

**Northern Ireland Authority
for Utility Regulation
(The Utility Regulator)**

Resource Accounts

**Accounts for the year ended
31 March 2011**

NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION

RESOURCE ACCOUNTS

For the year ended 31 March 2011

*Laid before the Northern Ireland Assembly by the Department of Finance
and Personnel under section 10(4) of the Government Resources and
Accounts Act (Northern Ireland) 2001*

1st July 2011

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Any enquiries regarding this document/publication should be sent to us at
The Utility Regulator, Queen's House, 14 Queen Street, Belfast BT1 6ED.

Northern Ireland Authority for Utility Regulation

Resource Accounts for the year ended 31 March 2011

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ANNUAL REPORT

DIRECTOR'S REPORT

These Resource Accounts have been prepared and published by the Northern Ireland Authority for Utility Regulation (the Utility Regulator). The Accounts have been prepared under a direction issued by the Department of Finance and Personnel (DFP) and in accordance with the guidance set out in the *Government Financial Reporting Manual (FReM)* issued by the DFP in 2010-11. The accounts demonstrate the resources that have been used to deliver the Utility Regulator's objectives.

This document should be read in conjunction with the Utility Regulator Annual Report for 2010 - 11, which is published separately and will be available from the Utility Regulator's website (www.uregni.gov.uk).

Description of the Utility Regulator's business, objectives, duties and activities

Background to the Utility Regulator

This is the fourth set of Resource Accounts prepared under the auspices of the Utility Regulator.

The offices of the Director General of Electricity Supply for Northern Ireland and the Director General of Gas for Northern Ireland were abolished on 31 March 2003 and replaced by the Northern Ireland Authority for Energy Regulation, a body corporate empowered under the Energy (Northern Ireland) Order 2003 (the Energy Order) to independently regulate both the electricity and gas industries on behalf of the Crown. The Energy Order also transferred responsibility for electricity complaints and consumer representation to the General Consumer Council for Northern Ireland (the Consumer Council). The Water and Sewerage Services (Northern Ireland) Order 2006 changed the name of the Northern Ireland Authority for Energy Regulation to the Northern Ireland Authority for Utility Regulation (the Utility Regulator) and imposed on it additional duties and functions associated with the regulation of the supply of water by water undertakers and the provision of sewerage services by sewerage undertakers

Objectives and duties

The Utility Regulator's objectives and duties are set out in primary legislation. In relation to electricity and gas the Utility Regulator's duties are contained in the Energy (Northern Ireland) Order 2003 (the Energy Order). In relation to water they are set out in the Water and Sewerage Services (Northern Ireland) Order 2006 (the Water and Sewerage Order).

Electricity

The principal objective of the Utility Regulator, in respect of electricity, is to protect the interests of consumers of electricity, wherever appropriate by promoting effective competition. In performing its duties the Utility Regulator must have regard to (among other things) the interests of:

- individuals who are disabled or chronically sick;
- individuals of pensionable age;
- individuals with low incomes; and
- individuals residing in rural areas.

Subject to the above, the Utility Regulator shall promote the efficient use of electricity, promote efficiency and economy on the part of licence holders, secure a diverse and viable long-term energy supply and shall have regard to the effect on the environment.

Gas

The principle objective of the Utility Regulator in respect of gas is to promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland. The Utility Regulator must also have regard to (among other things) the interests of consumers of gas and the need to ensure that gas licence holders can properly finance their activities and the interests of:

- individuals who are disabled or chronically sick;
- individuals of pensionable age; and
- individuals on low incomes.

Subject to these duties, the Utility Regulator must have regard to (among other things) the need to secure a diverse and viable long term energy supply and the effect on the environment of activities connected with the conveyance, storage or supply of gas.

Water

In respect of water and sewerage services, the Utility Regulator must carry out its functions in a manner it considers best calculated to:

- protect the interests of consumers of water and sewerage services, where appropriate by the promotion of effective competition;
- ensure that water and sewerage undertakers properly carry out their functions in all areas of Northern Ireland; and
- ensure that water and sewerage companies can properly finance their activities.

In doing so the Utility Regulator shall have regard to (among other things) the interests of:

- individuals who are disabled or chronically sick;
- individuals who are of pensionable age;
- individuals on low income; and
- individuals residing in rural areas.

Management Report

The Board of the Utility Regulator

As per the Schedule 1 of the Energy (Northern Ireland) Order 2003 (as amended by the Water and Sewerage Services (Northern Ireland) Order 2006) the Utility Regulator board is required to have a minimum of three members including the Chairman to enable it to discharge its duties.

During most of 2010-11 the Board of the Utility Regulator comprised one executive member (the Chief Executive) and seven non-executive members. However, from the 1 January 2011, two new non-executive members, Richard Rodgers and William Cargo, were appointed to the board for three years. Additionally, Iain Osborne resigned as Chief Executive on 31 December 2010. He was replaced by Shane Lynch as Chief Executive from 4 January 2011.

One board member, Alan Rainey, was re-appointed by the DFP for a further period of 3 years, effective from 1 September 2010.

The Board is the body that sets the overall strategic direction of the organisation and decides on major policy matters.

The Chief Executive, Shane Lynch, is the Utility Regulator's Accounting Officer.

From 1 April 2007 onwards, new appointments to the Utility Regulator board are carried out by the DFP in accordance with Article 3 of the Water and Sewerage Services (Northern Ireland) Order 2006.

Board Sub Committees

The Audit Committee

The Audit Committee provides the Chief Executive, as Accounting Officer, and the Board with impartial advice on the effectiveness of the Utility Regulator's governance, risk and control arrangements. In fulfilling this role, the Audit Committee reviews significant issues identified by Internal Audit (IA) and the Northern Ireland Audit Office (NIAO), and invites executive managers to attend and provide an account of action being taken to address these issues.

Membership of the Audit Committee is drawn exclusively from non-executive board members. Until the November meeting the Audit Committee comprised James Oatridge (Chairman), Clive Elphick, Etain Doyle and Christopher Le Fevre. Following a review of board committees and groups, the composition of the Audit Committee changed, with Christopher Le Fevre relinquishing his membership before the November 2010 meeting. Richard Rodgers joined the Audit Committee before the February 2011 meeting.

A number of standing invitees also attend Audit Committee meetings. These include the Chief Executive, the Director of Corporate Affairs, the Head of Internal Audit and representatives from the NIAO.

The Audit Committee Chairman evaluates the performance of the Committee in conjunction with members and reports on Audit Committee business to the Board.

The Audit Committee met four times during 2010-11.

The Remuneration Committee

The Remuneration Committee considers and approves recommendations regarding the remuneration of the Chief Executive and senior staff. It also has responsibility for contributing to wider pay policy issues affecting all staff.

Until the October meeting the Remuneration Committee comprised the following non-executive directors: Etain Doyle (Chairman), Philip Johnson, Alan Rainey and Christopher Le Fevre. Following a review of board committees and groups, the composition of the Remuneration Committee changed, with Etain Doyle relinquishing her membership before the October 2010 meeting. Christopher Le Fevre assumed the role of Chairman from the October 2010 meeting. William Cargo also joined the Remuneration Committee. Peter Matthews also normally attends Remuneration Committee meetings.

Attendance at Board and Other Committees

Attendance during the year at the Board and Board Sub Committees by the Chairman and the Non-Executives was as follows:

	The Board	Audit Committee	Remuneration Committee
Peter Matthews	10/10	-	-
Etain Doyle	7/10	1/4	0/1***
Clive Elphick	8/10	3/4	-
Jim Oatridge	10/10	4/4	-
Alan Rainey	10/10	-	2/2
Chris Le Fevre	10/10	1/1**	2/2
Philip Johnson	10/10	-	2/2
William Cargo	3/4*	-	0/0
Richard Rodgers	3/4*	1/1	-

* William Cargo and Richard Rodgers were appointed to the board from 1 January 2011

** Christopher Le Fevre relinquished his membership of the Audit Committee before the November 2010 meeting. Richard Rodgers joined the Audit Committee before the February 2011 meeting.

*** Etain Doyle relinquished her membership of the Remuneration Committee before the October 2010 meeting. Christopher Le Fevre assumed the role of Chairman from the October 2010 meeting. William Cargo also joined the Remuneration Committee.

Other CommitteesBoard Advisory Groups

Board Advisory Groups (BAGs) were established for Water and Energy. The membership of these BAGs is made up of non-executive directors, with relevant sectoral experience. The BAGs are designed to provide detailed scrutiny of key policy issues in support of the decision making processes at board level.

The Water BAG comprised the following non-executive directors during 2010-11: Clive Elphick (Chairman), Peter Matthews and James Oatridge.

During the period 1 April 2010-31 July 2010 the Energy BAG comprised the following non-executive directors: Christopher Le Fevre (Chairman), Etain Doyle, Philip Johnson and Alan

Rainey. Following a review of Board committees and groups, Etain Doyle relinquished her membership of this BAG after 31 July 2010. She was replaced as Chairman by Philip Johnson. William Cargo joined the Energy BAG after 1 January 2011.

It was agreed that a Cross Utility BAG be established, for an initial period to 1 September 2011, to discuss issues that affect all three utility areas and provide advice to the board and executive. The Cross Utility BAG comprises the following membership: Etain Doyle (Chairperson), Clive Elphick, Christopher Le Fevre, Jim Oatridge and Richard Rodgers (from 1 January 2011).

Attendance during the year at the other Committees by the Chairman and the Non-Executives was as follows:

	Energy BAG	Water BAG	Cross Utility**
Peter Matthews	-	3/5	-
Clive Elphick	-	5/5	2/3
Jim Oatridge	-	5/5	2/3
Alan Rainey	7/7	-	-
Chris Le Fevre	7/7	-	2/3
Philip Johnson	7/7	-	-
Etain Doyle	3/4*	-	3/3
William Cargo	1/1	-	-
Richard Rodgers	-	-	1/1**

* *Etain Doyle relinquished her membership of the Energy BAG after 31 July 2010. William Cargo joined the Energy BAG from 1 January 2011*

** *The Cross Utility BAG was established from 1 August 2010. Richard Rodgers joined the Energy BAG from 1 January 2011.*

Statutory Committees

Single Electricity Market (SEM) Committee

The SEM Committee, which is a statutory committee of the Authority, comprises an independent member and a deputy independent member and three persons (who must either be a member of the Utility Regulator board or Staff) appointed by the Department of Enterprise, Trade and Industry (DETI) after consultation with the Utility Regulator and with the approval of the Minister of Communications, Energy and Natural Resources (being a Minister of the Government of Ireland) “the Irish Minister” and three persons (who must be members of the Commission for Energy Regulation) appointed by the Irish Minister with the approval of DETI.

The primary function of the SEM Committee is ‘the taking of any decision as to the exercise of a relevant function of the Commission for Energy Regulation (CER) or the Northern Ireland Authority for Utility Regulation (the Utility Regulator) in relation to a SEM matter on behalf of CER and the Utility Regulator by the SEM Committee as the case may be’.

Iain Osborne, Dermot Mac Cann (previously Director of Electricity) and Alan Rainey were originally appointed to serve as the Utility Regulator members on the SEM Committee. Members are appointed for a term not exceeding 5 years.

During 2010-11 Dermot Mac Cann resigned as a member of the SEM Committee in October 2010. He was replaced by Shane Lynch from that date. Iain Osborne resigned in December 2010.

The independent member and deputy independent member are paid by CER who in turn recoups 50% of those costs from the Utility Regulator.

During 2010-11, the SEM Committee met 12 times.

As well as their involvement through board and board Sub-Committee meetings during the year, the Chairman and Non Executive board members contributed extensively to the Utility Regulator's business. This included attendance at Utility Regulator seminars and briefings, meetings with external stakeholders, attendance at conferences and seminars.

Details of the remuneration of Utility Regulator board members are provided on pages 21 to 23.

The Senior Management Team

The Senior Management Team comprises the Chief Executive, the Directors of Electricity, Gas, Water and Corporate Affairs. The Board Secretary acts as a secretariat to the Senior Management Team, which meets weekly and decides - subject to the direction provided by the Board - on all policy and operational issues.

Departmental Accounting Boundary

No other entities fall within the Utility Regulator's accounting boundary.

The Utility Regulator Reporting System

Article 6 of the Energy Order and Article 4 of the Water and Sewerage Order require the Utility Regulator to produce and publish, before 1 April in each year, a Forward Work Programme (FWP) for that particular financial year, but before doing so it must consult on a draft of the Programme in time to allow it to consider any representations or objections made. Article 6 (4) of the Water and Sewerage Order specifically enables the Utility Regulator to prepare a combined forward programme covering its energy and water and sewerage functions.

A FWP for 2010-11 was consulted on and published (and can be accessed from the Utility Regulator's website, www.uregni.gov.uk). It described the Utility Regulator's objectives, identified the main priorities for meeting those objectives and outlined the specific projects and tasks which the organisation planned to undertake in the year commencing 1 April 2010. It also included an estimate of the overall expenditure which the Utility Regulator expected to incur during the year.

The Utility Regulator's Annual Report 2010-11, in addition to outlining the organisation's activities and providing a general survey of developments, reports on the progress of the projects as described in the FWP. Article 5 of the Water and Sewerage Order enables the Utility Regulator to produce an annual report that is combined with the annual report of the organisation prepared under Article 6 of the Energy Order.

Utility Regulator Reporting Cycle

As a Non-Ministerial Government Department, the Utility Regulator's funds are voted by the NI Assembly and accounted for on an annual basis in the Resource Accounts.

Receipts from electricity and gas licensees which are classified as Consolidated Fund Extra Receipts within the respective Orders have, in line with a Treasury direction using its powers under the 1920 Treasury Act, been reclassified as Accruing Resources. To put this into effect DETI nominated the Director General of Electricity Supply (now the Utility Regulator) as its agent to collect licence fees on its behalf. These were licence fees due to DETI in respect of licences issued by it at the time of privatisation of the electricity industry. Gas licences issued by DETI and the Director General of Gas both provided for licence fees to be paid to the Director (now the Utility Regulator). Prior to this electricity and gas licence fees were paid directly into the Northern Ireland Consolidated Fund by the respective organisations. The licence issued by the Department of Regional Development (DRD) to Northern Ireland Water (NIW) in respect of Water and Sewerage services provides for licence fees under that licence to be paid to the Utility Regulator.

The Utility Regulator's expenditure is therefore primarily offset by annual licence fees paid by the electricity and gas licensees and water and sewerage undertakers, which are ultimately recovered from customers. Licence fees are set annually by a determination made by the Utility Regulator – the income from electricity, gas and water and sewerage licence fees in 2010-11 was £6.645 million (this figure represents the net amount after deducting fees already overpaid by licensees in respect of 2009-10).

Pension Liabilities

In the year under review a small proportion of Utility Regulator staff were on loan from DETI, the DFP or DRD. These staff represent about 10% of the overall staff complement at the 31 March 2011.

Those staff on-loan from their parent departments and those directly recruited have access to the Northern Ireland Principal Civil Service Pension Scheme (PCSPS (NI)) and the Utility Regulator bears the cost of pension provision for those staff choosing to access this scheme by payment of an Accruing Superannuation Liability Charge (ASLC). The directly recruited staff of the Utility Regulator who have elected not to join PCSPS (NI) are employed on a permanent, non-pensionable basis.

Details of pension liabilities can be found in the accounting policy, note 1.14, the Remuneration Report for senior managers and the Board and in note 9 to the financial statements.

Equal Opportunities

The Utility Regulator is an Equal Opportunity employer. It is fully committed to the elimination of all forms of discrimination, harassment and victimisation, not only because of the legal requirements under which it operates, but because it makes sound business sense and ensures that working relationships are based on mutual trust, respect and understanding. This allows the best use to be made of the wide variety of skills, abilities and attributes available in the organisation and promotes a harmonious working environment.

Disabled Persons

The Utility Regulator is committed to ensuring that its policies and practices comply with the requirements of the Disability Discrimination Act 1995.

Employee Involvement

The Utility Regulator recognises the benefit of keeping all its employees regularly informed about progress towards achieving its aims and objectives. A Staff Representative Committee (established in September 2009) provides an opportunity for the Utility Regulator staff to have a say and be involved in organisational development, and it met 5 times during 2010/11. The Staff Committee that previously carried out these functions has continued to meet to deal with matters not related to terms and conditions of employment, and it met 7 times during 2010/11.

Moreover, a staff survey was conducted in March 2010. The survey collected views on the various aspects of working at the Utility Regulator, and will be used to inform organisational development initiatives.

Health and Safety

The Utility Regulator is committed to applying all existing health and safety at work legislation and regulations to ensure that staff and visitors enjoy the benefits of a safe environment. Circulating a Health and Safety Policy Statement and associated organisational and other arrangements to staff, to ensure safe and healthy working conditions, is a key aspect of the Utility Regulator's health and safety commitments.

Payment to Suppliers

The Utility Regulator is committed to the prompt payment of bills for goods and services received in accordance with the Late Payment of Commercial Debts (Interest) Act 1998 and British Standard BS 7890 – Achieving Good Payment Performance in Commercial Transactions. Unless otherwise stated in the contract, payment is due within 30 days of the receipt of the goods or services, or on presentation of a valid or undisputed invoice or similar demand, whichever is later. During the year, 98% (2009/10 98%) of undisputed invoices were paid within this standard. In line with other NI departments and following Dear Accounting Officer (DAO) 12/08 guidance, the Utility Regulator has aimed to promptly pay invoices within a 10 day target. In the past year 99% (2009/10 98%) of invoices have been paid within 10 days of approval.

Equality Scheme

The Utility Regulator has produced an equality scheme as required by Schedule 9 of the Northern Ireland Act 1998 (the Act). This scheme sets out how it proposes to fulfil the duties imposed on it by section 75 of the Act. The scheme has been approved by the Equality Commission and is available in either paper or electronic format. It is also available on request in a variety of alternative formats.

The Audit Committee received a paper on equality compliance at its October meeting. A key aspect of this paper was the Annual Progress Report (in relation to Section 75 obligations), which was approved by the Audit Committee for submission to the Equality Commission.

External Auditor

Under section 10 of the Government Resource and Accounts Act (Northern Ireland) 2001, the Comptroller and Auditor General for Northern Ireland is the statutory auditor for the Utility Regulator. The notional charge for this audit service as disclosed in these accounts is £18k (£15k in 2009-10).

So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all the steps I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information. For this purpose, 'relevant audit information' is taken to mean information needed by the external auditors in connection with preparing the audit report.

Internal Audit

The Internal Audit of the Utility Regulator is carried out on a contract basis. A company of professional accountants and auditors Tribal (an organisation which operates to standards defined in the Government Internal Audit Manual) carried out the Internal Audit function for the year under review.

Register of Interests

The Utility Regulator maintains a Register of Interests containing details of company directorships and any other significant interests held by Board members. Public access to this register can be obtained by contacting the Utility Regulator.

Sustainability Report

Taking account of sustainability in the Utility Regulator's work

Although the promotion of sustainable development is not a primary duty of the Utility Regulator, secondary duties clearly outline the organisation's responsibility in relation to sustainability issues. Subject to the interests of named groups - such as individuals on low income - the Utility Regulator:

- shall promote the efficient use of electricity, promote efficiency and economy on the part of licence holders, secure a diverse and viable long-term energy supply and shall have regard to the effect on the environment;
- must have regard to (among other things) the need to secure a diverse and viable long term energy supply and the effect on the environment of activities connected with the conveyance, storage or supply of gas; and
- must also contribute to the achievement of sustainable development (in relation to water and sewerage).

The Utility Regulator is responsible for implementing a number of policy instruments aimed at promoting energy efficiency and lower carbon, including the Northern Ireland Renewables Obligation and the promotion of the gas industry.

Moreover, the Utility Regulator also encourages a number of other instruments, implemented through Northern Ireland Electricity, such as the Sustainable Management of Assets and Renewable Technologies (SMART) programme which encourages environmentally friendly approaches to the provision of the electricity network and infrastructure to meet consumer demand in Northern Ireland. The Utility Regulator also has responsibility for a number of instruments aimed at promoting behavioural change in relation to sustainability, such as the Northern Ireland Sustainable Energy Programme (NISEP) and price controls.

All electricity consumed in the offices of the Utility Regulator is generated from renewable sources.

Key developments relating to sustainability

The Utility Regulator's NISEP Programme which focuses on providing funding towards schemes for customers at risk of fuel poverty, supported 19 schemes during 2009-10 (the most recent year that data is available). The schemes will deliver energy efficiency savings amounting to 708,919 Giga Watt hours (GWh) and provide £62 million of savings for customers.

A new framework document for NISEP was also published. This resulted in ten different organisations gaining primary bidder status, which enables them to apply for NISEP funding.

The Utility Regulator, in conjunction with DETI, produced a report on incentivising the development of renewable electricity generation in Northern Ireland. As well as providing an assessment of the most appropriate form of support, the report's findings were used to inform the NI Assembly's inquiry into Renewable Development in Northern Ireland. The Utility Regulator also used the report findings to contribute to the Department of Energy and Climate Change's proposals on Electricity Market Reform and the Carbon Floor Price.

Guidelines for generators wishing to participate in the Climate Change Levy Scheme (CCLS), which the Utility Regulator administers, were published. A further 12 generating stations were audited by Action Renewables. During 2010-11 there was a more than 100% increase in applications to the CCLS.

Acting in conjunction with the CER, the energy regulator in the Republic of Ireland, the Utility Regulator advanced work on fuel mix disclosure. This is aimed at ensuring that electricity suppliers specify, in or with consumer bills (and in promotional material made available to final customers), the contribution of each energy source to the overall fuel mix of the supplier over the previous year. During 2010-11 the Utility Regulator provided this information on its website, and suppliers now provide it in their bills.

The Utility Regulator continued to progress its Social Action Plan. It reviewed and published the new Northern Ireland Energy (NIE) Critical Care scheme which aims to ensure that NIE Transmission and Distribution keep a list of those customers who require electricity for essential or life saving medical equipment.

Research on helping customers avoid and manage debt was also published, in June 2010, by the Utility Regulator. Recommendations arising from the research continue to be progressed with licence holders and other stakeholders.

MANAGEMENT COMMENTARY

Operating Review

The Annual Report (produced separately) provides a comprehensive account of the performance of the Utility Regulator during 2010-11, including a detailed commentary on the organisation's achievement against its Forward Work Programme for 2010-11. A printed copy of the Annual Report can be obtained by contacting the Utility Regulator by phone on 028 90311575 or by writing to the Finance and Administration Branch, the Utility Regulator, Queens House, 14 Queens Street, BELFAST, BT1 6ED. Alternatively it can be downloaded free from the Utility Regulator's website www.uregni.gov.uk.

A summary of organisational performance during 2010-11 is outlined below.

Achievement against key duties and objectives

To protect the interests of electricity consumers with regard to price and quality of service by promoting competition in the Generation, Transmission and Supply of Electricity.

- A review of the NIE Energy electricity tariffs led to decision to freeze the tariff for domestic customers at the same level as the previous year.
- The Utility Regulator facilitated the entry of a new supplier to the Northern Ireland domestic electricity market in June 2010.
- The SEM continues to deliver outcomes broadly in line with a competitive environment. During 2010-11, several investigations were undertaken to assess bidding practices by certain generators. The outcome of the investigations led to a change in practice by the generators and led to significant savings for electricity consumers.
- Price controls relating to the Single Electricity Market Operator (SEMO) and the System Operator of Northern Ireland (SONI) were completed and led significant savings for consumers.
- The Utility Regulator decided to cancel certain Generating Unit Agreements with AES Kilroot on 1 November 2010. The cancellation of these Agreements is estimated to save consumers in excess of £80 million over the next 5 years.
- As a means of promoting further transparency on retail competition the Utility Regulator published a series of quarterly transparency reports.

To promote the development and maintenance of an economic, efficient and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service.

- A review of the Phoenix Supply Ltd gas tariffs led to a decision to freeze the tariff for domestic customers in the Greater Belfast area.
- The Utility Regulator facilitated the entry of a new supplier to the Northern Ireland domestic gas market in November 2010.

- Further progress on the Common Arrangements for Gas project was made during 2010-11. A high level workplan was published by the Utility Regulator and the CER in early April 2011.
- A consultation on Supplier of Last Resort arrangements for gas was published in March 2011.
- The Utility Regulator published its decision to consolidate the marketing opening dates in the ten towns area (outside Belfast) in December 2010.

To protect the interests of consumers of water and sewerage services, where appropriate by the promotion of effective competition.

- NI Water agreed to accept the Utility Regulator's price control determination (PC10), which envisages a saving of £91 million to consumers over the 2010-13 period.
- A Memorandum of Understanding was agreed with the DRD to reflect NI Water's status as a substantially publicly-funded body working within a regulated environment.
- The Utility Regulator published a Cost and Performance report which assessed NI Water's performance against efficiency and consumer targets for the period 2007-10.
- The Utility Regulator contributed to review of various aspects of NI Water carried out by the Public Accounts Committee and an Independent Review of procurement practice at the company.
- A comprehensive investigation into NI Water's handling of the freeze/thaw incident during the late 2010/ early 2011 period was completed by the Utility Regulator. The investigation report outlined 57 actions.

Effective and Efficient Regulator

- A review of board effectiveness was completed in 2010.
- Two new members were appointed to the Utility Regulator board during 2010-11.
- A stakeholder engagement programme was the basis for further efforts to reach out to stakeholders – including a major conference on financing networks and the introduction of a quarterly e-zine.
- The Utility Regulator worked with key stakeholders to implement the two EU Directives and three Regulations commonly known as the 'Third Package' or 'IME3'.
- An initiative to improve information governance arrangements within the Utility Regulator led to full accreditation of the organisation's IT network and system under the Risk Management and Accreditation Document Set (RMADS) process.

Forward Work Programme Performance

The Forward Work Programme 2010-11 outlines a list of time limited tasks. Overall we achieved or partially achieved 88% of the time limited tasks listed to be completed within the 2010-11 year. Of the 89 tasks identified, the progress report at 31 March 2011 is as follows:

Achieved tasks -	52 (59%)
Partially achieved tasks -	26 (29%)
Revised -	8 (9%)
Ongoing	3 (3%)
Not achieved	0 (0%)

Trends and Strategic Direction

The Utility Regulator's work continues to be guided by the principles outlined in its 5-year Corporate Strategy, which was published on 31 March 2009.

The Corporate Strategy recognises the key regulatory trends and issues affecting our work in the period to 2014 and sets out our longer-term workplan to meet these challenges.

- Wholesale costs of energy – these have been high and volatile and contribute to significant price rises to end users and to wider social problems such as fuel poverty. We need to develop strategic responses to alleviating these where possible.
- Delivering effective competition – we will be seeking to further develop competition, particularly in relation to gas and electricity retail markets, to contribute to cost reduction, innovation and incentivising regulated companies to be more efficient.
- Assimilating the regulation of water and sewerage into our organisation – the formal economic and consumer regulatory framework for these services is relatively new, both to NI Water, and also to the Utility Regulator. We will be working to deliver effective regulation in this area.
- Sustainability challenges – these are covered above and will be a key area for resource and priority action.
- The trend towards “internationalisation” – developments in cross-border and inter-state regulation will continue to affect the work of the Utility Regulator. Much of this is driven by EU legislation and policy (e.g. EU renewable generation targets) and will need to be factored into our plans and priorities.
- Technological and information advances will continue to impact on our work within the regulated industries and companies. Issues such as the roll out of “SMART” metering can have potentially large impacts on regulatory policy and actions.

The Utility Regulator commenced a mid-term review of its Corporate Strategy in early 2011.

Risk Management

The system of internal control within the Utility Regulator is based on an on-going risk management process. This identifies the principal risks associated with the achievement of departmental policies, aims and objectives, along with the controls in place to manage those risks, at two key levels;

- Corporate – high level risks for the department managed by the Departmental Board
- Directorate level – key risks identified and managed by Directors and their management teams.

The risk management cycle is both a ‘top-down’ and ‘bottom-up’ exercise that allows risks to be identified and managed at all the levels outlined above and to be escalated as appropriate.

The corporate risk register is agreed by the Audit Committee and reviewed by the Board and is subject to a formal mid-year review.

The Statement on Internal Control provides a summary of the risk management process. There were no significant internal control problems in 2010-11 and Internal Audit provided satisfactory assurance, in overall terms, regarding the adequacy and effectiveness of risk management, control and governance processes.

Financial Review

The Utility Regulator’s gross expenditure in pursuit of its objectives as detailed in the *Statement of Operating Costs by Departmental Strategic Objectives* was as follows:

- Objective A (Electricity) - £3,720,000 (£3,119,000 in 2009-10 (restated))
- Objective B (Gas) - £1,746,000 (£1,572,000 in 2009-10 (restated))
- Objective C (Water) - £1,618,000 (£2,019,000 in 2009-10 (restated))

The *Statement of Comprehensive Net Expenditure* shows that salary costs rose in line with the increase in staff numbers and inflation from the previous year (£4,351,000 for 2010-11 against £4,101,000 for 2009-10).

The Utility Regulator’s net resource outturn was £126k against an estimate of £539k resulting in a saving against estimate of £413k. Budget cover was taken for a provision which is no longer deemed necessary. Notional costs were also lower than expected.

The net resource outturn reflects the cost borne by Central Government in respect of work undertaken by the Utility Regulator which is not yet recoverable from a licensee or group of licensees.

Reconciliation of Resource Expenditure between Estimates, Accounts and Budgets

	2010-11	2009-10 (restated)
	£000	£000
Net Resource Outturn (Estimates)	126	305
<i>Adjustments to additionally include:</i>		
IFRS prior period adjustment	-	(12)
Removal of cost of capital charge	-	75
Consolidated Fund Extra Receipts in the OCS	-	-
Net Operating Cost (Accounts)	126	368
<i>Adjustments to remove:</i>		
Notional Charges	28	28
<i>Adjustments to additionally include:</i>		
Other Consolidated Fund Extra Receipts	-	-
Resource Outturn (Budget)	98	340
Of which		
Departmental Expenditure Limits (DEL)	98	340
Annually Managed Expenditure (AME)		

Other current expenditure has increased slightly from £2,609k in 2009/10 to £2,733k in 2010/11. This reflects a reduction in consultancy costs and contracted services offset by a slight increase in organisational running costs.

The percentage of staff costs to total costs in 2010/11 of 61% is broadly similar to that in 2009/10, 61%.

There were no contingent liabilities in 2010/11.

Non Current Assets

Details of the movement of non-current assets are set out in Notes 12 & 13 to the Accounts. There were £22k of additions to property, plant and equipment during the financial year consisting of the purchase of computer equipment.

Governance

Code of Good Practice on Corporate Governance in Central Government Departments

The Utility Regulator operates within the context of the provisions of HM Treasury's Code of Good Practice on Corporate Governance in Central Government Departments.

Ministerial arrangements

The Utility Regulator, a body corporate, established by the Energy (Northern Ireland) Order 2003 as amended by the Water and Sewerage Services (Northern Ireland) Order 2006 is a non-ministerial government department. Its status as a non-ministerial government department ensures that the regulation of the electricity and gas industries and water and sewerage services is fair and impartial and conducted within parameters established by Ministers. The Utility Regulator is directly accountable to the Northern Ireland Assembly.

Article 5 of the Water and Sewerage Services (Northern Ireland) Order 2006 enables the Utility Regulator to produce an annual report to DRD that is combined with the annual report to DETI prepared under Article 6 of the Energy (Northern Ireland) Order 2003. This combined report will continue to be laid before the Assembly by DETI.

The Utility Regulator Board

The Utility Regulator Board consists of ten members (a non-executive chairman, eight other non-executive members and an executive member – the Chief Executive).

Under the enabling legislation all non-executive directors including the chairman have equal authority.

The Chief Executive oversees the day to day running of the organisation and is the Utility Regulator's Accounting Officer.

The Board provides the strategic management of the Utility Regulator. Its responsibilities include:

- forming the Utility Regulator vision and setting high-level objectives;
- setting strategic direction and deciding priorities for the Utility Regulator;
- shaping the Utility Regulator's underpinning behaviours, policies, processes and structures;
- leading and promoting change to secure improved performance;
- reviewing overall business planning and performance;
- ownership and management of key strategic risks; and
- leading horizon scanning and scenario planning.

Its primary purpose is to discuss and review key operational and strategic matters including the development of the future strategy for the organisation.

Additional objectives of the Board include:

- contributing at an early stage to the development of strategic and operational proposals;
- providing advice on the achievement of performance objectives;
- assessing and advising on the management of risk, supported by the Audit Committee;
- encouraging enterprise and innovation; and
- overseeing the Utility Regulator's governance arrangements.

The Board met ten times during 2010-11 and its minutes are published on the Utility Regulator's website (www.uregni.gov.uk).

The Chairman leads an annual evaluation of the performance of the Board. Every two years, the Board considers its remit, constitution and operating procedures.

It is supported by:

- Board Advisory Groups encompassing energy and water

The Board currently has three committees that reports to it on a regular basis:

- Audit Committee
- Remuneration Committee
- SEM Committee

On appointment non-executive Board members undertake a structured induction process organised within the Utility Regulator.

Structure of the Utility Regulator

The organisational structure of the Utility Regulator is based on six work areas: Electricity, Gas, Retail, Water, Chief Executive's Office and Corporate Affairs.

Relationships with Arms Length Bodies

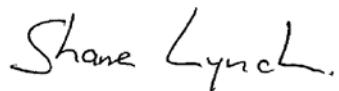
The Utility Regulator has no arms length bodies.

Sickness absence data

The overall absence rate (the number of days of absence as a percentage of the total available workings days) was 2.91% for the year ended 31st March 2011. The average number of working days lost in 2010/11 per person was 7. These rates compare favourably with the rates found more generally in the Northern Ireland Civil Service.

Personal Data

The nature of the Utility Regulator's business only requires it to hold a limited amount of personal data. There have been no incidents relating to this personal data for the year to the 31 March 2011.

A handwritten signature in black ink that reads "Shane Lynch". The signature is written in a cursive style with a clear, legible font.

Shane Lynch
Accounting Officer:
16th June 2011

REMUNERATION REPORT

Remuneration Policy

The Non Executive Chairman and Non Executive Directors of the Utility Regulator are appointed by DFP (Schedule 1 paragraph 1(1) of the Energy Order) and the Utility Regulator appoints its own Chief Executive. The salary level and terms for the Non Executive posts are set by DFP. The remuneration for the Chief Executive post and that payable to Directors is approved by the Utility Regulator's Remuneration Committee. Further information on the Remuneration Committee can be found in the Annual Report, page 4. The non executive member of the SEM Committee was appointed by DETI and the salary level and terms for this post were also set by DETI.

The Utility Regulator also operates within the context of the public sector pay remit determined by the NI Executive. The pay award for the senior management team is normally comprised of two elements, a base pay uplift and a non-consolidated award, the latter of which is based on performance. The senior managers did not receive any base pay uplift in the 2010/11 year and there were no non-consolidated awards payable to any senior managers in respect of the 2010/11 year.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners for Northern Ireland's Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 60. Policy relating to notice periods is reflected in contracts of employment and policy relating to termination payments is contained in the Northern Ireland Civil Service (NICS) Staff Handbook and associated guidance. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Non Executive Directors hold fixed term contracts as detailed in the Annual Report, page 3.

The Utility Regulator, a body corporate as described in the Energy Order. DFP has authorised the independent exercise of the appointment power contained within Schedule 1, paragraph 5 of the Energy (Northern Ireland) Order 2003 and the Utility Regulator thereby sets the numbers and terms and conditions of service of those civil servants employed by it within the context of the public sector pay remit. The direct appointments are permanent, pensionable (optional) appointments and in the period covered by this report 2 such appointments were made.

Further information about the work of the Civil Service Commissioners can be found at www.nicscommissioners.org

Salary and pension entitlements (audited)

The remuneration of the senior officials of the Utility Regulator were as follows:

Remuneration	2010-11			2009-10 Re-stated*		
	Salary	Non Consolidated Performance Awards	Benefits in kind	Salary	Non Consolidated Performance Awards	Benefits in kind
	£000	£000	£	£000	£000	£
Mr Peter Matthews (Non Executive Chairman)	30-35	-	10,749	30-35	-	10,758
Ms Etain Doyle (Non Executive Director)	5-10	-	1,892	10-15**	-	3,161
Mr Clive Elphick (Non Executive Director)	10-15**	-	8,748	5-10****	-	8,291****
Mr Philip Johnson (Non Executive Director)	5-10	-	11,068	5-10	-	10,635
Mr Christopher LeFevre (Non Executive Director)	5-10	-	10,727	5-10**	-	10,348
Mr Jim Oatridge (Non Executive Director)	15-20**	-	11,583	5-10	-	5,318
Mr Alan Rainey (Non Executive Director)	15-20**	-	-	20-25**	-	169
Mr Richard Rodgers (Non Executive Director) (Appointed 1st January 2011)	0-5 (full year equivalent 5-10)	-	-	-	-	-
Mr William Cargo (Non Executive Director) (Appointed 1st January 2011)	0-5 (full year equivalent 5-10)	-	22	-	-	-

Remuneration	2010-11				2009-10 Re-stated*				
	Salary	Non Consolidated Performance Awards	Benefits in kind	Salary	Non Consolidated Performance Awards	Benefits in kind	Salary	Non Consolidated Performance Awards	Benefits in kind
	£000	£000		£000	£000		£000	£000	
Mr Iain Osborne Chief Executive (Resigned 31st December 2010)	105-110 (full year equivalent 140-145)	-	-	135-140	-	-	135-140	-	-
Mr Dermot MacCann Director of Electricity Regulation Senior Price Control Adviser (Partially retired 15th March 2010)	-	-	-	80-85	-	-	80-85	-	-
Mr Shane Lynch Chief Executive (Promoted from Director of Electricity Regulation 4th January 2011)	30-35 (full year equivalent 125-130)	-	-	-	-	-	-	-	-
Mrs Jo Aston Director of Water Regulation	90-95	-	-	85-90	-	-	85-90	-	-
Mr Donald Henry Director of Corporate Affairs	90-95	-	-	85-90	-	-	85-90	-	-
Mr Brian McHugh Director of Gas Regulation	70-75	-	-	70-75	-	-	70-75	-	-
Mr J P Irvine Head of Legal Services (Resigned 20th July 2010)	20-25 (full year equivalent 55-60)	-	-	50-55	-	-	50-55	0-5	-
Mr Kevin Shiels Acting Director of Retail	70-75	-	-	65-70	-	-	65-70	-	-

Remuneration	2010-11			2009-10 Re-stated*		
	Salary	Non Consolidated Performance Awards	Benefits in kind	Salary	Non Consolidated Performance Awards	Benefits in kind
	£000	£000		£000	£000	
Mr Shane Lynch Director of Electricity Regulation (Appointed 14th September 2009, promoted to CEO 4th January 2011)	65-70 (full year equivalent 85-90)	-	-	45-50 (restated) (85-90 full year equivalent)	-	-
Mrs Tanya Wishart Acting Director of Electricity Regulation (Temporarily promoted 4th January 2011)	15-20 (full year equivalent 70-75)	-	-	-	-	-

* The 2009/10 salary for the Non Executive Directors included the tax element of the Benefit in Kind (BIK). This is now disclosed under the BIK. The non-consolidated award for Mr J. P. Irvine was previously disclosed within salary but it is now disclosed separately in line with revised guidance.

** Includes payment for additional duties undertaken.

*** Includes £2,174 (net) of accrued expenses taxed in the 2010/11 financial year.

**** £9,872.97 (net) was also payable to Elphick Consulting for additional advisory work undertaken. This is re-stated from 2009/10 based on actual expenditure.

Salary and pension entitlements (audited)

The following sections provide details of the pension interests of the senior officials of the Utility Regulator.

	Real increase in pension and related lump sum at age 60 (65 for Nuvos)	Accrued pension at age 60 (65 for Nuvos) as related lump sum	CETV at 31/03/11	CETV* at 31/03/10	Real increase in CETV
	£000	£000	£000	£000	Nearest £000
Mr Iain Osborne Chief Executive (Resigned 31st December 2010)	0 – 2.5 0 – 2.5	15 – 20 55 – 60	225	210	7
Mr Shane Lynch Chief Executive (Promoted from Director of Electricity Regulation 4th January 2011)	0 – 2.5 0	0 – 5 0	34	11	19
Mrs Jo Aston (Director of Water Regulation)	0 – 2.5 0	5 – 10 0	79	56	15
Mr Donald Henry (Director of Corporate Affairs)	0 – 2.5 0 – 2.5	10 – 15 35 – 40	132	113	7
Mr Brian McHugh (Director of Gas Regulation)	0 – 2.5 0 – 2.5	5 – 10 20 – 25	70	59	5
Mr Kevin Shiels Acting Director of Retail	0 – 2.5 0 – 2.5	15 – 20 55 – 60	240	217	3
Mrs Tanya Wishart Acting Director of Electricity Regulation (Promoted 4th January 2011)	0 – 2.5 0	0 – 5 0	25	13	10

* The actuarial factors used to calculate CETVs were changed in 2010/11. The CETVs at 31/03/10 and 31/03/11 have both been calculated using the new factors, for consistency. The CETV at 31/03/10 therefore differs from the corresponding figure in last years report which was calculated using the previous factors.

Salary

“Salary” includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance (including benefits in kind) to the extent that it is subject to UK taxation and any gratia payments. Non Executive Directors are part time non-pensionable appointments.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. Benefits in kind include the taxable value of home to office costs, overnight accommodation and expenses incurred by members of the Authority, including those in respect of any additional duties undertaken in the year. Benefits in kind are disclosed gross of any tax payable.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. No bonuses were payable to any of the senior management team in respect of the 2010-11 financial year.

Northern Ireland Civil Service (NICS) Pension arrangements

Pension benefits are provided through the Northern Ireland Civil Service pension arrangements which are administered by Civil Service Pensions (CSP). Staff in post prior to 30 July 2007 may be in one of three statutory based ‘final salary’ defined benefit schemes (classic, premium, and classic plus). These arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. From April 2011 pensions payable under classic, premium and classic plus are increased annually in line with changes in the Consumer Prices Index (CPI). Prior to 2011, pensions were increased in line with changes in the Retail Prices Index (RPI). New entrants joining on or after 1 October 2002 and before 30 July 2007 could choose between membership of premium or joining a good quality ‘money purchase’ stakeholder arrangement with a significant employer contribution (partnership pension account). New entrants joining on or after 30 July 2007 are eligible for membership of the nuvos arrangement or they can opt for a partnership pension account. Nuvos is an ‘earned pension’ arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The current rate is 2.3%. Earned pension benefits are increased annually in line with increases in the CPI. For 2011, public service pensions will be increased by 3.1% with effect from April 2011.

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% 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 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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

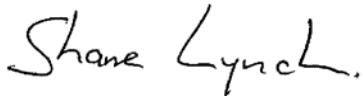
The actuarial factors used in the CETV calculation were changed during 2010 due to changes in demographic assumptions and the move from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) as the measure used to up-rate Civil Service pensions. This means that the CETV in this year's report for 31/03/10 will not be the same as the corresponding figure shown in last year's report.

Real increase in CETV

This reflects the increase in CETV effectively 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.

Partial Retirement

Dermot MacCann took partial retirement on the 15th March 2010 and is no longer a member of the Senior Management Team.

A handwritten signature in black ink that reads "Shane Lynch". The signature is written in a cursive, slightly slanted style.

Shane Lynch
Accounting Officer
16th June 2011

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (NI) 2001, DFP has directed the Utility Regulator to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of the affairs of the Utility Regulator and of its net resource outturn, resources applied to objectives, statement of changes in taxpayers equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by DFP including the 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 accounts on a going concern basis.

DFP has appointed the Chief Executive as Accounting Officer of the Utility Regulator. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Utility Regulator's assets, are set out in the Accounting Officers' Memorandum issued by DFP and published in 'Managing Public Money Northern Ireland'.

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 the Utility Regulator's policies, aims and objectives, whilst safeguarding the public funds and Utility Regulator assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money Northern Ireland.

The Utility Regulator Board approves the Utility Regulator's financial and operational Budget and Forward Work Programme and is kept informed of performance against relevant targets during the course of the year.

Further checks and balances are provided by Internal and External Audit and by the Utility Regulator Audit Committee and appropriate records of meetings are maintained.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Utility Regulator's 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 the Utility Regulator for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Department of Finance and Personnel guidance.

3. Capacity to handle risk

The risk management strategy provides detail on risk management activity across the Utility Regulator. It provides a framework for the management of risk and promotes a consistent approach across the organisation. The risk management cycle in the Utility Regulator encompasses both a "top-down" and "bottom-up" approach. This approach allows risks to be identified and managed and escalated as appropriate.

The Utility Regulator has established the following processes to ensure that leadership is given to the risk management process and that risk is managed in an appropriate manner: -

- Members of the Utility Regulator's board met 10 times in 2010/11 to consider its plans and overall strategic direction. Board Advisory groups meet separately to consider sector specific issues;
- The Utility Regulator has both a Chief Executive and Accounting Officer and a Non Executive Chairman;
- The Utility Regulator's senior staff meet weekly to review key issues and risks as they arise;

- The board's Audit Committee meets at least 4 times each year and risk is a standing agenda item;
- The Annual Report reports on performance against targets set out in the Forward Work Programme;
- In-house Legal Counsel are employed;
- Procurement and tendering processes are based on Central Procurement Directorate (DFP) guidance;
- The Corporate Affairs Directorate is led by a fully qualified accountant;
- The Utility Regulator has an integrated accounting system with reporting modules in order to improve the provision of management information; and
- The Utility Regulator has outsourced aspects of its IT function to IT Assist to improve levels of service and to facilitate compliance with NICS IT procedures and regulations.

4. The Risk and Control Framework

The system of internal control within the Utility Regulator is based on an on-going risk management process. This identifies the principal risks associated with the achievement of departmental policies, aims and objectives, along with the controls in place to manage those risks, at two key levels:

- Corporate – High level risks for the Utility Regulator managed by the senior management team and considered by the Audit Committee; and
- Directorate Level – key risks identified and managed by Directors and their management teams.

The Utility Regulator manages risk by:

- the consistent identification, assessment and prioritisation of risk, with clear assignment of accountability for management;
- the structured selection and implementation of measures to treat the risk, involving all relevant parties as appropriate;
- the appropriate escalation, monitoring and reporting to ensure information on risks, controls, and progress of planned actions is made available on a timely basis; and
- managers providing appropriate assurance that risk management responsibilities and processes have been discharged and that risks are being managed as intended.

The Corporate Risk Register evaluates the likelihood and impact of occurrence and also assesses the controls in place to manage those risks. Further actions to improve controls are agreed where appropriate. The ownership of each risk has been allocated to appropriate staff.

The Utility Regulator identifies, evaluates and controls risks through a number of mechanisms including:

- a detailed annual budget with key outputs identified in the Forward Work Programme. The Utility Regulator management, the Audit Committee and the Board monitor in-year performance;
- a formal risk management strategy that identifies key risks and their consequences. These are recorded in a risk register and current risk status is reviewed regularly by the senior management team and the Audit Committee which reviews the Corporate Risk register and reports to the Authority's Board accordingly;
- a properly constituted Audit Committee which reports directly to the Board;
- independent Internal Audit which reports to the Audit Committee to standards defined in the Government Internal Audit Manual and agrees a rolling programme of audits for each year with the Audit Committee;
- the Audit Committee conducts a yearly review of the audit programme, including an assessment of general risk, and an opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement;
- the Utility Regulator consults fully with its stakeholders before finalising its decisions on key issues; and
- periodic review of risk management within the Utility Regulator by Internal Audit.

The Utility Regulator continues to develop its information management and governance agenda. Our business only requires us to hold limited personal data. We maintain a register of information assets across the organisation and provide guidance notes for asset owners in understanding how to classify them. Information awareness sessions are periodically held and staff induction includes an information management briefing. The Information Management Committee oversees related governance issues, keeps policies under review and considers actions arising should a breach of one of the policies occur. Our IT strategy has provided the basis for progressing IT related workstreams and, specifically, for preparing for migration of our IT systems to the Northern Ireland Civil Service managed service provider, IT Assist.

5. Review of effectiveness

As Accounting Officer, I 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 the department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their reports. Directors also provide me with Assurance Statements commenting on the adequacy and effectiveness of the control environment. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the Audit Committee plans to address weaknesses and ensure continuous improvement of the system are in place.

The main duties of the Audit Committee include the following:

- to examine the manner in which management ensures and monitors the adequacy of the nature, extent and effectiveness of accounting and internal control systems;
- to monitor relationships with NIAO auditors, particularly, to ensure that there are no restrictions on the scope of the statutory audit and to review the activities, findings conclusions and recommendations of the NIAO auditors;
- to review management response and compliance with the results of external and internal audit activity;
- to review arrangements established by management for compliance with regulatory and financial reporting requirements; and
- to review the scope and nature of the work of the Internal Audit service which shall be in accordance with predetermined standards of internal audit.

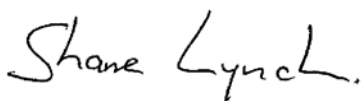
The Utility Regulator's contracted-out Internal Audit service operates to Government Internal Audit Standards (GIAS). The work of the Internal Audit is informed by an analysis of the risks to which the organisation is exposed, and annual internal audit plans take account of this analysis.

The analysis of risk and the internal audit plans are endorsed at the Authority's Audit Committee meeting. The Head of Internal Audit (HIA) provides the Audit Committee with reports on internal audit activity within the Authority. The Annual Assurance Reports for the Utility Regulator includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the risk management, control and governance processes.

6. Significant Internal Control Issues

For 2010-11, Internal Audit has provided me with satisfactory assurance, in overall terms, regarding the adequacy and effectiveness of the risk management, control and governance processes for the Utility Regulator. Action plans are put in place to address audit recommendations.

The Audit Committee ensures that appropriate action is taken to address internal and external findings raised throughout the year.



Accounting Officer:
Shane Lynch
16th June 2011

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

Northern Ireland Authority for Utility Regulation

I certify that I have audited the financial statements of the Northern Ireland Authority for Utility Regulation for the year ended 31 March 2011 under the Government Resources and Accounts Act (Northern Ireland) 2001. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, the Statement of 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 the Government Resources and Accounts Act (Northern Ireland) 2001. I conducted my audit in accordance with 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 Northern Ireland Authority for Utility Regulation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Northern Ireland Authority for Utility Regulation; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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 the Assembly 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 the Assembly 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 Northern Ireland Authority for Utility Regulation's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn, net operating cost, cash flows, changes in taxpayers' equity and net operating costs applied to departmental strategic objectives for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel 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 Department of Finance and Personnel directions made under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- the information given in the Directors' Report and the Management Commentary 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; 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 Department of Finance and Personnel's guidance.

Report

I have no observations to make on these financial statements.



K. J. Donnelly

Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

17th June 2011

Statement of Parliamentary Supply

Summary of Resource Outturn 2010-11

		2010-11 £000							2009-10 £000
		Estimate			Outturn			Net total outturn compared with Estimate saving/ (excess)	Outturn
Request for Resources	Note	Gross expenditure £000	Accruing Resources £000	Net Total £000	Gross expenditure £000	Accruing Resources £000	Net Total £000		Net Total £000
Request for resources A	2	7,764	(7,225)	539	7,084	(6,958)	126	413	305
Total resources		7,764	(7,225)	539	7,084	(6,958)	126	413	305
Non-operating cost Accruing Resources									

Net Cash Requirement 2010-11

		2010-11			2009-10	
		Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate saving/ (excess) £000	Outturn £000
Net cash requirement	4		1,570	410	1,160	1,265

Summary of income payable to the Consolidated Fund

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

	Note	Forecast 2010-11 £'000		Outturn 2010-11 £'000	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
Total	5	-	-	-	-

Explanations of any significant variances between Estimate and outturn are given in Note 2 and in the Management Commentary.

The notes on pages 41 to 61 form part of these accounts.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

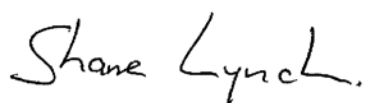
	2010-11			2009-10 Restated
	Note	Staff Costs	Other Costs	Income
		£000	£000	£000
Programme Costs:				
Staff costs	9	4,351		4,101
Other non-staff costs	10		2,733	2,609
Operating income	11			(6,958)
				(6,342)
Totals		4,351	2,733	(6,958)
				368
Net Operating Cost for the year ended 31 March 2011	3			126
				368
Other Comprehensive Expenditure				
Net (gain)/loss on revaluation of Property, Plant and Equipment				3
				(2)
Net (gain)/loss on revaluation of Intangibles				-
				(1)
Total Comprehensive Expenditure for the year ended 31 March 2011				129
				365

All income and expenditure is derived from continuing operations

The notes on pages 41 to 61 form part of these accounts.

Statement of Financial Position as at 31 March 2011

	Note	31 March 2011		31 March 2010	
		£000	£000	£000	£000
Non-current assets:					
Property, plant and equipment	12	69		87	
Intangible assets	13	5		8	
Receivables falling due after more than one year	15	-		-	
Total non-current assets			74		95
Current assets:					
Trade and other receivables	15	169		191	
Cash and cash equivalents	16	952		468	
Total current assets			1,121		659
Total assets			1,195		754
Current liabilities:					
Trade and other payables	18	(2,587)		(2,455)	
Total current liabilities			(2,587)		(2,455)
Non current assets plus net current liabilities			(1,392)		(1,701)
Non-current liabilities					
Provisions	19	-		-	
Total non-current liabilities			-		-
Assets less liabilities			(1,392)		(1,701)
Taxpayers' equity					
General fund			(1,393)		(1,705)
Revaluation reserve			1		4
Total taxpayers' equity			(1,392)		(1,701)



Shane Lynch
Accounting Officer
16th June 2011

The notes on pages 41 to 61 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2011

		2010-11	2009-10
			Restated
	Note	£000	£000
Cashflows from operating activities			
Net operating cost	3	(126)	(368)
Adjustments for non cash transactions	10	68	73
(Increase)/Decrease in trade and other receivables	15	22	37
<i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		-	-
Increase/(Decrease) in trade payables	18	132	(1,271)
<i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>			
- <i>Supply amounts due to the Consolidated Fund</i>	18	(484)	305
- <i>Capital accruals</i>		6	(10)
Use of provisions	19	-	-
Net cash outflow from operating activities		(382)	(1,234)
Cashflows from investing activities			
Purchase of property, plant and equipment	12	(28)	(31)
Purchase of intangible assets		-	-
Net cash outflow from investing activities		(28)	(31)
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		1,362	1,733
From the Consolidated Fund (Supply) - prior year		-	-
Advances from the Contingencies Fund		435	600
Repayments to the Contingencies Fund		(435)	(600)
Net financing		1,362	1,733
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		952	468
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payments of amounts due to the Consolidated Fund		(468)	(773)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		484	(305)
Cash and cash equivalents at the beginning of the period	16	468	773
Cash and cash equivalents at the end of the period	16	952	468

The notes on pages 41 to 61 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	Note	General fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2009		(2,618)	1	(2,617)
Changes in accounting policy		(12)	-	(12)
Restated balance at 1 April 2009		(2,630)	1	(2,629)
Net Parliamentary Funding - drawn down		1,733	-	1,733
Net Parliamentary Funding - deemed		-	-	-
Supply payable/(receivable) adjustment		(468)	-	(468)
Net operating cost for the year	3	(368)	-	(368)
Non-cash adjustments				
Non-cash charges - auditor's remuneration	10	18	-	18
Non-cash charges - other	10	10	-	10
Movements in reserves				
Net gain/(loss) on revaluation of property, plant and equipment	12	-	2	2
Net gain/(loss) on revaluation of intangibles	13	-	1	1
Balance at 31 March 2010		(1,705)	4	(1,701)
Net Parliamentary Funding - drawn down		1,362	-	1,362
Net Parliamentary Funding - deemed		-	-	-
Supply payable/(receivable) adjustment		(952)	-	(952)
Net operating cost for the year	3	(126)	-	(126)
Non-cash adjustments				
Non-cash charges - auditor's remuneration	10	18	-	18
Non-cash charges - other	10	10	-	10
Movements in reserves				
Net gain/(loss) on revaluation of property, plant and equipment	12	-	(3)	(3)
Balance at 31 March 2011		(1,393)	1	(1,392)

The notes on pages 41 to 61 form part of these accounts.

Statement of Operating Costs by Departmental Strategic Objectives for the year ended 31 March 2011

	2010-11			2009-10 (Restated)		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Aim:						
Protecting Electricity, Gas and Water and Sewerage consumers with regard to price and quality of service.						
Objective A:						
To promote competition in the generation and supply of Electricity and to protect the interest of electricity consumers with regard to price and quality of service	3,720	(3,671)	49	3,119	(2,973)	146
Objective B:						
To promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service	1,746	(1,705)	41	1,572	(1,469)	103
Objective C:						
To protect the interests of consumers of water and sewerage services, where appropriate by the promotion of effective competition	1,618	(1,582)	36	2,019	(1,900)	119
Net operating costs	7,084	(6,958)	126	6,710	(6,342)	368

The notes on pages 41 to 61 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 2010-11 Government Financial Reporting Manual (FReM) issued by the Department of Finance and Personnel. 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 the Utility Regulator for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Utility Regulator 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 the Department 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.

Management has reviewed new accounting standards that have been issued but are not yet effective, nor adopted early for these accounts. Management consider that these are unlikely to have a significant impact on the accounts in the period.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets.

1.2 Property, plant and equipment

The minimal level for capitalisation of property, plant and equipment is £2,000 for all assets with the exception of computers where the threshold is £500. Where material assets may be pooled/ grouped so as to reflect more accurately asset holdings. The capitalisation threshold for grouped assets is £2,000.

The following asset categories existed at the start of the year, namely IT equipment, office equipment, furniture and fittings and leasehold improvements. Asset additions have been valued at purchase price. Existing assets are revalued annually by reference to revaluation indices obtained from the Office for National Statistics and the Land and Property Services.

1.3 Intangible Assets

Intangible assets comprise computer software licences with a capitalisation threshold of £1,000 and £2,000 for grouped assets. Existing assets are revalued annually by reference to revaluation indices obtained from the Office for National Statistics.

1.4 Depreciation and Amortisation

Depreciation is provided at the rates calculated to write off the valuation of property, plant and equipment and intangible assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

Leasehold improvements	10 years or lifetime of lease
IT equipment	3 years
Furniture and Fittings	5 to 10 years
Office Equipment	5 years
Intangible assets	5 years

1.5 Cost Apportionment

Utility Regulator total costs in 2010-11 were apportioned on the basis of each divisions directly identifiable costs plus a percentage allocation of common costs based on the relationship of divisional staff numbers to total Utility Regulator staff numbers.

1.6 Revenue Recognition

The costs of the Utility Regulator are offset primarily by annual licence fees paid on the issue of electricity, gas and water and sewerage licences as defined under statute. Electricity licence fees are calculated on the basis of a determination made by the Utility Regulator. It was decided in 1992 that one third of the cost of electricity regulation should be charged to the holders of generation licences, one third to the holders of transmission licences and one third to the holders of public electricity supply licences; second tier licence holders pay a minimum fee of £250 plus an additional amount based on Mws supplied in the previous year which reduces the fee payable by the public electricity supply licence holder. Licence fees are ultimately recovered from electricity customers through an operating cost allowance in the Price Controls of Northern Ireland Electricity's regulated businesses.

The commencement date for the collection of Gas fees was 5 September 1996. Prior to that date, costs were borne by central government. Gas licence fees are based on the annual identifiable costs of gas regulation.

Gas licence fees are calculated on the basis of a determination made by the Utility Regulator. Following a consultation process on how gas licence fees should be apportioned it was decided that as from the 2002-03 financial year 80% (formerly 95%) of the cost of gas regulation should be borne by the holders of gas conveyance licences and 20% (formerly 5%) by the holders of gas supply licences. The holders of conveyance licences who engage in distribution activities will pay a £50,000 basic fee plus a further amount based on volumes conveyed in the previous year. Gas licence fees are recovered from gas customers through an operating cost allowance in the Price Control of Phoenix Natural Gas's conveyance business.

In the year following payment of licence fees, the Utility Regulator adjusts the new licence fees by the amount of over/under recovery of actual costs arising in the previous licence year. Since licence fees are based on estimated costs, any over-recovery is treated as Deferred Income within Payables and any under-recovery as Accrued Income within Receivables.

Under the terms of Northern Ireland Water Ltd's instrument of appointment water and sewerage fees are payable on the 1 July in each year representing the estimated costs of the Utility Regulator in carrying out its functions under the Water and Sewerage Services (Northern Ireland) Order 2006. This can be supplemented if required by a determination coming into effect on 1 January in any year.

In addition, the cost of the Consumer Council in dealing with electricity consumer issues was recovered from the public electricity supply licence holder, with the cost of gas consumer issues being recovered from (apportioned equally) the holders of gas conveyance licences who engage in distribution activities and water and sewerage consumers from the water and sewerage licence holder. For 2010-11 the Utility Regulator collected and passed on to the Consumer Council an amount of £960,344 of which £204,079 was in respect of its electricity functions, £153,059 in respect of its gas functions and £603,206 in respect of its Water functions. These licence fees are accounted for in the accounts of the Consumer Council.

1.7 Administration and Programme Expenditure

A reclassification exercise was carried out via the Budget and Monitoring Rounds during 2005/06 to ensure that the classification of expenditure was consistent with the Licence Fee income. As licence fee income is classified as DEL Other Resource, the Utility Regulator gained DFP approval to reclassify all its expenditure as DEL Other Resource. This reclassification continues to be reflected in the Estimates.

1.8 Prior Period Adjustment

In line with DFP advice, Prior Period Adjustments (PPAs) arising from the removal of the cost of capital charge were not included in the Spring Supplementary Estimates for 2010-11, other than as a note, on the basis that the PPA numbers could have been misleading. The impact of these accounting policy changes on Supply outturn in respect of 2009-10 are shown below.

The removal of the cost of capital charge has the following effect on Resource outturn in 2009-10. The Statement of Parliamentary Supply and related notes have not been restated for this effect.

	2009-10 £'000
Net Resource Outturn (Statement of Parliamentary Supply)	305
Removal of the cost of capital charge	75
Adjusted Net Resource Outturn	380

1.9 Net Liabilities

The negative value of total net assets arises because the funds owed to Electricity, Gas and Water and Sewerage licencees are correctly shown as a liability. However under Managing Public Money Northern Ireland rules the Utility Regulator is required to surrender surpluses to the Consolidated Fund, these are reflected in the cash requirement for the following financial year. This is required because the respective licences make provision for a reduction in the licence fee collected to reflect any underspend in the previous year.

1.10 Value Added Tax

VAT is accounted for in accordance with IAS 12.

The amount due from HMRC in respect of VAT is included within Receivables in the Statement of Financial Position.

1.11 Foreign Exchange

Revenue and expenditure incurred in foreign currencies are translated at the rate of exchange ruling on the date of the transaction.

1.12 Notional Costs

Since Resource Accounts are required to show the full cost of delivery of public services, the Statement of Comprehensive Net Expenditure therefore includes certain notional items of expenditure.

1.13 Operating Leases

Rentals due under operating leases are charged to the Statement of Comprehensive Net Expenditure over the term of the lease on a straight line basis or on the basis of actual rental payments where this fairly reflects usage.

1.14 Pensions and Employee Benefits

Past and present employees, including directly recruited Utility Regulator employees (who take up this facility), are covered by the provisions of the PCSPS (NI) which is a defined benefit scheme and is unfunded and non-contributory. The Utility Regulator recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS (NI) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS (NI). From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account). Further details of these pension arrangements are given in the Remuneration Report above.

Under the requirements of IAS 19 Employee Benefits, staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any annual leave entitlements that have been earned at the year end but not yet taken.

1.15 Early Departure Costs

All Utility Regulator staff who are not directly recruited Authority staff or Non Executive Directors are seconded from their respective parent departments. Those departments are required to meet the additional cost of benefits beyond the normal PCSPS (NI) benefits in respect of their employees who retire early. This additional cost runs from the date of their retirement until they

reach normal pensionable age. The Utility Regulator would meet only such obligations in respect of its directly employed staff.

1.16 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the Utility Regulator 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 the Assembly in accordance with the requirements of Managing Public Money Northern Ireland.

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 the NI Assembly separately noted, where relevant. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to the NI Assembly.

1.17 Financial Instruments

The Utility Regulator has financial instruments in the form of trade receivables, cash and cash equivalents and trade payables. These are classified as 'loans and receivables' and 'financial liabilities at fair value through profit and loss on initial recognition' in accordance with IFRS 7.

2 Analysis of Net Resource Outturn by section

2010-11						2009-10			
						Outturn	Estimate		
						Net total	Net total	Net total	Prior Year
						Outturn	Estimate	Estimate	Outturn
						Net total	Net total	Net total	Outturn
						£000	£000	£000	£000
Admin	Other Current	Grants	Gross Resource Expenditure	Accruing Resources		Net total	Net total	Estimate	Prior Year
£000	£000	£000	£000	£000		£000	£000	£000	£000
Request for Resources A:									
Departmental Expenditure in DEL:									
1. Administration	-	7,056	-	7,056	(6,958)	98	99	1	265
AME:									
Provisions	-	-	-	-	-	-	400	400	-
Non Budget									
2. IFRS Prior Period Adjustment	-	-	-	-	-	-	-	-	12
3. Notional Costs	-	28	-	28	-	28	40	12	28
Resource Outturn	-	7,084	-	7,084	(6,958)	126	539	413	305

Analysis of outturn against estimate

Resource outturn was £413k lower than estimate. Budget cover was taken for a provision which is no longer deemed necessary. Notional costs were also lower than expected.

Key to Request for Resources

Request for resources A - Protecting Electricity, Gas, Water and Sewerage consumers with regard to price and quality of service

3 Reconciliation of outturn to net operating cost and against Administration Budget

3a	Reconciliation of net resource outturn to net operating cost	Note	2010-11		2009-10
			Outturn	Supply Estimate	Restated Outturn compared with Estimate
			£000	£000	£000
	Net Resource Outturn	2	126	539	305
	IFRS Adjustment		-	-	(12)
	Cost of Capital adjustment	1.8	-	-	75
	Net Operating Cost		126	539	368

3b Outturn against final Administration Budget

	2010-11*		2009-10
	Budget	Outturn	Outturn
	£'000	£'000	£'000
*See Note 1.7			
Gross Administration Budget	-	-	-
Income allowable against the Administration Budget	-	-	-
Net outturn against final Administration Budget	-	-	-

4 Reconciliation of net resources outturn to net cash requirement

	Note	2010-11		Net Total Outturn compared with Estimate savings/ (excess) £000
		Estimate	Outturn	
		£000	£000	
Resource Outturn	2	539	126	413
Capital :				
Aquisition of property, plant and equipment	12	23	22	1
Non-operating Accruing Resources:				
Proceeds of asset disposal	12 & 13	-	-	-
Accruals adjustments :				
Non-cash items	10	(92)	(68)	(24)
Changes in working capital other than cash	15 & 18	1,500	330	1,170
Use of provision	19	(400)	-	(400)
Net Cash Requirement		1,570	410	1,160

5 Analysis of income payable to the Consolidated Fund

In addition to accruing resources, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Note	Forecast 2009-10		Outturn 2010-11	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000	£000	£000	£000
Operating income and receipts - excess Accruing Resources		-	-	-	-
Other operating income and receipts not classified as Accruing Resources		-	-	-	-
Non-operating income and receipts excess Accruing Resources	7	-	-	-	-
Other non-operating income and receipts not classified as Accruing Resources	8	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
Excess cash surrenderable to the Consolidated Fund	4	-	-	-	-
Total income payable to the Consolidated Fund		-	-	-	-

6 Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2010-11	2009-10
		£'000	£'000
Operating income	11	6,958	6,342
Income authorised to be treated as Accruing Resources		(6,958)	(6,342)
Operating income payable to the Consolidated Fund	5	-	-

7 Non-operating income - Excess Accruing Resources

	2010-11	2009-10
	£'000	£'000
Non-operating income - excess Accruing Resources	-	-
	-	-

8 Non-operating income not classified as Accruing Resources

	2010-11	2009-10
	Income	Receipts
	£'000	£'000
Non-operating income not classified as Accruing Resources	-	-
	-	-

9 Staff numbers and related costs

9a Staff costs comprise of:

	2010-11					2009-10
	Total	Permanently employed staff	Other	Ministers	£'000 Special Advisers	£'000 Total
Wages and Salaries	3,545	3,149	396	-	-	3,364
Social Security Costs	307	292	15	-	-	300
Other Pension Costs	499	460	39	-	-	437
Sub Total	4,351	3,901	450	-	-	4,101
Less recoveries in respect of outward secondments	-	-	-	-	-	-
TOTAL NET STAFF COSTS	4,351	3,901	450	-	-	4,101

The Principal Civil Service Pension Scheme in NI (PCSPS (NI)), of which most of the Utility Regulator's staff are members, is an unfunded multi-employer defined benefit scheme, but the Utility Regulator is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2007 and details of this valuation are available in the PCSPS(NI) resource accounts.

For 2010-11, employers' contributions of £498,562.43 were payable to the PCSPS (NI) (2009-10 - £436,503.67) at one of four rates in the range 18 to 25 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2011-12, the rates will be in the range 18% to 25%. The contribution rates are set to meet the cost of the benefits accruing during 2010-11 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. Nil employers' contributions (2009-10 £nil) were paid to a stakeholder pension provider. Employer contributions are age-related and range from 3 to 12.5 percent (2009-10 : 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 £nil, 0.8 per cent (2009-10 £nil, 0.8 per cent) of pensionable pay, were payable to the PCSPS (NI) 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 statement of financial position date were £nil (2009-10 £nil). Contributions prepaid at that date were £nil (2009-10 £nil).

No persons (2009-10:0 persons) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2009-10;£nil).

At the Statement of Financial Position date there were no contributions due to any partnership pension provider. There were no early retirements on ill-health grounds.

9b Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows.

	2010-11				2009-10
	Total	Permanent staff	Others	Ministers	Special Advisers
Objective A:					
To promote competition in the generation and supply of Electricity and to protect the interest of electricity consumers with regard to price and quality of service	28.5	25.2	3.3		28.2
Objective B:					
To promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service	18.9	17.1	1.8		18.4
Objective C:					
To protect the interests of consumers of water and sewerage services, where appropriate by the promotion of effective competition	19.3	18.1	1.2		21.4
Total	66.7	60.4	6.3		68.0

10 Other non-staff costs

	2010-11		2009-10 (Restated)	
	£'000	£'000	£'000	£'000
Rentals under operating leases:				
Property rentals	210		125	
Hire of office equipment	13		10	
		223		135
Non-cash items:				
Depreciation on property, plant and equipment	37		39	
Amortisation on intangible assets	3		3	
Impairment of non-current assets	-		3	
Auditors' remuneration and expenses	18		18	
Other notional costs	10		10	
Total non-cash items		68		73
Other Expenditure				
Consultancy	1,247		1,265	
Management of Renewable Outputs Certificate Scheme	310		172	
Research	4		15	
Property service charges	61		49	
Contracted Services	341		396	
Communications and Advertising	82		126	
Hospitality	5		10	
Travel and Subsistence	74		81	
Rates	75		37	
Training	60		73	
Utilities	34		32	
IT Costs	44		23	
Miscellaneous expenditure	105		122	
		2,442		2,401
Total		2,733		2,609

11 Income

	2010-11	2009-10
	£000	£000
Electricity Licence Fees	3,358	2,973
Gas Licence Fees	1,705	1,469
Water Licence Fees	1,582	1,900
Miscellaneous Income	313	-
Total	6,958	6,342

12 Property, plant and equipment

12a	Leasehold improvements	Information Technology Equipment	Office Equipment	Furniture & Fittings	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2010	52	97	34	64	247
Additions	-	22	-	-	22
Disposals	-	(34)	-	-	(34)
Revaluations	1	(3)	2	(1)	(1)
At 31 March 2011	53	82	36	63	234
Depreciation					
At 1 April 2010	11	75	31	43	160
Charged in year	8	17	2	10	37
Disposals	-	(34)	-	-	(34)
Revaluations	1	-	2	(1)	2
At 31 March 2011	20	58	35	52	165
Net book value at 31 March 2011	33	24	1	11	69
Net book value at 31 March 2010	41	22	3	21	87
Asset financing:					
Owned	33	24	1	11	69
Net book value at 31 March 2011	33	24	1	11	69

12b

	Leasehold improvements	Information Technology Equipment	Office Equipment	Furniture & Fittings	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2009	39	67	34	60	200
Additions	17	21	-	3	41
Disposals	-	-	-	-	-
Impairments	(4)	-	-	-	(4)
Revaluations	-	9	-	1	10
At 31 March 2010	52	97	34	64	247
Depreciation					
At 1 April 2009	6	52	25	31	114
Charged in year	6	16	5	12	39
Disposals	-	-	-	-	-
Impairments	(1)	-	-	-	(1)
Revaluations	-	7	1	-	8
At 31 March 2010	11	75	31	43	160
Net book value at 31 March 2010	41	22	3	21	87
Net book value at 31 March 2009	33	15	9	29	86
Asset financing:					
Owned	41	22	3	21	87
Net book value at 31 March 2010	41	22	3	21	87

13 Intangible assets

Intangible assets comprise software licences

13a	Software Licences
	£'000
Cost or valuation	
At 1 April 2010	30
Additions	-
Disposals	-
Revaluation	-
At 31 March 2011	30
Amortisation	
At 1 April 2010	22
Charged in year	3
Disposals	-
Revaluation	-
At 31 March 2010	25
Net book value at 31 March 2011	5
Net book value at 31 March 2010	8
13b	Software Licences
	£'000
Cost or valuation	
At 1 April 2009	29
Additions	-
Disposals	-
Revaluation	1
At 31 March 2010	30
Amortisation	
At 1 April 2009	19
Charged in year	3
Disposals	-
Revaluation	-
At 31 March 2010	22
Net book value at 31 March 2010	8
Net book value at 31 March 2009	10

14 Financial Instruments

As the cash requirements of the Utility Regulator are met through the Estimates process, financial instruments play a more limited role in creating 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 exposed to little credit, liquidity or market risk.

15 Trade receivables and other current assets

a) Analysis by type	2010-11	2009-10
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	1	5
VAT receivable	87	85
Other receivables		
Prepayments and Accrued Income	80	89
Payroll receivables	1	12
	169	191
Amounts falling due after more than one year:		
Trade receivables	-	-
	169	191
b) Intra-government balances		
	2010-11	2009-10
	£'000	£'000
Balances with other central government bodies	88	121
Balances with local authorities	-	-
Balances with NHS Trusts	-	-
Balances with public corporations and trading funds	-	-
Subtotal: Intra-government balances	88	121
Balances with other bodies external to government	81	70
Total Receivables at 31 March	169	191

16 Cash and cash equivalents

	2010-11	2009-10
	<u>£'000</u>	<u>£'000</u>
Balance at 1 April	468	773
Net change in cash and cash equivalent balances	484	(305)
Balance at 31 March	<u>952</u>	<u>468</u>

The above balances consist of balances in the Utility Regulator bank accounts within the centralised NICS pool of accounts, currently held at the Northern Bank, or cash in hand.

17 Reconciliation of Net Cash Requirement to increase/(decrease) in cash

	2010-11	2009-10
	<u>£'000</u>	<u>£'000</u>
Net cash requirement	(410)	(1,265)
From the Consolidated Fund (Supply) - current year	1,362	1,733
From the Consolidated Fund (Supply) - prior year	-	-
Amounts Due to the Consolidated Fund - received in a prior year and paid over	(468)	(773)
Increase/(decrease) in cash	<u>484</u>	<u>(305)</u>

18 Trade payables and other current liabilities

a) Amounts falling due within one year	2010-11	2009-10
	£'000s	£'000s
Trade payables	65	121
Accruals and deferred income	1,565	1,864
Other payables	5	2
Amounts issued from the Consolidated Fund for supply but not spent at year end	952	468
	2,587	2,455

There are no liabilities falling due after more than one year.

b) Intra-government balances	2010-11	2009-10
	£'000s	£'000s
Balances with other central government bodies	1,213	949
Balances with local authorities	-	-
Balances with NHS Trusts	-	-
Balances with public corporations and trading funds	-	-
Subtotal: Intra-government balances	1,213	949
Balances with other bodies external to government	1,374	1,506
Total Payables at 31 March	2,587	2,455

19 Provisions for liabilities and charges

	2010-11	2009-10
	£'000s	£'000s
Balance at 1 April 2010	-	-
Provided in the year	-	-
Provisions not required written back	-	-
Provisions utilised in the year	-	-
Unwinding of discount	-	-
Balance at 31 March 2011	-	-

20 Notes to the Statement of Operating Costs by Departmental Strategic Objectives

Programme grants and other current expenditures have been allocated as follows:

	2010-11	2009-10
	£'000s	£'000s
To promote competition in the generation and supply of Electricity and to protect the interest of electricity consumers with regard to price and quality of service	3,720	3,119
To promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interest of gas consumers with regard to price and quality of service	1,746	1,572
To protect the interests of consumers of water and sewerage services, where appropriate by the promotion of effective competition	1,618	2,019

21 Capital Commitments

There were no contracted capital commitments at 31 March 2011, (£ Nil, at 31 March 2010).

22 Commitments under leases

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

	2010-11	2009-10
	£'000s	£'000s
Obligations under operating leases comprise		
Land and Buildings		
Not later than one year	244	244
Later than one year and not later than five years	840	977
Later than five years	-	107
	<u>1,084</u>	<u>1,328</u>
Other		
Not later than one year	11	12
Later than one year and not later than five years	11	22
Later than five years	-	-
	<u>22</u>	<u>34</u>

23 Other Commitments

The Utility Regulator has not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2011, (Nil, at 31 March 2010).

24 Losses and Special Payments

There were no losses and special payments requiring disclosure in the 2010/11 financial year.

25 Contingent Liabilities

There was no contingent liabilities existing as at 31 March 2011.

26 Related-Party Transactions

The Utility Regulator has had a number of transactions with other Government departments and Central Government bodies. These include DETI, DRD and DFP.

None of the Utility Regulator's Board members, key managerial staff or other related parties have undertaken any material transactions with Utility Regulator during the year.

Clive Elphick is a member of the Utility Regulator's Board and is also a senior advisor to CEPA, and had declared his CEPA role to the Utility Regulator. CEPA periodically tenders for contracts advertised directly by the Utility Regulator or in joint association with other regulatory bodies. Clive Elphick is not involved in the submission or evaluation of any such tenders and does not participate in Board decisions on any work carried out by CEPA for the Utility Regulator in respect of direct or joint regulatory projects. During 2010/11 the Utility Regulator made payments of £125k to CEPA.

Christopher Le Fevre is a member of the Utility Regulator's Board and also carries out occasional consultancy assignments on behalf of POYRY, and has declared his POYRY role to the Utility Regulator. POYRY periodically tenders for contracts advertised directly by the Utility Regulator or in joint association with other regulatory bodies. Christopher Le Fevre is not included in the submission or evaluation of any such tenders and does not participate in Board decisions or any work carried out by POYRY for the Utility Regulator in respect of direct or joint regulatory projects. During 2010/11 the Utility Regulator made payments of £140k to POYRY.

27 Events after the reporting period

There were no material events post the Statement of Financial Position date for the year ended 31 March 2011.

The Accounting Officer authorised these financial statements for issue on the same date as they were certified by the Comptroller and Auditor General.



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CDS Belfast
4c Heron Wharf
Sydenham Business Park
Belfast
BT3 9LE

Telephone: 028 9045 7772
Email: cds-ni@cds.co.uk

CDS 57486

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