, implementation of IFRS 16 will increase the value of assets (right of use assets) and liabilities (lease liabilities) on the Statement of Financial Position.

After initial recognition, right of use assets will be amortised on a straight-line basis and interest will be recognised on the liabilities. As a result, the timing of the recognition of the total costs of leasing will change, as interest costs will be higher at the start of a lease.

IFRS 16 will be implemented using the cumulative catch-up method, which means that comparatives for 2021-22 will not be re-stated, and the adjustment to net assets will be made with effect from 1 April 2022. This approach is mandated by HM Treasury. Ofgem’s material leases relate to property rentals for office space. The effect of implementation is estimated to be an increase in assets and liabilities of approximately £24million on 1 April 2022 and an increase in charges to the Statement of Comprehensive Net (Income)/ Expenditure of approximately £0.9million during 2022-23 (based on 2021-22 assumptions, interest rates and discount rates).

- **IFRS 17**

IFRS 17 Insurance contracts is not likely to be adopted by the public sector until 2023 or later. The impact is not expected to be material for the department.

## 1.16 Critical Accounting Judgements and Estimation Uncertainty

- **Provisions**

Provisions rely on the application of professional judgement, historical experience and other factors expected to influence future events. Where the likelihood of a liability crystallising is deemed probable and can be measured with reasonable certainty, a provision is recognised. Further information is disclosed in note 12.

- **Useful lives of non-current assets**

There is uncertainty in relation to estimated useful lives of non-current assets; these are reviewed as at the reporting date and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence or legal or other limits on their use.

## 2. Statement of operating expenditure/(income) by operating segment

| 2021-22 | | | | |
|---|---|---|---|---|
| | Regulatory Activities £000 | Ofgem Delivery & Schemes* £000 | Corporate Services £000 | Total £000 |
| Gross expenditure | 46,120 | 32,832 | 50,920 | 129,872 |
| Income | (44,055) | (48,238) | (50,519) | (142,812) |
| **Net expenditure/(income)** | **2,065** | **(15,406)** | **401** | **(12,940)** |

| 2020-21 | | | | |
|---|---|---|---|---|
| | Regulatory Activities £000 | Ofgem Delivery & Schemes* £000 | Corporate Services £000 | Total £000 |
| Gross expenditure | 44,340 | 29,100 | 47,673 | 121,113 |
| Income | (44,340) | (28,402) | (36,377) | (109,119) |
| **Net expenditure** | **-** | **698** | **11,296** | **11,994** |

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

*Ofgem E-Serve is now named Ofgem Delivery & Schemes.

## 3. Expenditure

| | Note | 2021-22<br>£000 | 2020-21<br>£000 |
|---|---|---|---|
| **Staff costs:*** | | | |
| Wages and salaries | | 64,811 | 57,516 |
| Social security costs | | 6,405 | 5,630 |
| Other pension costs | | 14,551 | 12,911 |
| Other staff costs | | 90 | 257 |
| Apprenticeship levy | | 268 | 234 |
| | | **86,125** | **76,548** |
| **Rental under operating leases:** | | | |
| Operating leases (land and buildings) | 7 | 2,294 | 2,792 |
| | | **2,294** | **2,792** |
| **Non-cash items:** | | | |
| Auditors' remuneration and expenses** | | 107 | 100 |
| Depreciation | 5 | 1,337 | 1,416 |
| Holiday pay adjustment | | (490) | 1,310 |
| | | **954** | **2,826** |
| **Other expenditure:** | | | |
| Consultancy | | 23,364 | 18,689 |
| Accommodation costs | | 2,762 | 2,594 |
| Recruitment and training | | 1,504 | 1,132 |
| Travel and subsistence | | 196 | 31 |
| Office supplies and equipment | | 5,993 | 4,831 |
| Professional Services | | 1,817 | 929 |
| Staff related costs | | 233 | 254 |
| Other expenditure | | 664 | 484 |
| | | **36,533** | **28,944** |
| **Provisions:** | | | |
| Movement in provisions | 12 | 3,966 | 10,003 |
| **Total** | | **129,872** | **121,113** |

* Further analysis of staff costs is located in the Staff Report on page 62.

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

## 4. Operating income analysis

| | | | 2021-22 | | | 2020-21 |
|---|---|---|---|---|---|---|
| | **Income** | **Full costs** | **Surplus** | **Income** | **Full costs** | **Deficit** |
| Licence fees (external) | 91,284 | 91,284 | - | 77,301 | 77,301 | - |
| Other | 51,528 | 38,588 | 12,940 | 31,818 | 43,812 | (11,994) |
| **Total** | **142,812** | **129,872** | **12,940** | **109,119** | **121,113** | **(11,994)** |

| | | 2021-22 | 2020-21 |
|---|---|---|---|
| **Other income includes:** | **Note** | **£000** | **£000** |
| Offshore Transmission Tender Recharge | | 2,442 | 2,638 |
| Department for Business, Energy and Industrial Strategy (BEIS) | 14 | 27,685 | 24,269 |
| Scheme-funded recharges | | 6,258 | 4,045 |
| Green Gas Levy | | 14,220 | - |
| Miscellaneous* | | 923 | 866 |
| | | **51,528** | **31,818** |

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

## 5. Property, plant and equipment

| | Furniture | Office equipment | IT | Leasehold improvements | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | |
| At 1 April 2021 | 229 | 443 | 3,193 | 6,104 | 9,969 |
| Additions | - | 44 | 937 | 1,068 | 2,049 |
| Reclassification | - | (222) | - | 222 | - |
| Disposals | - | - | (390) | (4,106) | (4,496) |
| **At 31 March 2022** | **229** | **265** | **3,740** | **3,288** | **7,522** |
| **Depreciation** | | | | | |
| At 1 April 2021 | 180 | 50 | 1,704 | 5,750 | 7,684 |
| Charged in year | 32 | 47 | 944 | 314 | 1,337 |
| On disposals | - | - | (392) | (4,106) | (4,498) |
| **At 31 March 2022** | **212** | **97** | **2,256** | **1,958** | **4,523** |
| **Carrying amount at 31 March 2022** | **17** | **168** | **1,484** | **1,330** | **2,999** |
| Carrying amount at 31 March 2021 | 49 | 393 | 1,489 | 354 | 2,285 |

| | Furniture | Office equipment | IT | Leasehold im-provements | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Cost or valuation** | | | | | |
| At 1 April 2020 | 229 | 121 | 1,382 | 6,038 | 7,770 |
| Additions | - | 322 | 1,811 | 66 | 2,199 |
| **At 31 March 2021** | **229** | **443** | **3,193** | **6,104** | **9,969** |
| **Depreciation** | | | | | |
| At 1 April 2020 | 114 | 8 | 827 | 5,319 | 6,268 |
| Charged in year | 66 | 42 | 877 | 431 | 1,416 |
| **At 31 March 2021** | **180** | **50** | **1,704** | **5,750** | **7,684** |
| **Carrying amount at 31 March 2021** | **49** | **393** | **1,489** | **354** | **2,285** |
| Carrying amount at 31 March 2020 | 116 | 113 | 555 | 718 | 1,502 |

All property, plant and equipment is owned by Ofgem.

## 6. Intangible assets

Intangible assets are internally generated bespoke computer software assets for use in the running of various Ofgem schemes. They are initially classified as assets under construction and are not amortised until they are commissioned.

| | Assets under construction | Total |
|---|---|---|
| | £000 | £000 |
| **Cost** | | |
| At 1 April 2021 | - | - |
| Additions | 4,651 | 4,651 |
| **At 31 March 2022** | **4,651** | **4,651** |
| **Amortisation** | | |
| At 1 April 2021 | - | - |
| Charged in year | - | - |
| **At 31 March 2022** | **-** | **-** |
| **Carrying amount at 31 March 2022** | **4,651** | **4,651** |
| Carrying amount at 31 March 2021 | - | - |

## 7. Operating leases

£2.3m (2020-21: £2.8m) was included as an expense on operating leases in the Statement of Comprehensive Net (Income)/Expenditure. Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

| | 2021-22 | 2020-21 |
|---|---|---|
| | £000 | £000 |
| Buildings: | | |
| Not later than one year | 2,139 | 2,218 |
| Later than one year and not later than five years | 8,192 | 8,222 |
| Later than five years | 13,422 | 14,014 |
| | **23,753** | **24,454** |

London office space is contracted up to June 2032. During 2021-22, there was a reduction in office space leased by Ofgem, and lease expenditure has reduced accordingly.

Glasgow office space is leased until 2026-27 with annual breaks from 2021-22. Only payments up to 2022-23 have been included in the minimum lease payments figure above.

Cardiff is contracted until March 2026 with an option to extend to 2045.

## 8. Financial instruments

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

The securities and letters of credit described in Note 15 are held to manage risk in the Offshore tender auction process which Ofgem undertakes on behalf of government. Ofgem has no risk exposure to the securities it holds in relation to this process.

## 9. Cash and cash equivalents

| | 2021-22 | 2020-21 |
|---|---|---|
| | £000 | £000 |
| Balance at 1 April | 3,604 | 12,269 |
| Net change in cash balances: | 10,762 | (8,665) |
| **Balance at 31 March** | **14,366** | **3,604** |
| The following balances at 31 March were held at: | | |
| Government Banking Service | 14,366 | 3,604 |
| **Balance at 31 March** | **14,366** | **3,604** |

In addition to the cash and cash equivalents disclosed above, Ofgem holds third party assets of cash and letters of credit relating to offshore tender developer securities, the Renewables Obligation, the Feed-in Tariffs funds, the Renewable Heat Incentive and the Green Gas Support schemes. These are described in note 15.

## 10. Trade receivables and other current assets

| | 2021-22 | 2020-21 |
|---|---|---|
| **Amounts falling due within one year:** | £000 | £000 |
| Accrued income | 20,395 | 12,987 |
| Trade receivables | 549 | 793 |
| Prepayments | 2,034 | 1,309 |
| VAT | 735 | 468 |
| Other receivables | 18 | 18 |
| **Balance at 31 March** | **23,731** | **15,575** |

Other receivables represent staff loans outstanding, such as those relating to the cycle to work scheme.

## 11. Trade payables and other current liabilities

| | 2021-22 | 2020-21 |
|---|---|---|
| **Amounts falling due within one year:** | **£000** | **£000** |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 14,366 | 3,604 |
| Deferred licence fees | 6,880 | 745 |
| Accruals | 13,749 | 5,502 |
| Other deferred income | 2,233 | 5,477 |
| Other payables | 2,618 | 3,108 |
| Taxation and social security | 3,475 | 2,952 |
| Trade payables | 536 | 1,749 |
| **Balance at 31 March** | **43,857** | **23,137** |

Ofgem encourages staff to use their full holiday entitlement for each year. However, staff can carry over up to ten days of untaken leave into the next year. Amounts untaken as at 31st March are accrued within "other payables".

## 12. Provisions for liabilities and charges

| | Early retirement | Voluntary exit | Pension liabilities | Dilapidations | Legal | VAT | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2021 | 130 | 400 | - | 2,184 | 10,064 | 2,521 | 1,307 | 16,606 |
| Provided in the year | - | 208 | - | - | 4,734 | - | 225 | 5,167 |
| Provisions not required written back | - | - | - | (479) | - | (405) | (305) | (1,189) |
| Provisions utilised in the year | (15) | (400) | - | - | - | (2,116) | (972) | (3,503) |
| Changes in discount rate | (12) | - | - | - | - | - | - | (12) |
| **Balance at 31 March 2022** | **103** | **208** | **-** | **1,705** | **14,798** | **-** | **255** | **17,069** |

| | Early retirement | Voluntary exit | Pension liabilities | Dilapidations | Legal | VAT | Other | Total |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Balance at 1 April 2020 | 131 | - | 838 | 1,899 | - | 2,388 | 1,116 | 6,372 |
| Provided in the year | - | 400 | - | 285 | 10,064 | 133 | 1,298 | 12,180 |
| Provisions not required written back | - | - | (838) | - | - | - | (435) | (1,273) |
| Provisions utilised in the year | (18) | - | - | - | - | - | (672) | (690) |
| Changes in discount rate | 17 | - | - | - | - | - | - | 17 |
| **Balance at 31 March 2021** | **130** | **400** | **-** | **2,184** | **10,064** | **2,521** | **1,307** | **16,606** |

| **Analysis of expected timings of discounted flows as at 31 March 2022** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Not later than one year | 17 | 208 | - | - | 14,798 | - | 255 | 15,278 |
| Later than one year and not later than five years | 61 | - | - | 1,705 | - | - | - | 1,766 |
| Later than five years | 25 | - | - | - | - | - | - | 25 |
| **Balance at 31 March 2022** | **103** | **208** | **-** | **1,705** | **14,798** | **-** | **255** | **17,069** |

| **Analysis of expected timings of discounted flows as at 31 March 2021** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Not later than one year | 16 | 400 | - | - | 10,064 | 2,521 | 1,307 | 14,308 |
| Later than one year and not later than five years | 62 | - | - | 2,184 | - | - | - | 2,246 |
| Later than five years | 52 | - | - | - | - | - | - | 52 |
| **Balance at 31 March 2021** | **130** | **400** | **-** | **2,184** | **10,064** | **2,521** | **1,307** | **16,606** |

### Early retirement

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

### Voluntary exit

Severance provisions relate to voluntary exits which have been discussed with the impacted member of staff prior to 31 March 2022 but are not expected to happen until 2022-23.

### Dilapidations

Dilapidations provisions are an anticipation of the future cost to return the department's leased properties to their condition as at the commencement of the lease.

### Pension liabilities

The pension provision related to unfunded pension liabilities for a previous chief executive and director general. During 2020-21, it was confirmed that this potential liability is no longer required and the provision could be released in full.

### Legal

A number of our RIIO-2 price control decisions for the gas distribution and transmission sectors were subject to appeal before the Competition and Markets Authority (CMA). A final determination and order was published on 1 November 2021, and we now have a starting position of claimants costs but there continues to be some uncertainty around this estimate and we believe the existing provision is still relevant to the prevalent position as at 31st March 2022.

A number of legal risks arose as a result of Ofgem's responses to the gas market crisis during 2021-22. This includes, but is not limited to, impacts on the price cap and legal challenges in relation to the Supplier of Last Resort process. The provision value has been estimated based on the assessment by legal professionals of both the likelihood of challenge and potential success of a challenge. The cost estimate considers factors such as the level of complexity and estimated resource involved in responding to a challenge.

### Other provisions

Other provisions include historic property costs relating to the lease for the 10SC office which have not yet been agreed with the Government Property Agency and provision for outstanding costs relating to a historic shortfall in pension contributions for some members of staff and former staff.

## 13. Contingent liabilities disclosed under IAS 37

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

We are not aware of any contingent liabilities requiring disclosure under IAS 37.

## 14. Related party transactions

During the year, we transferred £12.303 million to the Department for Business, Energy and Industrial Strategy (BEIS) (2020-21: £10.498 million). £11.440 million of this was for advocacy services (2020-21: £9.489 million). The remaining £0.863 million was transferred for metrology services (2020-21: £1.009 million). These funds are collected by Ofgem through the licence fee, on behalf of BEIS.

We administer environmental programmes on behalf of the BEIS, and second staff to BEIS. Total income from BEIS recognised in year amounted to £27.685 million, of which £4.834 million was accrued at 31 March 2022 (£24.269 million income in 2020-21 with £7.921 million accrued at 31 March 2021).

We administer the Northern Ireland Renewable Heat Incentive on behalf of the Department for the Economy (DfE), and administer the Northern Ireland Renewables Obligation on behalf of the Northern Ireland Authority for Utility Regulation (NIAUR). Income of £1.084 million was recognised in year from the NIAUR (£0.447 million in 2020-21), and £1.240 million of income from DfE (£1.811 million in 2020-21). This income is included within the Scheme Funded Recharges figure in Note 4.

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

None of the Authority members, key managerial staff or other related parties has undertaken any material transactions with Ofgem during the year except for remuneration which is included on page 55.

## 15. Third-party assets

### Offshore Tender Developer Securities

Along with the government, we have established the competitive offshore transmission regulatory regime to appoint an Offshore Transmission owner through competitive tendering.

We are responsible for managing the competitive tender process through which offshore transmission licences are granted.

Granting licences to operate new offshore transmission assets via a competitive tender process means that generators are partnered with the most efficient and competitive players in the market. This should result in lower costs and higher standards of service for generators and, ultimately, consumers.

Part of Ofgem's risk management strategy for the competitive tender process is to hold securities for the purposes of recovering costs in the event of an incomplete tender process. These securities are in the form of a letter of credit or cash. At 31 March 2022 Ofgem held £10.95 million in letters of credit and £nil in cash (31 March 2021: £8.85 million in credit, £nil in cash).

## Renewables Obligation

The Renewables Obligation is one of the main support mechanisms for large-scale renewable electricity projects in the UK, and the scheme is administered by Ofgem. The scheme closed to applicants in 2017. More about the Renewables Obligation can be found at https://www.ofgem.gov.uk/environmental-programmes/ro/about-ro

Several bank accounts are used to administer the scheme:

- Buyout funds – Suppliers can meet their renewables obligation by paying into the buyout fund. The proceeds of the buy- out fund are paid back pro-rata to those suppliers who discharged their obligation in full.
- Late payments – Any payments received after 31 August will be late payments. These are subject to an annualised daily interest penalty (5% + Bank of England base rate).
- Mutualisation – Where there is an overall shortfall in the obligation amount, suppliers are required to make payment towards mutualisation. The mutualisation funds are redistributed to suppliers who discharged their obligation in full.

Total cash held in these bank accounts as at 31 March 2022 was £14.84 million (31 March 2021: £25.43 million). Income of £6.96 million was recognised in 2021-22 in relation to RO schemes, of which £1.06 million was accrued at 31 March 2022. This income is included within the Scheme Funded Recharges figure in Note 4.

## Feed-in Tariff levelisation funds

The Feed-in Tariff (FIT) scheme is a government programme introduced on 1 April 2010 designed to promote the uptake of small-scale renewable and low-carbon electricity generation technologies.

Ofgem administers the scheme on behalf of the Department for Business, Energy and Industrial Strategy (BEIS), who is responsible for the FIT scheme policy and legislation, while Licensed Electricity Suppliers (FIT Licensees) operate the front-facing aspect of the scheme. If a householder, community or business has an eligible installation, they are paid a tariff for the electricity they generate and a tariff for the electricity they export back to the grid by their FIT Licensee.

The levelisation process operated by Ofgem redistributes the cost of the scheme amongst all Licensed Electricity Suppliers, based on their share of the GB Electricity Market and any FIT Payments they have made to accredited installations. This is a quarterly process, with an annual reconciliation process that is completed by September each year. The balance in the levelisation fund is typically a small value at the end of each financial year.

The amount held in the levelisation funds as at 31 March 2022 was £0.05 million (31 March 2021: £0.85 million).

## Domestic and non-domestic renewable heat incentive (RHI)

The Domestic RHI is a government financial incentive to encourage a switch to renewable heating systems. It's a way to help the UK reduce carbon emissions and is for households both off and on the gas grid.

The Non-Domestic RHI is a government environmental programme that provides financial incentives to increase the uptake of renewable heat by businesses, the public sector and non-profit organisations.

Ofgem administers both schemes on behalf of BEIS in Great Britain, and administers Non-Domestic RHI in Northern Ireland on behalf of DfE. Bank balances held in relation to the schemes at 31 March 2022 were: Domestic RHI: £4.540 million; Non-domestic RHI Great Britain: £9.673 million ; Non-domestic RHI Northern Ireland: £0.021 million (31 March 2021: £4.919 million; £3.077 million; £0.168 million).

**Green Gas Support Scheme**

The Green Gas Support Scheme (GGSS) is a government environmental scheme that provides financial incentives for new anaerobic digestion biomethane plants to increase the proportion of green gas in the gas grid. The scheme opened to participants on 30 November 2021 and will be open to applications for four years. Registered participants are paid quarterly payments over a period of 15 years, which are based on the amount of eligible biomethane that a participant injects into the gas grid.

Under the Green Gas Support Scheme Regulations 2021, the Green Gas Levy (GGL) places obligations on licensed gas suppliers, including a requirement to make quarterly levy payments to Ofgem in order to fund the GGSS. Licensed gas suppliers must also provide credit cover, either in the form of cash or by lodging a valid letter of credit, to help ensure funds are collected in a timely manner and to reduce the likelihood of mutualisation events being required.

Credit cover must be provided for a minimum duration of a quarter and the following four weeks. Once in place, suppliers' credit cover may be drawn down on by Ofgem in instances where a supplier fails to pay whole or part of a levy or mutualisation payment by the relevant due date. Unused credit cover remains lodged and is taken into account in confirming whether additional credit cover needs to be lodged for the following quarter. In future years any excess cash credit cover held beyond required levels for each supplier will be routinely returned to suppliers in March. As at 31 March 2022, Ofgem held £5.958 million in cash credit cover and £11.171 million in letters of credit.

The GGSS, and associated GGL, policy is set by BEIS but the scheme is administered by Ofgem.

## 16. Fossil fuel levies and financial penalties

Ofgem are no longer required to prepare a Trust Statement in respect of the fossil fuel levies and financial penalties imposed.

**a) Fossil fuel levies**

The fossil fuel levy schemes were closed in 2019. During 2021-22, the residual cash balances of £31.995 million and £43.724 million were transferred to the UK Consolidated Fund (England and Wales levy balance) and the Scottish Consolidated Fund (Scotland levy balance) respectively.

**b) Financial penalties**

Ofgem is governed by the Gas and Electricity Markets Authority. The Authority is responsible for taking enforcement action, including imposing financial penalties, in respect of the energy companies it regulates. These amounts are collected by us for payment into the Consolidated Fund. A summary of investigations and enforcement action for the year is included at Appendix II.

| | **2021-22** | **2020-21** |
|---|---|---|
| | **£000** | **£000** |
| Penalties imposed | - | 26,560 |
| | **-** | **26,560** |

## 17. Events after the reporting period

The Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. The financial statements do not reflect events after this date.

On 29 April 2022, the Office for National Statistics published a classification assessment for Last Resort Supply Payments (also known as the Supplier of Last Resort (SOLR) levy) and has concluded that Last Resort Supply Payments will be classified as a type of tax. This means that future Ofgem budgets and Estimates will include Last Resort Supply Payments, although the effective date for implementing is still to be determined by the Office for National Statistics. Last Resort Supply Payments cover certain costs associated with transferring customers through the SOLR process and are recovered through allowances for network costs. Last Resort Supply Payment costs have increased over the past year due to the rise in wholesale gas prices, causing a number of suppliers to leave the market. The total Last Resort Supply Payment costs for 2022-23 are £1.84 billion. No funds will pass through Ofgem directly, and Ofgem will not reflect the tax in budgets and estimates until the effective date has been determined.

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