

**Northern Ireland Authority  
for Utility Regulation**

**Annual Report and Accounts**

**Accounts for the year ended  
31 March 2017**



# **NORTHERN IRELAND AUTHORITY FOR UTILITY REGULATION**

## **ANNUAL REPORT AND ACCOUNTS**

**For the year ended 31 March 2017**

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

*27 June 2017*

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# Northern Ireland Authority for Utility Regulation

## Annual Report and Accounts for the year ended 31 March 2017

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## **PERFORMANCE OVERVIEW**

This overview section explains the role of the Northern Ireland Authority for Utility Regulation (the Utility Regulator), providing detail on the organisation's legislative objectives and duties. It provides an understanding of how work is prioritised to meet these objectives, both through the Corporate Strategy and annual Forward Work Programme. The overview examines the key risks the organisation faces to the achievement of its objectives and work plans. The Chief Executive, Jenny Pyper, also provides an analysis of performance during the year.

### **Chief Executive Review of Performance in the 2016-17 Financial Year**

'I am pleased to report that, at the end of the third year of implementation of our Corporate Strategy 2014-2019, good progress is being made towards achieving our three strategic objectives.

In terms of our regulation of monopolies, we completed our price control review (called GD17) of Northern Ireland's gas distribution companies. While two of the three gas distribution companies accepted our final Determination, firmus energy appealed aspects of our decisions to the Competition and Markets Authority (CMA). The CMA is expected to make its Determination on the Appeal in early 2017/18. At the end of March we also published our draft price control determination for the electricity network company, NIE Networks.

Both price control reviews demonstrate our focus on our corporate strategy objective of promoting efficient and effective monopolies through benchmarking of costs and asset management excellence, better reporting on achieving outputs and driving innovation. Indeed, the journey of improvement of NI Water, as shown by our most recent cost and performance report, is one good example of how regulation can support excellence. Our review of NI Water's performance during the first year of the PC15 price control showed that the company has broadly delivered on the annual targets set and the company delivered its highest ever overall performance assessment score. Following our review of NI Water's scheme of charges the majority of NI Water's non-domestic customers will see increases below the rate of inflation.

Our Corporate Strategy key performance indicator on gas connections was supported by the first customer connection to the Gas to the West at the end of 2016. Good progress has also been made on extending the gas network in County Down. Finally, while we make sure that consumer bills reflect the actual costs involved for our regulated suppliers, gas prices increased because of rising wholesale energy costs. There were no increases in electricity bills.

We continued to make good progress to develop the new wholesale electricity market, the I-SEM, throughout the island of Ireland, working in collaboration with our Irish counterpart, the Commission for Energy Regulation (CER). A stocktake carried out on the delivery of I-SEM showed significant progress across all work streams and the new market is on track to go live in May 2018. Good progress was also made on the DS3 initiative which will help optimise the use of energy from renewables. We also completed our review of the retail energy market with a view to ensuring effective competition and choice. This year also saw us introduce contestability in network connections.

Protecting consumers' long-term interests has meant that we, along with the Department for the Economy and the System Operator for Northern Ireland (SONI), have taken significant steps to secure the electricity supply for local consumers. We also advocated strongly for

the construction of a second north-south electricity interconnector and submitted evidence to a Planning Appeals Commission public hearing in February 2017. Delivery of this major infrastructure project is essential to help ensure security of supply in NI beyond 2020 and ensure the effective operation of the all-island wholesale market. We also facilitate investment in renewables in line with government policy and during 2016-17 the proportion of generation from renewables reached 25%. We continued to implement our Consumer Protection Strategy as a basis for protecting the interests of vulnerable consumers in line with Corporate Strategy objectives. Our action to protect electricity customers, when Open Electric went into administration in December 2016, was a clear demonstration of our commitment to protect consumers.

Finally, we continued to develop as an organisation. Our focus on supporting our staff was evident with the implementation of our UR People Strategy. We took steps to enhance our internal communications. Externally our focus remained on positive engagement with stakeholders. Our new website went live in October and we hope that this will provide a valuable resource for everyone. Finally, we initiated a review of board effectiveness, in line with best practice.'

## **Role of the Utility Regulator**

The Utility Regulator is a non-ministerial government department responsible for regulating Northern Ireland's electricity, gas, water and sewerage industries. The work of the Utility Regulator is based on duties set out in various pieces of legislation including the Energy (Northern Ireland) Order 2003 and the Water and Sewerage Services Order 2006. The Utility Regulator has a wide range of responsibilities in law, covering regulatory functions and competition powers, the latter of which are held jointly with the Competition and Markets Authority. The Utility Regulator Single Electricity Market (SEM) Committee is also responsible for the regulation of the SEM and does so in conjunction with the regulator in the Republic of Ireland, the Commission for Energy Regulation (CER). The work of the SEM Committee is under the Electricity (Single Wholesale Market) (Northern Ireland) Order 2007 (as amended at 31 March 2016).

The work of the Utility Regulator covers areas including the following:

- Issuing licences that allow gas, electricity and water companies to operate in Northern Ireland.
- Making sure licensed companies meet relevant legislation and licence obligations.
- Setting the minimum standards of service which regulated companies must provide to consumers in Northern Ireland.
- Making sure that consumers only pay what is necessary for the services they receive now and in the future.
- Challenging companies to make sure they operate more efficiently and deliver good value for consumers as well as shareholders.
- Working to provide greater choice and encourage competition in the gas and electricity markets.
- Having regard to the need for regulated companies to be able to finance their activities and innovate effectively.
- Acting as an adjudicator on individual complaints, disputes and appeals.
- Regulation of the SEM and development of the new Target Electricity Model as required by the Capacity Allocation and Congestion Management (EU 2015/1222).

## **Objectives and Duties**

### **Electricity**

In respect of electricity, the principal objective of the Utility Regulator is to protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate, by promoting effective competition between persons engaged in, or commercial activities connected, with the generation, transmission or supply of electricity. The Utility Regulator, as a designated regulatory authority, fulfils the objectives set out in Directive 2009/72/EC concerning common



rules for the internal market in electricity. In performing its duties the Utility Regulator must have regard to (amongst 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, among other things, 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 and the need to ensure electricity licence holders are able to finance their activities.

## **Gas**

The principal 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 and to do so in a way that is consistent with the fulfilment by the Utility Regulator of its obligations as a designated national regulatory authority for Northern Ireland and pursuant to the objectives as set out in Directive 2009/73/EC. The Utility Regulator must also have regard to (amongst other things) the interests of consumers of gas and the need to ensure that gas licence holders are able to finance their activities. The Utility Regulator must have regard to (amongst other things) the interests of:

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

Subject to the above, 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.

## **Sustainability**

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

- promotes the efficient use of electricity, promotes efficiency and economy on the part of licence holders, secures 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 Networks (NIEN), such as the Sustainable Management of Assets and Renewable Technologies (SMART) programme which promotes 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 price controls and the Northern Ireland Sustainable Energy Programme (NISEP).

## **Strategic Direction**

During 2016-17, the Utility Regulator's work was guided by the principles outlined in its 5-year Corporate Strategy covering the period 2014 to 2019. This sets out three main cross sectoral objectives aimed at achieving the duties and objectives assigned to the Utility Regulator in legislation and outlines how these will be met and when they will be considered to have been achieved. The Corporate Strategy also details the achievements of the Utility Regulator in the period prior to its publication and highlights the main issues and challenges going forward. The Corporate Strategy was published in May 2014 and is available on the Utility Regulator's website [www.uregni.gov.uk/publications/corporate\\_strategy\\_2014-2019](http://www.uregni.gov.uk/publications/corporate_strategy_2014-2019) . The Utility Regulator

also regulates within the context of the policy framework set out by government including the Department for the Economy's (DfE, formerly Department of Enterprise Trade and Investment) Strategic Energy Framework and the Department for Infrastructure's (DfI, formerly Department for Regional Development) Social and Environmental Guidance.

Table 1 below details the three main Corporate Strategy objectives along with the activities and outcomes associated with these.

<b>Objective</b>	<b>This objective will be met by</b>	<b>This objective will be achieved when</b>
Promoting effective and efficient monopolies	<ul style="list-style-type: none"> <li>Using price control reviews to make sure that regulated utility companies in Northern Ireland are efficient, invest prudently and continuously innovate.</li> <li>Making sure that consumer's bills fairly reflect costs by scrutinising and monitoring prices, carrying out cost-reporting exercises and assessing how well utility companies are meeting service standards.</li> <li>Extending, developing and improving the resilience of utility networks by approving further investment.</li> </ul>	<ul style="list-style-type: none"> <li>Monopolies deliver high standards of performance.</li> <li>Network costs for energy and water companies in Northern Ireland improve compared with EU companies.</li> <li>Best-practice regulation encourages innovation and leads to an efficient investment climate.</li> <li>Our regulation supports modern progressive markets and infrastructure which delivers a strategic advantage to Northern Ireland.</li> </ul>
Promoting competitive and efficient markets	<ul style="list-style-type: none"> <li>Reviewing and increasing the competitiveness of both the wholesale and retail energy markets in Northern Ireland.</li> <li>Delivering projects and promoting infrastructure to improve the operation of existing markets.</li> <li>Monitoring market competitiveness and supplier behaviour.</li> <li>Keeping consumers informed and involved with the market.</li> <li>Strengthening the evidence base which leads to policy decisions.</li> </ul>	<ul style="list-style-type: none"> <li>A regional electricity market is in place and brings about effective and efficient competition.</li> <li>The appropriate balance between competitive markets and a strong regulatory framework is in place.</li> <li>Market indicators compare favourably with markets elsewhere.</li> <li>There is a system in place for monitoring information about the retail market, which informs policy and gives consumers more options.</li> </ul>
Protecting the long- term interests of business and domestic consumers	<ul style="list-style-type: none"> <li>Delivering new customer protection measures.</li> <li>Protecting vulnerable consumers.</li> <li>Addressing concerns about electricity security of supply.</li> <li>Making it possible for energy companies to introduce initiatives that promote the de-carbonisation of the energy sector.</li> </ul>	<ul style="list-style-type: none"> <li>Electricity, gas and water consumers have long-term security of supply.</li> <li>A new customer-protection strategy for domestic consumers is in place and vulnerable consumers are not disadvantaged by utility cost or quality of service.</li> <li>Our regulatory decisions have contributed to the achievement of the NI Executive's targets for renewable energy and social and environmental guidance for water.</li> </ul>

The Corporate Strategy recognises the key regulatory trends and issues affecting its work in the period to 2019 and sets the longer term work plan to meet the following challenges:

- Playing a role in reducing the effect of higher energy prices for business and domestic customers.
- Making sure there is efficient investment in a modern and high-performing utility infrastructure which can be maintained over the long term.
- Supporting utility companies by providing incentives to innovate and promote best practice.
- Supporting the long-term development of our regulated industries and specifically contributing to the achievement of the NI Executive's renewable-energy targets.
- Reviewing the effectiveness of competition in the energy retail markets.
- Promoting effective competition in the SEM and delivering the Integrated Single Electricity Market (I-SEM) by 2018.
- Dealing with concerns about the security of supply in Northern Ireland and, in particular, the critical need to build a second north-south electricity interconnector.
- Improving the way the Utility Regulator monitors the outcomes of the retail energy markets for consumers and making sure consumers are properly protected.
- Working to effectively put in place new competition arrangements.
- Assisting DfE on strategic energy policy issues.
- Supporting a joint approach in water, working with the DfI.
- Improving outcomes for providing water and sewerage services.

### **Forward Work Programme**

In each year covered by the Corporate Strategy, the Utility Regulator publishes a Forward Work Programme (FWP) detailing projects, other than those comprising routine activities in the exercise of its functions, which it plans to undertake during the year. The requirement to publish the FWP, before the 1 April in each year, is set out in Article 6 of the Energy Order and Article 4 of the Water and Sewerage Order. However before doing so it must consult on a draft FWP in time to allow it to consider any representations made. Article 6 (4) of the Water and Sewerage Order specifically enables the Utility Regulator to prepare a combined FWP covering its energy and water and sewerage functions.

A FWP for 2016-17 was consulted on and published (and can be accessed from the Utility Regulator's website at: [www.uregni.gov.uk/sites/uregni.gov.uk/files/media-files/Forward\\_Work\\_Programme\\_2016-17.pdf](http://www.uregni.gov.uk/sites/uregni.gov.uk/files/media-files/Forward_Work_Programme_2016-17.pdf) )

It described the Utility Regulator's objectives, identified the main priorities for meeting those objectives and outlined the specific non-routine projects which the organisation planned to

undertake in the year commencing 1 April 2016. It also included an estimate of the overall expenditure which the Utility Regulator expected to incur during the year.

### **Risk Management within the Utility Regulator**

The key risks for the Utility Regulator are largely around failure to achieve its objectives and regulate effectively. There is a strong reputational element to Utility Regulator risks. Risk management processes are designed to operate in a manner to minimise the Utility Regulator risk exposure recognising that in the absence of these processes there is always a risk of failing to deliver legislative requirements on time and as required. The Utility Regulator makes decisions that impact on regulated companies and is therefore always at risk of challenge either by reference of disputed licence modifications to the Competition and Markets Authority or judicial review. The Utility Regulator is also working with government and other regulators in regard to the potential implications of Brexit.

### **Performance Summary**

Further detail of performance against the Corporate Strategy indicators and FWP targets is provided in the following performance analysis section. This also provides details of achievements that contribute to these key duties and objectives.

In summary, all Corporate Strategy indicators are reported as on-track at the end of 2016-17. Key outcomes in respect of corporate strategy objectives include: regulated tariff reviews, regulatory price controls, gas network extensions, further progress on delivering the I-SEM, completing a review of the effectiveness of the retail energy market, the introduction of a market monitoring framework and the implementation of the Consumer Protection Strategy.

87% of the non-routine projects in the FWP 2016-17 are either achieved or partially achieved. As well as those projects which have already been identified several significant projects were progressed during 2016-17 including: introducing measures to tackle the issue of maintaining a reliable electricity supply, continuing to develop new ancillary services to enable more electricity to be generated from renewable sources under the DS3 initiative and introducing network codes and progressing a single transmission system operator (TSO) for gas.

In terms of financial performance, in 2016-17 the Utility Regulator is reporting a net resource outturn against the Main Estimate position of £1.5m. Reporting against the Main Estimate position is a consequence of the Assembly being dissolved prior to the approval of the 2016-17 Spring Supplementary Estimates and associated Budget Bill. If the Utility Regulator was reporting against the position that was expected to be approved within the SSE then the net resource outturn would have been £265k. The net expenditure represents a small amount of the Utility Regulator funding, as the majority comes from electricity, gas and water licence holders. In terms of gross expenditure in 2016-17, the Utility Regulator outturn is also within the DoF approved budget position. Further detail on financial performance is contained within the financial review section of the performance analysis.

The organisation launched its first HR Strategy (“UR People”) in 2015-16 which sets out key performance indicators under a number of themes. While it is still an early stage in the implementation process, all performance indicators are considered to be on track.

More detail on the FWP projects are set out in the Annual Report which is published on the Utility Regulator website, [www.uregni.gov.uk](http://www.uregni.gov.uk).

## **PERFORMANCE ANALYSIS**

This section provides an analysis of how performance is monitored and measured within the Utility Regulator and gives a detailed assessment of performance during 2016-17.

### **Measuring Performance**

An organisational framework is in place to measure Utility Regulator performance.

At the strategic level, progress against Corporate Strategy objectives is assessed through reporting on key performance indicators. The FWP contributes to the achievement of Corporate Strategy objectives and progress against each FWP project is also monitored and reported. Financial and operational performance is monitored at directorate level, by the Senior Management Team (SMT), by the Audit and Risk Committee and by the Utility Regulator Board.

### **Reporting Against Performance**

Under the Energy Order the Utility Regulator is required to produce a separate Annual Report and this report should therefore be read in conjunction with the Utility Regulator Annual Report for 2016-17. Article 5 of the Water and Sewerage Order enables the Utility Regulator to produce a combined annual report.

The Annual Report provides a comprehensive account of the performance of the Utility Regulator during 2016-17. It includes a commentary on the organisation's performance against corporate strategy objectives and related key performance indicators. A detailed commentary is also provided on the organisation's achievement against its FWP for 2016-17. 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 Corporate Services Branch, the Utility Regulator, Queens House, 14 Queen Street, Belfast, BT1 6ED. Alternatively it can be downloaded free from the Utility Regulator's website [www.uregni.gov.uk](http://www.uregni.gov.uk)

Performance is also assessed on an ongoing basis throughout the year. Specifically, performance is monitored regularly and reported through finance and performance papers to each meeting of the Board and the Audit and Risk Committee. The Senior Management Team also regularly reviews performance against targets and these form part of individual discussions and periodic formal reviews between the CEO and individual directors. During 2016-17 performance against the PROGRESS scorecard was also assessed as part of the formal reviews carried out three times per year between the CEO and individual directors.

The Utility Regulator also monitors its financial position on an ongoing basis to ensure that it operates within Board and Department of Finance (DoF, formerly Department of Finance and Personnel) approved limits.

A summary of organisational performance against Corporate Strategy indicators and FWP targets is detailed below, together with a financial review and reporting against sustainability.



## **Progress against Corporate Strategy Objectives**

### *Corporate Strategy Objective 1: Promoting effective and efficient monopolies*

- There was no change to the regulated electricity tariffs for Power NI.
- A review of SSE Airtricity's regulated gas tariffs led to a price increase for consumers in the Greater Belfast area. The review, which concluded in February, resulted in a 7.6% increase.
- While a review of NI Water's scheme of charges, which concluded in March 2017, led to an increase in water and sewerage charges at or below the 2.2% inflation rate.
- A final determination for the gas distribution price control (called GD17) was published in September 2016. The determination provided for an investment of around £226 million in the natural gas network. It also reduced distribution charges which will save domestic consumers up to £16 per annum on their bills. It also sets targets for an additional 89,000 new customer connections and allows 1,377 kms of gas pipeline to be built.
- While two of the three gas distribution companies accepted the price control, the third – firmus energy – appealed certain aspects of the price control to the Competition and Markets Authority.
- The draft determination for the next NIEN price control (called RP6) was published in March 2017.
- The annual cost and performance report for NI Water showed that the company broadly delivered against its price control targets – meeting or exceeding planned delivery in all but four of the Key Performance Indicators.
- Work to develop a new natural gas network to the west of Northern Ireland was advanced with the first customer connecting at the end of 2016. Work on constructing a network gas extension to County Down has progressed. 228,000 network gas connections were achieved up to the end of 2016.
- There continued to be engagement with NIEN to open the electricity connections market to competition.

### *Corporate Strategy Objective 2: Promoting competitive and effective markets*

- Work to develop a competitive wholesale electricity market on the island of Ireland (the I-SEM), which is worth £2.1 billion per annum, was moved forward significantly and a stocktake review of progress led to May 2018 being identified as the go-live date for the new market.
- There was also progress to optimise the use of renewables by advancing the DS3 programme with interim system services tariff arrangements in place since October 2016.

- A review of the effectiveness of competition in the retail energy market, which considered the regulatory options for the NI energy supply markets completed in December 2016. This set out four viable options should the current form of price regulation on former incumbents end.
- The testing phase for the enhanced framework for monitoring the effectiveness of the retail energy market (REMM) was completed.
- Work on contestability in electricity connections was progressed. A consultation on how extensions should be treated, clarifying NIE Network's and SONI's ability to refuse to provide connection offers and next steps was launched in early April.

*Corporate Strategy Objective 3: Protecting the short- and long-term interests of business and domestic consumers*

- Along with Department for the Economy (DfE) and SONI there was continued engagement to address electricity security of supply risks.
- Evidence was also submitted to a public hearing, of the Planning Appeals Commission, on the North-South Interconnector, in February 2017.
- There was continued facilitation of investment in renewables and, at the start of 2017, there was 25% of energy generated from renewables.
- The implementation of the Consumer Protection Strategy continued. This included consulting on codes of practice to protect consumers and a review of Critical Care Registers.
- Following the exit of Open Electric from the retail electricity market in December 2016, the Utility Regulator initiated Supplier of Last Resort arrangements to ensure no customers lost supply.

**Performance Against Forward Work Programme (FWP) Targets**

Of the time limited tasks identified in the FWP, overall the Utility Regulator achieved or partially achieved 87% of the time limited projects listed to be completed within the 2016-17 year. Of the 23 projects identified, the progress report at 31 March 2017 is as follows:

Achieved tasks	16 (70%)
Partially achieved tasks	4 (17%)
Revised	3 (3%)
Ongoing	0 (0%)
Not achieved	0 (0%)

**Utility Regulator Financial Review**

**Funding of the Utility Regulator**

As a non-ministerial government department, the Utility Regulator is required to prepare a Supply Estimate each financial year. This is the means by which authority is sought from the



NI Assembly for spending each year. Funds voted by the NI Assembly are accounted for on an annual basis in the Resource Accounts and the Utility Regulator is required to operate within the gross and net expenditure and income approved limits and related controls.

The Utility Regulator is largely funded by annual licence fees paid by the electricity and gas licensees and water and sewerage undertakers and expenditure is primarily therefore offset by receipts. Previously receipts collected from the electricity and gas licence fees were paid directly into the Northern Ireland Consolidated Fund. However the Utility Regulator has been allowed to retain these following a Treasury direction, using powers under the 1920 Treasury Act, and DfE nomination of the Utility Regulator (previously Director General of Electricity Supply and Director General of Gas) to collect receipts on its behalf. The licence issued by the Department for Infrastructure (DfI, formerly Department for Regional Development) to NI Water in respect of water and sewerage services provides for licence fees under that licence to be paid to the Utility Regulator.

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 2016-17 was £9.222m. This is compared with £7.367m in 2015-16.

The Utility Regulator recovers and retains the cost of administering the Northern Ireland Renewables Obligation (NIRO) scheme from a buy-out fund. This is funded by electricity suppliers that elect to meet their NIRO obligations by paying a buy-out fee. The suppliers pay in at a rate per megawatt hour. In 2016-17 the total cost of administering the NIRO and the amount to be recovered from the buy-out fund was £731k. However, renewable targets were more easily met due to favourable wind conditions throughout the year and as a result the supplier payments into the buy-out were not sufficient to meet the full cost of administering the scheme. A shortfall in the fund of £227k was met by the energy departments in Scotland, England and Northern Ireland. In 2015-16 £629k was recovered from the buy-out fund and that covered the cost of administering the scheme.

For consistency with the allocation of costs for the purposes of recovering through licence fees, expenditure is reported with reference to the duties and objectives as set out in legislation, rather than those included within the Corporate Strategy. In 2016-17, gross expenditure as detailed in the *Statement of Operating Costs by Operating Segments*, was as follows:

- Segment 1 (Electricity) - £6,822,000 (£5,415,000 in 2015-16)
- Segment 2 (Gas) - £3,005,000 (£2,352,000 in 2015-16)
- Segment 3 (Water) - £392,000 (£487,000 in 2015-16)

Our most significant cost is salary costs which in 2016-17 made up 51% of total costs compared with 60% in 2015-16. This fall in percentage is as a result of increased price control and external support costs in 2016-17. The Statement of Comprehensive Net Expenditure shows that salary costs increased from the previous year (£4,939,000 for 2015-16 against £5,192,000 for 2016-17). This reflected the office operating largely at full complement for the year, additional staff to resource the I-SEM project and annual pay increments.

Other current expenditure has increased from £3,315k in 2015-16 to £5,027k in 2016-17. This is primarily as a result of the requirements needed to progress development of the I-SEM, the cost of defending a JR and price control referral costs in 2016-17.

The Utility Regulator is required to report outturn against the Main Estimate position as that is the only Estimate position in 2016-17 that was approved by the Assembly. Normally in year adjustments, approved through monitoring rounds, are reflected in the Spring Supplementary Estimates (SSE's) however the absence of an NI Assembly since January 2017 meant that there was no opportunity for it to approve the SSE's and an updated Budget Bill. Although the Utility Regulator only had a small net Vote from the Assembly and the Utility Regulator's net outturn for 2016-17 was within that, it was however necessary to increase both gross expenditure and gross income due to the need to defend a price control appeal and progress the development and implementation of the I-SEM market. The adjustments necessary were all approved by DoF and reflected in the January monitoring round position. However, although UR had obtained the required DoF approval for its budget there was no opportunity for the Assembly to reflect that in a Spring Supplementary Estimate position. The following tables illustrate the position reported in the accounts compared with that which would have arisen had the SSE's been approved.

#### Comparison of outturn against Main Estimate and SSE's

##### Main Estimate position (as reported in the 2016-17 SoAS)

	Estimate			Outturn			
	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Net total outturn compared with Estimate
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for Resources A	9,046	(8,674)	372	10,219	(8,674)	1,545	(1,173)

##### SSE position (as would have been reported in the 2016-17 SoAS if SSE's had been approved)

	Estimate			Outturn			
	Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total	Net total outturn compared with Estimate
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for Resources A	11,912	(11,622)	290	10,219	(9,954)	265	25

The net resource outturn should reflect the cost borne by Central Government in respect of work undertaken by us which was not recoverable from licence holders. This normally includes the cost of administering renewable schemes, excluding the NIRO, and the notional costs charged to the Utility Regulator.

As a consequence of the technical issue referred to above, the Utility Regulator has also incurred an excess against its net cash requirement. This would not have occurred if the SSE's had been approved by the Assembly.

## Long Term Expenditure Trends

The following table illustrates the net and gross outturn position over the previous four financial years.

	Gross outturn	Income	Net outturn
	£'000	£'000	£'000
2013-14	7,414	7,175	239
2014-15	7,619	7,359	260
2015-16	8,254	8,001	253
2016-17	10,219	9,955	264

The above table reflects resource expenditure and income only. Utility Regulator expenditure on capital is minimal (between £3k and £18k in the years illustrated) and covered routine office requirements only. As the provision of IT services is provided by IT Assist there are only minimal capital requirements in that respect. Resource expenditure has been increasing as a result of the delivery of the I-SEM project, extensive price control work and the defence of referrals to the CMA. The increase in costs is met by a corresponding increase in income.

## Reporting against Sustainability

The Utility Regulator has responsibility for administering the NIRO and through this scheme Renewable Obligation Certificates (ROCs) are issued to renewable generators. Within the year 2015-16, 6437 additional generating stations in Northern Ireland received ROC accreditation (98% of which were micro generators, mostly solar photovoltaic) with a capacity of 91MW. 69% of ROCs issued in Northern Ireland went to onshore wind generating stations. 3m ROCs were issued to NI generators in 2015-16.

In the Budget 2015 the Government announced its intention to withdraw the exemption from the Climate Change Levy for renewable electricity from 1 August 2015. This change meant that the Utility Regulator did not issue Levy Exemption Certificates (LECs) for electricity generated by renewable technology stations after 31 July 2015.

Electricity utilities can continue to use LECs to apply the exemption until 31 March 2018.

Electricity suppliers are required to specify in billing information and promotional materials the contribution of each energy source to the overall fuel mix of the supplier over the previous year.

In order to address the impact that increasingly high levels of wind places on the electricity network, the Utility Regulator has been progressing the DS3 programme with CER. The objective of DS3 is to facilitate increased levels of renewables and effectively decrease the levels of curtailment. In December 2014 the SEM Committee approved a High Level Design for the procurement of system services (DS3). This will facilitate the operation of increased levels of non-synchronous generation on the network.

The Renewables Grid Liaison Group (RGLG), a group of stakeholders which the Utility Regulator facilitates, continues to provide a forum for addressing issues associated with renewables. During the past year the group reviewed its terms of reference with a view to widening its engagement to include the energy storage industry. The RGLG is currently looking at the impact of Electricity Market Reform on the renewables industry in Northern Ireland.

The Utility Regulator's NISEP (NI Sustainable Energy Programme) provides funding, collected from all electricity customers, for energy efficiency schemes. The schemes cover the installation of energy efficiency measures in both domestic and commercial/business properties but 80% of the funding is ring-fenced for schemes targeted at domestic customers at risk of fuel poverty. During 2016-17, a total of £9.37 million was made available to support schemes (this figure included under spend rolled forward from 2015-16). In the previous year, 2015-16, the funding spent on schemes amounted to £8,059,299. DfE is currently progressing the development of an Energywise Programme which is an energy efficiency programme that is intended to replace NISEP and we are represented on the Energywise programme board to facilitate that.

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

## **Other Matters to Report**

### **Employee Involvement**

The Utility Regulator recognises the benefit of keeping all our employees regularly informed about progress towards achieving its aims and objectives. Consultation with staff on matters related to terms and conditions is through trade union and non-trade union staff representatives. A Joint Negotiating and Consultative Committee has been established under a Recognition Agreement signed with the Northern Ireland Public Service Alliance as the formal vehicle for the conduct of industrial relations in the Utility Regulator.

Steps have been taken to enhance internal communications. The Senior Management Team approved an Internal Communications Strategy. This included appointing an internal communications champion, establishing a new Communications Group to oversee an action plan for the Internal Communications Strategy and changes to the Intranet. The Chief Executive continues to hold bi-monthly all-staff meetings to keep staff informed of key developments and now writes a weekly blog. Further changes to improve the intranet and promote staff engagement were also implemented.

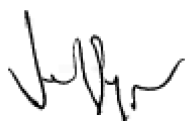
### **Payment to Suppliers**

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 Regulations 2013 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, 99.9% (2015-16 99.7%) 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 97.8% (2015-16 97%) 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 was approved by the Equality Commission and is available in either paper or electronic format. It will also be available on request in a variety of alternative formats.

The Audit and Risk Committee received a paper on equality compliance at its September 2016 meeting. A key aspect of this paper was the Annual Progress Report (in relation to Section 75 obligations), which was approved by the Audit and Risk Committee and Board for submission to the Equality Commission. This paper also offers the opportunity to provide assurance to the Committee that all equality related obligations to the Equality Commission and DoF have been met.



Jenny Pyper  
Accounting Officer  
15 June 2017

## **ACCOUNTABILITY REPORT**

This Accountability Report as required under the 2016-17 Government Financial Reporting Manual issued by the Department of Finance (DoF, formerly Department of Finance and Personnel), sets out the Corporate Governance Report, the Remuneration and Staff Report and Assembly Accountability and Audit report.

## **CORPORATE GOVERNANCE REPORT**

### **DIRECTORS REPORT**

The Governance Statement on pages 23 to 31 sets out the Utility Regulator's governance, risk management and control arrangements. The main components of the governance arrangements in 2016-17 are stated below.

#### **The Board of the Utility Regulator**

The Board provides corporate leadership and directs the Utility Regulator's strategic planning. It assists the Chief Executive in meeting corporate governance responsibilities as Accounting Officer.

At the end of 2016-17, the Board comprised one executive member (the Chief Executive, Jenny Pyper) and six non-executive members including the Chair, Dr William Emery, who was appointed for a five year term on 1 July 2012. There were no changes to Board members during 2016-17. At 31 March 2017, the serving non-executive members of the Board are as follows:

Dr William Emery (Chair) – appointed to the Board 1 July 2012 for a period of five years.

William Cargo – appointed to the Board on 1 January 2011 for a period of three years.  
Re-appointed 1 January 2014 for a term of five years.

Richard Rodgers – appointed to the Board on 1 January 2011 for a period of three years.  
Re-appointed 1 January 2014 for a term of five years.

Teresa Perchard – appointed to the Board on 1 September 2013 for a period of five years.

Alex Wiseman – appointed to the Board on 1 November 2015 for a period of five years.

Jon Carlton – appointed to the Board on 1 November 2015 for a period of five years.

#### **Board Committees**

##### **The Audit and Risk Committee (ARC)**

The ARC provides independent and objective assurance to the Board and Accounting Officer (AO) on any matters affecting UR's financial health, probity or external reputation. The ARC supports the Accounting Officer in monitoring the corporate governance and control systems, including financial reporting.

Until 30 September 2012 membership of the ARC was drawn exclusively from non-executive board members. On 1 November 2012 Jim Oatridge was appointed as independent Chair of

the ARC. Prior to that, he was Chair of the ARC during his term as a board member. Richard Rodgers and Alex Wiseman served as members of the ARC during 2016-17. The Chief Executive and Director of Corporate Affairs attend ARC meetings and the Chair of the Board may also attend.

### The Remuneration Committee

The Remuneration Committee determines pay, terms and conditions of senior staff (Chief Executive and directors), advises on UR's human resource strategy and contributes to wider pay and reward policy issues affecting all staff.

The membership of the Remuneration Committee during 2016-17 comprised William Cargo (Chair), Teresa Perchard and Jon Carlton. The Chief Executive and Director of Corporate Affairs also attend Remuneration Committee meetings and the Chair of the Board may also attend meetings.

### Other Committees

#### Board Advisory Forum

A Board Advisory Forum was established on 30 September 2012 to cover energy and water related issues. Prior to this separate Board Advisory Groups covered energy and water. The Board Advisory Forum is attended by all non-executive board members and is chaired by the Chief Executive.

### Statutory Committees

#### Single Electricity Market (SEM) Committee

The SEM Committee was established on 1 November 2007 jointly between the Commission for Energy Regulation (CER) and the Utility Regulator. Membership comprises an independent member and a deputy independent member and up to three persons each from the Utility Regulator and CER.

Mr Odd Hakon Hoelsaeter was appointed as the independent member of the SEM Committee and Professor David Newbery was appointed deputy independent member from 1 November 2012. These appointments were made for a term of five years. The Utility Regulator and the Commission for Energy Regulation (CER) each pay 50% of the costs of the independent members and other costs incurred by the SEM Committee.

Jenny Pyper also serves on the SEM Committee, following her appointment as Chief Executive on 1 November 2013. Dr William Emery was appointed to the SEM Committee for a five year term from 1 March 2013. Jon Carlton was appointed to the SEM Committee with effect from 1 April 2016.

Details of the remuneration of Utility Regulator board members are provided on pages 33 to 34.



## **The Senior Management Team**

The Senior Management Team comprises the Chief Executive, the Directors of Corporate Affairs, Compliance and Network Operations, Finance and Network Assets, Wholesale Markets and Retail Markets. The Board Secretary acts as a secretariat to the Senior Management Team which meets weekly and considers matters relevant to the day-to-day running of the office, facilitates information sharing, co-ordination on policy issues and the development of good practice.

## **Register of Interests**

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

## **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 2017 and up to the date of the signing of the accounts.

## **External Auditor**

Under section 10 of the Government Resources 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 £23k (£23k in 2015-16). In 2016-17, £1k was paid to the NIAO for work associated with the National Fraud Initiative (NFI) 2016-17 exercise. There was no auditor remuneration, actual or notional, for non-audit work in 2015-16.

## **Departmental Accounting Boundary**

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

## **Relationships with Arms Length Bodies**

The Utility Regulator has no arms length bodies.

## **Complaints Handling**

Where someone is dissatisfied with the Utility Regulator's procedures or the way in which the Utility Regulator has operated them, a complaints procedure is in place. The complaints procedure is published on our website, [www.uregni.gov.uk/customerinformation/complaints](http://www.uregni.gov.uk/customerinformation/complaints). The procedure provides for both formal and informal approaches and includes information about our process for dealing with complaints. During 2016-17 the Utility Regulator received no complaints.



## **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. The Utility Regulator's Health and Safety Committee is responsible for overseeing the safe and healthy working environment. A full review of the Utility Regulator's Health and Safety Policy Statement was completed in May 2011 and, along with associated organisational arrangements, is made available to all staff through the intranet site. No health and safety incidents were reported to the Health and Safety Committee during 2016-17.

## **Contingent Liabilities requiring disclosure under Assembly reporting requirements and not under IAS 37**

There were no contingent liabilities requiring disclosure under Assembly reporting requirements.

## STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act (NI) 2001, the Department of Finance (DoF, formerly Department of Finance and Personnel) 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 Utility Regulator 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, application of resources, 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 DoF 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.

DoF 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 Managing Public Money Northern Ireland published by the DoF.

So far as the Chief Executive is aware, there is no relevant information of which the auditors are unaware. The Chief Executive has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that the auditors are aware of that information. The Chief Executive has taken personal responsibility for the annual report and accounts and the judgements required for ensuring they are fair, balanced and understandable.

## GOVERNANCE STATEMENT

### Governance Framework

As a Non Ministerial Government Department, the Utility Regulator operates independently in the discharge of its statutory duties as set out in the Energy (Northern Ireland) Order 2003 and the Water and Sewerage Services (Northern Ireland) Order 2006 and other relevant legislation. The Chief Executive is responsible and accountable to the Board for the discharge of Utility Regulator policies, programmes and actions. The Chief Executive is, however, also designated as Accounting Officer and, in respect of those responsibilities, is accountable to the Department of Finance (DoF, formerly Department of Finance and Personnel) and the Northern Ireland Assembly. The Accounting Officer has responsibility for maintaining a framework of corporate governance that supports the policies, aims and objectives of the Utility Regulator whilst safeguarding the public funds and Utility Regulator assets. This is in accordance with the responsibilities set out in Managing Public Money Northern Ireland.

### The Board

Under 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 (the Board) is required to have a minimum of four members. The board members are appointed by the DoF Minister. The Board operates in accordance with its Rules of Procedure. The Board provides corporate leadership and directs the Utility Regulator's strategic planning. It assists the Chief Executive in meeting her corporate governance responsibilities as Accounting Officer. A governance manual has been developed which sets out relevant guidelines for board members. This manual covers such areas as Board and Board Committee Terms of Reference, Board Schedule of Business, Scheme of Delegation, Whistle-blowing Guide, Bribery Act, confidentiality, the Seven Principles of Public Life, fraud, gifts and hospitality, information governance, risk management strategy and members' interest statement.

### Compliance with the Corporate Governance in Central Government Departments: Code of Good Practice NI (The Code)

The Utility Regulator is required to comply with The Code and in particular its focus on the role of the Board. Subject to the comments which follow the Utility Regulator considers that it is compliant with the requirements of The Code. The Code references the accountability of the Minister in charge of the department however the Utility Regulator is an independent non-Ministerial department. Questions from Assembly members may be addressed to and answered directly by the Utility Regulator. As a non-Ministerial department the Utility Regulator does not receive any Ministerial directions. The Audit and Risk Committee (ARC) is chaired by an independent member who has finance and accounting skills but is not currently a board member. However the ARC Chair has served two terms on the Board and may attend board meetings to brief the Board on the work of the ARC and provides an annual report to the Board summarising the ARC's work programme and providing assurance on the Utility Regulator's compliance with public sector financial and governance requirements. DoF is aware of this arrangement and we will keep it under review in light of the evolving balance of board skills. We recognise also that a professionally qualified finance director of the Utility Regulator is not a member of the Board. However the Utility Regulator Director of Corporate Affairs is both a member of the senior management team and professionally qualified accountant who attends each board meeting and his duties include fulfilling the finance director role.

## Board Members Interests

In respect of the Board interests, board members complete registers of interest on appointment and annually thereafter. In addition any updates required during the year will be registered as they arise and members report any specific matters, relevant to the board agenda, at each meeting. Details of the board members' interests are contained in the notes to the accounts. Where board members have registered or declared a conflict these may be managed by the board member absenting themselves from the meeting when the item in question comes up for discussion and/or decision. In addition, where a board member has registered a conflict of interest he/she would not receive any discussion or decision papers relevant to that interest.

Minutes of the Board's meetings are published on the Utility Regulator website.

## Matters considered by the Board during the period

The Board considered several regulatory price control reviews. A final determination for the gas distribution price control (GD17) was approved in September 2016. The Board also approved decisions in respect of the retail energy supply price control (SPC17). A draft determination for the electricity network price control (RP6) was approved by the Board at its March 2017 meeting. Finally, the Board approved licence modifications to give effect to the System Operator of Northern Ireland (SONI) price control at its March 2017 meeting.

Given the progress on the development of the new wholesale electricity market, the I-SEM, the Board received presentations and updates in respect of the major I-SEM workstreams. This provided the Board with an opportunity to provide comments, as required, to members of the Utility Regulator SEM Committee.

Working closely with other regulators in GB and ROI, the Board has also overseen work to progress the implementation of a number of European network codes, for the purposes of integrating European gas markets.

The Board also approved the outcome on the review of effectiveness of retail competition in December 2016.

Progress on the implementation of several work streams was discussed by the board. This included: the implementation of the Consumer Protection Strategy, the electricity connections review and the development of an enhanced retail energy market monitoring framework.

An Enforcement Committee is established to deal with enforcement cases as required. An enforcement action procedure and financial penalties policy has been approved by Board.

The Board also engaged with a wide range of stakeholders throughout the year. This included meetings with boards from other organisations – such as the Consumer Council, NI Water, Mutual Energy and the System Operator of Northern Ireland. Board members also participated in visits to utility assets, such as a visit to oversee the development of the gas to the west network at Maydown. As has been the case in previous years, the board also holds at least one of its meetings outside Belfast. A meeting of the board took place in Strabane in October.

## Board Committees

### Standing Committees

#### Audit and Risk Committee (ARC)

The Board and the Accounting Officer are supported by the ARC which is a formal committee of the Utility Regulator. The ARC reports to the Board and its Chair has the right of direct access to the Chair of the Board. The role of the ARC is to advise the Board and Accounting Officer on anything that affects the financial health, probity or external reputation of the organisation. It provides independent and objective opinion on issues of risk, control and governance and associated assurance. The ARC supports the Accounting Officer in monitoring the corporate governance and control systems, including financial reporting. In fulfilling this role, the ARC reviews significant issues identified by internal audit and the Northern Ireland Audit Office (NIAO) and action being taken to address these issues.

The ARC met four times during 2016-17. As part of its programme of work, the ARC scrutinises the draft budget and corporate risk register before approval is sought for each from the Board. It reviews the draft annual accounts and receives in year finance and performance reports. It oversees the work of internal audit and receives all reports for review of recommendations and management responses. It also monitors the implementation of audit recommendations. In addition, the ARC reviews governance related policies in accordance with a timetable of business. In support of this role, the ARC Chair presented a report to the Board in June 2016 on conclusions drawn from its work programme in 2015-16. Matters to be referenced in its report to the Board in respect of 2016-17 include arrangements for business continuity planning and testing, review of the Annual Theft and Fraud Report published by DoF and the Committee on Standards in Public Life report, “Striking the Balance,” on the application of the standards in public life by regulatory bodies. The latter included a checklist of twenty one best practice statements which the Committee reviewed an assessment of UR’s compliance with. A further self assessment of its own effectiveness using an National Audit Office tool was also included alongside the outcome of internal audit reports from the 2016-17 plan and a review of the board and staff Interests statements. Other relevant matters have included a review of the governance manual contents, the Annual Progress Report on Equality for the Equality Commission for Northern Ireland, finance and performance reports and risk registers, a draft budget for 2017-18 and a number of updates to procurement procedures, terms of reference and other governance related policies.

#### Remuneration Committee

The Board is further supported by the Remuneration Committee. The Remuneration Committee considers and approves any recommendations regarding senior remuneration and also has responsibility for contributing to wider pay and reward policy issues affecting all staff in light of the annual pay remit guidance issued by DoF. The Remuneration Committee met twice during 2016-17.

## Attendance at Board and Other Committees

Attendance at the Board and board committees was as follows:

	Board	Audit and Risk Committee	Remuneration Committee
William Emery*	8/9	2/4	0/2
Jim Oatridge	-	4/4	-
Richard Rodgers	8/9	4/4	-
William Cargo	8/9	-	2/2
Teresa Perchard	9/9	-	2/2
Alex Wiseman	9/9	4/4	-
Jon Carlton	8/9	-	2/2
Jenny Pyper	9/9	4/4	1/2

\* William Emery is not a member of the Audit and Risk Committee and Remuneration Committee but has the option to attend.

## Statutory Committees

### Single Electricity Market (SEM) Committee

The SEM Committee, which is a statutory committee of the Utility Regulator and the Commission for Energy Regulation (CER), was established on the 1 November 2007. The Committee was established following amendments made to the Electricity Regulation Act 1991 and the Electricity Single Wholesale Market (Northern Ireland) Order 2007 in respect of the functions, powers and duties in relation to the regulation of the SEM. The principal objective of the SEM Committee is to protect the interests of electricity consumers by promoting, when appropriate, effective competition in relation to the sale and purchase of electricity within the SEM. The SEMC regulates the wholesale electricity market and takes decisions on those matters which are considered to be SEM related; in order to be a SEM matter this has to have a material impact on the wholesale electricity market.

The membership of the SEM Committee comprises an independent member and a deputy independent member and up to three persons (who must either be a member of the Utility Regulator Board or staff) appointed by the Department for the Economy (DfE, formerly Department of Enterprise, Trade and Investment) 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 up to three persons (who must be members of the Commission for Energy Regulation) appointed by the Irish Minister with the approval of DfE.

During 2016-17, the SEM Committee met 12 times and there have been no extraordinary meetings.

## Other Committees

### Board Advisory Forum

A Board Advisory Forum (BAF) provides a forum for discussion on energy and water related matters and for considering significant policy and strategy issues. This is attended by all members of the Board and members of the Executive team.

Attendance during the year at the Board Advisory Forum by the Chair and the Non-Executives was as follows:

### **Board Advisory Forum**

William Emery	4/4
William Cargo	3/4
Richard Rodgers	3/4
Teresa Perchard	4/4
Alex Wiseman	4/4
Jon Carlton	4/4
Jenny Pyper	4/4

### **Enforcement Committee**

The Board established Enforcement Committees to deal with specific enforcement matters as required. A Committee was established on 27 July 2016 and membership comprised Jenny Pyper, Richard Rodgers and Teresa Perchard. The Committee is ongoing at the 31 March 2017 with the most recent meeting being the 14 February 2017. A previous Enforcement Committee was established in 2015-16, with membership comprising Bill Emery, Bill Cargo and Richard Rodgers. The last meeting of that Committee was held on 31 March 2016.

### **Board Effectiveness**

An assessment of board effectiveness was initiated during the year and, following agreement of the key actions, an action plan was being developed to enhance the operation of the board.

The review considered all aspects of the board's operation. This included an assessment of the effectiveness of board meetings. The review also sought comments on the conduct of board meetings generally, the agendas and quality of the information and data received. In this respect, there was no evidence to indicate any significant issues requiring attention.

There was significant board engagement on the development of the Forward Work Programme (FWP) for 2017-18. This included the holding of a workshop in November to help identify, along with the senior management team, key FWP priorities.

In terms of external engagement, the board continued to reach out to key stakeholders. The board visited Strabane in October to oversee developments in respect of the Gas to the West gas network extension. There was also extensive board-level engagement with other stakeholders and, in particular, meetings with regulated utility boards.

### **Executive Team and Audit Arrangements**

#### The Senior Management Team

The Senior Management Team is structured into 3 groups;- Networks, (comprising Compliance and Network Operations (C&NO) and Finance and Network Assets (F&NA)), Markets, (comprising Wholesale and Retail), and Corporate Affairs.



It discusses a variety of management matters and receives papers for review and decision. It also reviews papers, in draft form, to be presented to the Board. The Senior Management Team also attends board and BAF meetings.

### Internal Audit Arrangements

The Accounting Officer and ARC are independently advised by an internal audit service provider, Capita, an organisation which operates in accordance with Public Sector Internal Audit Standards. This role is contracted out in light of the relatively small size of the Utility Regulator. This contract was renewed in November 2013 for a 3 year period, expiring November 2016, and has subsequently been extended until 31 March 2018 with the possibility of one further extension of one year. The primary objective of internal audit is to provide the Accounting Officer and the Utility Regulator with an independent and objective opinion on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organisation's objectives.

The work of the internal audit is undertaken to the Public Sector Internal Audit Standards and informed by an analysis of the risks to which the organisation is exposed. The Head of Internal Audit has a standing invitation to attend the ARC and presents a rolling three year audit plan, revised annually, for its approval. This takes account of the analysis of risks faced by the organisation and under the current contract arrangement focuses on the operational aspects of the organisation. It makes recommendations and provides an overall assurance report each year. Areas covered in 2016-17 included budgetary control and procurement, communications, IT and Business Continuity Planning and compliance with Statutory Obligations.

The Chair of the ARC aims to meet senior representatives from internal audit and Northern Ireland Audit Office twice annually without members of the executive team present.

In 2016-17, the overall internal audit assurance for the Utility Regulator was satisfactory assurance. One of the internal audit reports finalised during the year reviewed progress to date on the delivery of the I-SEM project. It recognised the significant progress that has been made across a range of work streams and made a number of recommendations, several of which were assessed as being high priority. On this basis, the level of audit assurance was assessed as limited.

### Risk Management

The Risk Management Strategy (the Strategy) sets out the Utility Regulator's approach to the management of risk. The strategy draws on the NIAO report on Good Practice in Risk Management (June 2011), HM Treasury Guide on Good Practice in Central Government Departments and the Audit Committee Handbook. The Strategy was reviewed during 2014-15 and expanded on the Utility Regulator's approach to risk appetite. This was approved by the ARC and was first implemented for the 2015-16 risk management process. The strategy 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 which allows risks to be identified, managed and escalated as appropriate.

The strategy sets out the roles and responsibilities in respect of risk management. The Board is responsible for establishing and overseeing risk management procedures within the organisation.



The Board ensures that significant risks are being managed by the Senior Management Team and challenges the risk management process to ensure that all key risks have been identified. The ARC supports the Board and Chief Executive by reviewing the risk control processes and periodically reviews risk registers, providing a challenge and advisory role as necessary. The ARC receives assurances from the Head of Internal Audit on the effectiveness of risk management and undertakes periodic review of directorate level registers that are not normally subject to board or ARC approval.

## **Risk Environment**

The Utility Regulator is still operating at a time of change at both European Union and national level. The Utility Regulator feeds into ACER which co-ordinates energy policy at a pan-European level. At a national level, the Utility Regulator is now a member of the UK Regulatory Network and the UK Competition Network, formed to develop common understanding of best practice, facilitate consistency and provide a platform for skills and knowledge transfer in the exercise of sector regulatory functions and competition respectively. The Utility Regulator is jointly tasked, with CER, with implementing an integrated single electricity market (I-SEM) to be compliant with the European Target Model by 2017. This requires development and implementation of a new wholesale electricity market on the island. At NI level, energy policy falls within the remit of the Department for the Economy.

Utility Regulator risks are driven from work streams arising out of the environment, as described above, in which it operates.

Our aim is to reflect good practice in the risk management procedures in place in all areas of the Utility Regulator's work. Risk management is an integral part of the work carried out and the Senior Management Team, ARC and Board keep the top risks under review.

The key risks faced by the Utility Regulator during the year include those arising from the following:

- Failure to deliver an effective I-SEM market.
- The potential for disputes or challenges arising from regulatory decisions.
- Failure to adequately protect consumers through price controls and market regulation.
- Implications resulting from security of supply related issues.

In addition to these key risks a further risk was included on the Corporate Register in year in relation to the impact of the UK exit from the EU and the significant changes this may bring to the regulatory framework. The Utility Regulator also recognised the risks arising from the absence of a Spring Supplementary Estimate for 2016-17.

The Utility Regulator continued to manage risks in the 2016-17 year in relation to the design and implementation of the I-SEM. Risks continued to be identified and managed in line with the Risk Management Strategy. Key controls are detailed in the register in respect of the most significant Utility Regulator risks and also actions to be taken forward to mitigate the risks further. Named individuals are assigned responsibility for delivery of these controls and actions, which are reviewed on an ongoing basis by SMT, ARC and Board.

## Information Security

The Utility Regulator continues to develop its information management and governance agenda. The Utility Regulator's business only requires it to hold a limited amount of personal data. A register of information assets across the organisation is maintained and guidance notes for asset owners in understanding how to classify them are provided. 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. Significant IT related work streams are progressed in conjunction with the Northern Ireland Civil Service managed service provider, IT Assist and the Enterprise Design Authority within DoF. There were no information breaches that the Information Management Committee considered to represent a security concern.

## Fraud

Fraud is a regular item on the ARC agenda. A specific fraud risk is identified and managed at directorate level. The Utility Regulator undertook a self assessment on managing fraud using the NIAO good practice guide and in light of the assessment and guide a revised fraud policy and response plan was considered and approved at the February 2016 ARC meeting. In 2016-17, the Utility Regulator participated in the National Fraud Initiative exercise. No issues were identified in this exercise and the outcome of this was reported to the May 17 ARC meeting. There were no reported cases of fraud in 2016-17. The ARC also considered the annual fraud report issued by DoF.

## 2017-18 Budget position

The Northern Ireland Assembly was dissolved as from 26 January 2017 for an election which took place on 2 March, on which date Ministers also ceased to hold office. An Executive was not formed following the election within the period specified in the legislation. As a consequence, a Budget Act is not yet in place for 2017-18. In the absence of a budget for 2017-18 determined by an Executive, Section 59 of the Northern Ireland Act 1998 and Section 7 of the Government Resources and Accounts Act (Northern Ireland) 2001 provide for the Permanent Secretary of the Department of Finance to issue cash to departments from the NI Consolidated Fund. These powers are an interim measure designed to ensure that services can be maintained until such times as a budget is agreed and a Budget Act passed. The majority of the Utility Regulator expenditure is recovered through licence fees as apposed to public expenditure. We will continue to engage with DoF recording the implications of the 2017-18 budget position.

## **The Accounting Officer's Review of Effectiveness**

As the 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, the work of the ARC, the independent Chair of the ARC and the executive managers within the Utility Regulator who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their reports. Directors have provided me with bi-annual Assurance Statements commenting on the adequacy and effectiveness of the control environment, including the regularity and propriety of expenditure. I have been advised on the adequacy of the system of internal control by the ARC and plans to address weaknesses and ensure continuous improvement of the system, are in place.

The governance system described in this statement has been in place for the whole of the year ended 31 March 2017 and up to the date of approval of the Annual Report and Accounts and accords with DoF guidance. No significant problems with the governance system arose during the period covered by this statement.

## REMUNERATION AND STAFF REPORT

### Remuneration Policy

The Non-Executive Chair and Non-Executive board members of the Utility Regulator are appointed by Department of Finance (DoF, formerly Department of Finance and Personnel) (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 DoF. 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 Directors Report, page 19. The non-Executive members of the Utility Regulator are appointed to the SEM Committee by the Department for the Economy (DfE, formerly Department for Enterprise, Trade and Investment) and the salary level and terms for this post are also set by DfE.

The Utility Regulator also operates within the context of the public sector pay remit determined by the NI Executive and the senior managers pay award in 2016-17 comprised a base pay uplift. There were no non-consolidated bonuses payable to any senior managers in respect of the 2016-17 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. 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 board members hold fixed term appointments as detailed in the Directors Report, page 18.

DoF 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 two such appointments were made.

Further information about the work of the Civil Service Commissioners can be found at [www.nicscommissioners.org](http://www.nicscommissioners.org)

### Salary and pension entitlements (audited)

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

Remuneration	2016-17				2015-16			
	Salary	Benefits in kind (to nearest £100)	Pension <sup>1</sup> benefits (to nearest £1,000)	Total	Salary	Benefits in kind (to nearest £100)	Pension <sup>1</sup> benefits (to nearest £1,000)	Total
<b>Non Executive board members</b>	£000	£	£	£000	£000	£	£	£000
Dr William Emery (Non Executive Chair) (Appointed 1 July 2012)	40-45*	11,000	-	55-60	40-45*	12,700	-	55-60
Mr Richard Rodgers (Non Executive Director)	5-10	400	-	10-15	5-10	200	-	5-10
Mr William Cargo (Non Executive Director)	5-10	500	-	10-15	5-10	500	-	10-15
Mrs Teresa Perchard (Non Executive Director)	5-10	2,100	-	10-15	5-10	2,700	-	10-15
Mr Alex Wiseman (Non Executive Director) (Appointed 1 November 2015)	5-10	4,300	-	10-15	0-5 (full year equivalent 5-10)	2,700	-	5-10
Mr Jon Carlton (Non Executive Director) (Appointed 1 November 2015)	15-20*	16,000	-	35-40	0-5 (full year equivalent 5-10)	3,700	-	5-10

<sup>1</sup> The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation and any increase or decrease due to a transfer of pension rights.

Remuneration	2016-17					2015-16				
	Salary	Benefits in kind (to nearest £100)	Pension <sup>1</sup> benefits (to nearest £1,000)	Total		Salary	Benefits in kind (to nearest £100)	Pension <sup>1</sup> benefits (to nearest £1,000)	Total	
<b>Non Executive board members</b>	£000	£	£	£000		£000	£	£	£000	
Mr David Strahan (Non Executive Director) (Until 30 September 2015)	-	-	-	-		0-5 (full year equivalent 5-10)	-	-	0-5	
<b>Other</b>										
Mr Jim Oatridge (Independent Chair of Audit and Risk Committee) (Appointed 1 November 2012)	0-5	1,600	-	5-10		0-5	2,100	-	5-10	
<b>Senior Executives</b>										
Mrs Jenny Pyper Chief Executive	135-140	-	(47,000)	90-95		130-135	-	36,000	165-170	
Mrs Jo Aston (Director of Wholesale)	95-100	-	649,000**	740-745		90-95	-	12,000	105-110	
Mr Donald Henry (Director of Corporate Affairs)	95-100	-	40,000	135-140		95-100	-	41,000	135-140	
Mr Brian McHugh (Director of Finance and Network Assets)	80-85	-	33,000	115-120		80-85	-	42,000	120-125	

Remuneration	2016-17					2015-16				
	Salary	Benefits in kind (to nearest £100)	Pension <sup>1</sup> benefits (to nearest £1,000)	Total	Salary	Benefits in kind (to nearest £100)	Pension <sup>1</sup> benefits (to nearest £1,000)	Total		
	£000	£	£	£000	£000	£	£	£000		
Mr Kevin Shields (Director of Retail)	80-85	-	34,000	115-120	80-85	-	64,000	145-150		
Ms Tanya Hedley (Director of Compliance and Network Operations)	80-85	-	32,000	110-115	80-85	-	35,000	115-120		
<b>Band of Highest Paid Director's Total Remuneration</b>	<b>135-140</b>	-	-	-	<b>130-135</b>	-	-	-		
<b>Median Total Remuneration</b>	<b>44,386</b>	-	-		<b>43,218</b>	-	-			
<b>Ratio</b>	<b>3.10</b>	-	-		<b>3.07</b>	-	-			

During 2016-17 and 2015-16 basic remuneration for the Chair was £30k-£35k and for the non-executive board members was £5k-£10k.

Remuneration ranged from £14,000 to £140,000 (2015-16 £14,000 to £133,000).

\* Includes remuneration for SEM Committee membership £5-10k.

\*\* Reflects aggregation in March 2017 of previous period of service not included in 2015-16 figures.

FReM requires the department to disclose in the remuneration report details of the median remuneration of the Utility Regulator staff and the ratio between this and the mid-point of the banded remuneration of the highest paid Director. The median remuneration is the total remuneration of the staff member lying in the middle of the linear distribution of total staff, excluding the highest paid Director. This is based on annualised full-time equivalent remuneration as at the reporting period date.

**Salary and pension entitlements (audited)**

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

	Accrued pension at pension age as at 31/03/17 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/17	CETV at 31/03/16	Real increase in CETV
	£000	£000	£000	£000	£000
Mrs Jenny Pyper Chief Executive	40-45 145-150	(0-2.5) (2.5-5)	1000	991	(47)
Mrs Jo Aston (Director of Wholesale)	45-50 -	32.5-35 -	837	240	581
Mr Donald Henry (Director of Corporate Affairs)	20-25 50-55	0-2.5 0-2.5	332	298	16
Mr Brian McHugh (Director of Finance and Network Assets)	15-20 35-40	0-2.5 0-2.5	217	193	11
Mr Kevin Shields (Director of Retail)	30-35 75-80	0-2.5 0-2.5	512	471	16
Ms Tanya Hedley (Director of Compliance and Network Operations)	15-20 -	0-2.5 -	176	151	14

There were no employer contributions to a partnership pension account in respect of the Senior Management Team.



## **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 to the extent that it is subject to UK taxation and any ex gratia payments. Non Executive board members 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 Board including those in respect of any additional duties undertaken in the year. Benefits in kind are disclosed gross of any tax payable.

## **Performance Awards**

Performance awards are based on performance levels attained and are made as part of the appraisal process. Performance awards relate to the performance in the year in which they become payable to the individual. No performance awards were payable to any of the senior management team in respect of the 2016-17 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), for employees who have joined the scheme. Although no directors have elected to do so, Utility Regulator employees may opt out of the pension arrangements and receive an uplift in lieu of employer pension contributions of 18.5% of base salary. Following auto-enrolment, any new employees will be automatically enrolled in PCSPS (NI) however if those employees opt out of the pension scheme they will not receive an uplift in lieu of pension. 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 the Assembly each year. From April 2011 pensions payable under classic, premium and classic plus are reviewed annually in line with changes in the cost of living. Prior to 2011, pensions were reviewed 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 were eligible for membership of the nuvos arrangement or they could have opted for a partnership pension account. Nuvos is a ‘Career Average Revalued Earnings’ (CARE) 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%. CARE pension benefits are reviewed annually in line with changes in the cost of living.

A new pension scheme, alpha, was introduced for new entrants from 1 April 2015. The majority of existing members of the NICS pension arrangements have also moved to alpha from that date. Members who on 1 April 2012 were within 10 years of their normal pension age will not move to alpha and those who were within 13.5 years and 10 years of their normal pension age were given

a choice between moving to alpha on 1 April 2015 or at a later date determined by their age. Alpha is also a 'Career Average Revalued Earnings' (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The rate will be 2.32%. CARE pension benefits are reviewed annually in line with changes in the cost of living.

Increases to public service pensions are the responsibility of HM Treasury. Pensions are reviewed each year in line with the cost of living. Any applicable increases are applied from April and are determined by the Consumer Prices Index (CPI) figure for the preceding September. The CPI in September 2016 was 1% and HM Treasury has announced that public service pensions will be increased accordingly from April 2017.

Employee contributions rates for all members for the period covering 1 April 2017 – 31 March 2018 are as follows:

### **Scheme Year 1 April 2017 to 31 March 2018**

<b>Annualised Rate of Pensionable Earnings</b> (Salary Bands)		<b>Contribution rates –</b> Classic members or classic members who have moved to alpha	<b>Contribution rates –</b> All other members
From	To	From 01 April 2017 to 31 March 2018	From 01 April 2017 to 31 March 2018
£0	£15,000.99	4.6%	4.6%
£15,001.00	£21,422.99	4.6%	4.6%
£21,423.00	£51,005.99	5.45%	5.45%
£51,006.00	£150,000.99	7.35%	7.35%
£150,001.00 and above		8.05%	8.05%

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 as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (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 0.5% 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. The normal pension age in alpha is linked to the member's State Pension Age but cannot be before age 65. Further details about the NICS pension arrangements can be found at the website <https://www.finance-ni.gov.uk/topics/working-northern-ireland-civil-service/civil-service-pensions-ni>

## **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 NICS 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 2008 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.

### **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. However, the real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any changes in factors and focuses only on the increase that is funded by the employer.

## STAFF REPORT

### Staff Costs (audited)

				2016-17 £'000	2015-16 £'000
	Permanently employed staff	Others	Ministers	Total	Total
Wages and Salaries	3,662	303	-	3,965	3,826
Social Security Costs	408	33	-	441	354
Other Pension Costs	715	71	-	786	759
<b>Sub Total</b>	<b>4,785</b>	<b>407</b>	<b>-</b>	<b>5,192</b>	<b>4,939</b>
Less recoveries in respect of outward secondments	-	-	-	-	-
Total net costs*	4,785	407	-	5,192	4,939

### Of which:

	Charged to Administration	Charged to Programme
<b>Department</b>	<b>-</b>	<b>5,192</b>
	<b>-</b>	<b>5,192</b>

\* Of which £nil has been charged to capital

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 2012. This valuation is then reviewed by the Scheme Actuary and updated to reflect current conditions and rolled forward to the reporting date of the DoF Superannuation and Other Allowances Annual Report and Accounts as at 31 March 2017.

For 2016-17, employers' contributions of £786,142.29 were payable to the PCSPS (NI) (2015-16 - £758,719.51) at one of three rates in the range 20.8% to 26.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. A new scheme funding valuation based on data as at 31 March 2012 was completed by the Actuary during 2014-15. This valuation was used to determine employer contribution rates for the introduction of alpha from April 2015. For 2017-18, the rates will range from 20.8% to 26.3%. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 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. £9,084.38 employers' contributions (2015-16 £7,458.95) were paid to one

of the panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 8% to 14.75% (2015-16: 3% to 14.7%) of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £321.23, 0.5% (2015-16 £321.23, 0.8%) of pensionable pay, were payable to the NICS Pension Arrangements 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 (2015-16 £nil). Contributions prepaid at that date were £nil (2015-16 £nil).

Employees may opt out of the pension arrangements and receive an uplift in lieu of employer contributions of 18.5% of base salary. In 2016-17 an average of 10 (2015-16: 10) staff opted out of the pension arrangements. No employer pension costs are paid for those staff but the uplift in lieu of employer pension amounted to £77,386 (2015-16: £82,210). These costs are included in wages and salaries above. Following auto-enrolment, any new employees will be automatically enrolled in PCSPS (NI) however if those employees opt out of the pension scheme they will not receive an uplift in lieu of pension.

No persons (2015-16: nil) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2015-16: £nil).

### Average number of persons employed (audited)

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

	<b>Total</b>	<b>Permanent Staff</b>	<b>Others</b>	<b>Ministers</b>	<b>2016-17 Special Advisers</b>	<b>2015-16</b>
<b>Segment 1</b> To protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity	49.2	44.2	5	-	-	48.6
<b>Segment 2</b> To promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland	25.4	23.1	2.3	-	-	23.7
<b>Segment 3</b> To protect the interests of consumers of water and sewerage services, where appropriate, by the promotion of effective competition	3.2	2.8	0.4	-	-	5.7
<b>Total</b>	77.8	70.1	7.7	-	-	78.0

## Reporting of Civil Service and other compensation schemes – exit packages (audited)

There were no exit packages awarded in the 2016-17 financial year.

## Number of Senior Civil Service Staff by band

The Utility Regulator has its own staff grades and bands however Directors and the CEO would be the equivalent of Senior Civil Service staff. The five Directors would be considered to be broadly in line with the grade 5 level in the Civil Service and the CEO broadly at the grade 2 level.

## Composition of Utility Regulator staff

Details of the Utility Regulator Board and Senior Management Team are included in the Directors' report. However, within the context of the Staff Report the Utility Regulator is required to disclose the gender of the Board, Senior Management Team and employees of the Utility Regulator. At the 31 March 2017, the split was as follows:

	Male	Female	Total
Non Executive board members	5	1	6
Senior Management Team	3	3	6
Employees excluding Senior Management Team	36	40	76

## Sickness absence data

The overall absence rate (the number of days of absence as a percentage of the total available workings days) was 1.69% (2015-16: 2.84%) for the year ended 31 March 2017. The average number of working days lost in 2016-17 per person was 4.3 (2015-16: 6.95) and was significantly impacted by a very small number of longer term sickness absences. Excluding long term absence the absence rate was 1.35% (2015-16: 1.64%).

## Staff Policies applied during the year

### 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. In recruitment and promotion terms, applicant packs and information are available in accessible formats and assistance provided at

assessment and interview in line with an applicant's requirements. Reasonable adjustments are made as a matter of policy to assist staff with disabilities in work.

### **Off Payroll Arrangements**

The Utility Regulator is required to disclose details of any off-payroll arrangements at a cost of over £58,200 per annum that were in place during 2016-17. In addition, all procurement exercises commenced by the Utility Regulator after 1 October 2014 were required to contain a clause giving the department the right to request assurance in relation to income tax and National Insurance obligations. The Utility Regulator is required to disclose, in relation to new off payroll arrangements, information on the inclusion of this clause.

During 2016-17 1 off payroll arrangement was in place for the provision of project managers to facilitate the delivery of the I-SEM programme work streams. The arrangement commenced in May 2016 and was ongoing at March 2017. The contract did not contain a clause to seek assurance on income tax and national insurance treatment as this was appropriately tendered under procurement arrangements applicable in the Republic of Ireland. The Utility Regulator will however going forward be able to seek clarification under the provision of IR35 and will make any necessary adjustments following this.

### **Spending on consultancy and temporary staff**

Given the nature of the work undertaken by the Utility Regulator and the technical expertise required to undertake complex price controls, the use of consultants and other professional services is a requirement. In 2016-17, the Utility Regulator continued to progress the project to develop a new integrated single electricity market in Ireland and that incurred external consultancy expenditure of £1,381k in the year. I-SEM is necessary to facilitate compliance with European law and the target model. This project is expected to conclude in December 2017. Total external consultancy expenditure in the year amounted to £1,486k with the remainder outside of I-SEM used to progress a number of other priorities in year. The most significant of those was work in the networks directorate on IME3. The Utility Regulator also uses external services, outside of consultancy, to progress price controls. In year, work was undertaken on GD17, RP6, PC21 and supply related price controls. Spend on those are classified as managed services in the accounts. External support is primarily used where the Utility Regulator does not have the necessary skills in house and will help ensure that prices charged are no higher than necessary.

In year one position was covered by an agency placement and that cost £8k in year. This arrangement is continuing into 2017-18.



## Statement of Assembly Supply (audited)

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) requires NIAUR to prepare a Statement of Assembly Supply (SOAS) and supporting notes to show resource outturn against the Supply Estimate presented to the Assembly, in respect of each request for resources.

### Summary of Resource Outturn 2016-17

								2016-17 £000	2015-16 £000
Request for Resources	Note	Estimate			Outturn			Net total outturn compared with Estimate saving/ (excess)	Outturn
		Gross Expenditure	Accruing Resources	Net Total	Gross Expenditure	Accruing Resources	Net Total		
		£000	£000	£000	£000	£000	£000	£000	£000
Request for resources A	SOAS1	9,046	(8,674)	372	10,219	(8,674)	1,545	(1,173)	253
Total resources	SOAS2	9,046	(8,674)	372	10,219	(8,674)	1,545	(1,173)	253
Non-operating cost		–	–	–	–	–	–	–	–
Accruing resources									

### Net Cash Requirement 2016-17

				2016-17	2015-16
	Note	Estimate £000	Outturn £000	Net total outturn compared with Estimate saving/ (excess) £000	Outturn £000
Net cash requirement	SOAS 3	1,901	2,656	(755)	–

### Summary 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 2016-17 £'000		Outturn 2016-17 £'000	
		Income	Receipts	Income	Receipts
Total	SOAS 4	–	–	1,281	1,281

The department has incurred a technical excess of £1,173k (further explanation on page 14). This Excess arose due to the Assembly being dissolved in January 2017 and therefore the process of approving 2016-17 Spring Supplementary Estimates and associated Budget Bill did not take place. Consequently, the Supply Estimate position shown in the Statement of Assembly Supply is the Main Estimates position. Had the Spring Supplementary Estimates and associated Budget Bill been approved by the Assembly to reflect changes to departmental budgets that had previously been agreed by the Executive or changes that could reasonably have been expected to have been agreed in the January Monitoring Round, this Excess would not have occurred.

Explanations of any significant variances between Estimate and outturn are given in SOAS 1 and in the Performance Report.

The notes on pages 56 to 71 form part of these accounts.



## Notes to the Departmental Resource Accounts (Statement of Assembly Supply)

## SOAS1 Analysis of net resource outturn by function

							2016-17 £000			2015-16 £000
	<b>Outturn</b>						<b>Estimate</b>			
	Admin	Other Current	Grants	Gross Resource Expenditure	Accruing Resources	Net total	Net total	Net Total outturn compared with Estimate	Net Total outturn compared with Estimate, adjusted for virements	Prior year outturn
<b>Request for Resources A:</b>										
<b>Departmental Expenditure in DEL:</b>										
1. Administration	–	10,067	–	10,067	(8,674)	1,393	208	(1,185)	(1,185)	112
<b>AME:</b>										
Provisions	–	–	–	–	–	–	–	–	–	–
<b>Non Budget</b>										
2. Notional Costs	–	152	–	152	–	152	164	12	12	141
<b>Resource Outturn</b>	<b>–</b>	<b>10,219</b>	<b>–</b>	<b>10,219</b>	<b>(8,674)</b>	<b>1,545</b>	<b>372</b>	<b>(1,173)</b>	<b>(1,173)</b>	<b>253</b>

**Analysis of outturn against estimate**

Expenditure is higher than the Main Estimate position as a result of the requirements needed to support the I-SEM project, the cost of defending a JR and price control referral costs in 2016-17.

Notional costs of IT services were slightly lower than expected.

**Key to Request for Resources and Functions**

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

**SOAS2 Reconciliation of outturn to net operating cost**

		<b>2016–17</b>		2015–16
	Note	Outturn	Supply Estimate Outturn compared with Estimate	Outturn
		£000	£000	£000
Net Resource Outturn	SOAS 1	1,545	372 (1,173)	253
Non–supply income (CFERs)	SOAS 4	(1,281)	– 1,281	–
<b>Net Operating Cost in Consolidated Statement of Comprehensive Net Expenditure</b>		264	372 108	253

**SOAS3 Reconciliation of net resource outturn to net cash requirement**

		<b>2016–17</b>		2015–16
	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving/ excess
		£000	£000	£000
<b>Resource Outturn</b>	SOAS 1	372	1,545	(1,173)
<b>Capital :</b>				
Acquisition of non–current assets	6 & 7	43	9	34
<b>Non–operating Accruing Resources:</b>				
NBV of asset disposals	6 & 7	–	–	–
<b>Accruals to cash adjustments:</b>				
Non–cash items	4	(214)	(391)	177
Changes in working capital other than cash	11 & 12	1,500	1,482	18
Use of provision	13	200	11	189
Excess cash receipts surrenderable to the Consolidated Fund		–	–	–
<b>Net Cash Requirement</b>		1,901	2,656	(755)

The notes on pages 56 to 71 form part of these accounts.

## SOAS4 Income payable to the Consolidated Fund

### SOAS4.1 Analysis of income payable to the Consolidated Fund

In addition to Accruing Resources, the following income relates to the Utility Regulator and is payable to the Consolidated Fund (cash receipts being shown in *italics*)

	Note	Forecast 2016-17		Outturn 2016-17	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000	£000	£000	£000
Operating income and receipts - excess Accruing Resources		–	–	1,280	1,280
Other operating income and receipts not classified as Accruing Resources		–	–	1	1
		–	–	1,281	1,281
Non-operating income and receipts - excess Accruing Resources	SOAS 6	–	–	–	–
Amounts collected on behalf of the Consolidated Fund	SOAS 4.2	–	–	–	–
Excess cash surrenderable to the Consolidated Fund	SOAS 3	–	–	–	–
<b>Total income payable to the Consolidated Fund</b>		<b>–</b>	<b>–</b>	<b>1,281</b>	<b>1,281</b>

### SOAS4.2 Consolidated Fund Income

Consolidated Fund income shown in note SOAS 4.1 above does not include any amounts collected by the department where it was acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which were otherwise excluded from these financial statements) were:

	2016-17	2015-16
	£000	£000
Fines and Penalties	500	–
	500	
Amount payable to the Consolidated Fund	500	–
Balance held at the start of the year	–	–
Payments in to the Consolidated Fund	–	–
<b>Balance held on trust at the end of the year</b>	<b>500</b>	<b>–</b>

The notes on pages 56 to 71 form part of these accounts

## SOAS5 Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

		2016-17	2015-16
	Note	£000	£000
Operating income	5	9,955	8,001
Income authorised to be Accruing Resources		(8,674)	(8,001)
Operating income payable to the Consolidated Fund	SOAS 4.1	1,281	–

## SOAS6 Non-operating income - Excess Accruing Resources

	2016-17	2015-16
	£000	£000
Non-operating income - excess Accruing Resources	–	–
	–	–

## Other Assembly Accountability Disclosures

### i. Losses and Special Payments (audited)

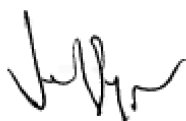
There were no losses and special payments requiring disclosure in the 2016-17 financial year.

### ii. Fees and Charges (audited)

The majority of Utility Regulator income comes from electricity, gas and water licence holders. An analysis of income is provided in note 5 to the accounts and split by operating segment in note 2 to the accounts. This also allocates the cost by segment. Total income recovered from licence holders in year was £8.714m resulting in a deferred income balance of £153k and £150k for electricity and water respectively. There was an under recovery of £812k from gas licence holders that is included within the accrued income balance in these accounts.

### iii. Remote Contingent Liabilities (audited)

In addition to contingent liabilities reported within the meaning of IAS 37, the Utility Regulator also reports liabilities for which the likelihood of a transfer of economic benefit in settlement is too remote to meet the definition of a contingent liability. The Utility Regulator had no such liabilities at 31 March 2017.



Jenny Pyper  
Accounting Officer  
15 June 2017

The notes on pages 56 to 71 form part of these accounts.

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

I certify that I have audited the financial statements of the Northern Ireland Authority for Utility Regulation for the year ended 31 March 2017 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Assembly Supply and the related notes and the information in the Remuneration and Staff Report and the Assembly Accountability Disclosures that is described in that report and disclosures 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, certify and report on 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 Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals and that those totals have not been exceeded. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Basis for qualified opinion on regularity arising from breach of an Assembly control total**

In 2016-17 the Northern Ireland Authority for Utility Regulation expended more resources than the Assembly had authorised in Request for Resources (RFR) A resulting in an excess vote. Net Resource Outturn for RFR A of £1,545,000 was £1,173,000 in excess of the £372,000 limit authorised by the Assembly.

In 2016-17 the Northern Ireland Authority for Utility Regulation required more cash than the Assembly had authorised in Net cash requirement resulting in an excess vote. Net cash Requirement of £2,656,000 was £755,000 in excess of the £1,901,000 limit authorised by the Assembly.

These excesses arose because the Assembly dissolved at the end of January 2017 and therefore the process of considering and approving the 2016-17 Spring Supplementary Estimates by way of a Budget Bill could not take place. Had the Assembly approved these Estimates the excesses would not have occurred.

### **Qualified opinion on regularity**

In my opinion, except for the breaches described in the basis for qualified opinion paragraphs above, in all material respects:

- the Statement of Assembly Supply properly presents the outturn against voted Assembly control totals for the year ended 31 March 2017 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2017 and of its net operating cost 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 directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the parts of the Remuneration and Staff Report and the Assembly Accountability disclosures to be audited have been properly prepared in accordance with Department of Finance directions made under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

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

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Annual 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 Governance Statement does not reflect compliance with Department of Finance's guidance.

### **Report**

Other than as outlined in the basis for qualified opinion paragraphs above, I have no further observations to make on these financial statements.



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

21 June 2017

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

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

		<u>2016-17</u>	<u>2015-16</u>
	Note	<u>£000</u>	<u>£000</u>
Income from sale of goods and services	5	–	–
Other operating income	5	9,955	8,001
<b>Total Operating Income</b>		<b>9,955</b>	<b>8,001</b>
Staff Costs	3	5,192	4,939
Purchase of goods and services	4	4,370	2,885
Depreciation and impairment charges	4	6	7
Provision expense	4	233	–
Other Operating Expenditure	4	418	423
<b>Total Operating Expenditure</b>		<b>10,219</b>	<b>8,254</b>
<b>Net Operating Expenditure</b>		<b>264</b>	<b>253</b>
<b>Other Comprehensive Net Expenditure</b>			
<b>Items that will not be reclassified to net operating costs:</b>			
Net (gain)/loss on revaluation of Property, Plant and Equipment		–	–
Net (gain)/loss on revaluation of Intangible Assets		–	–
<b>Items that may be reclassified to net operating costs:</b>		–	–
Net gain/(loss) on revaluation of investments		–	–
<b>Comprehensive net expenditure for the year</b>		<b>264</b>	<b>253</b>

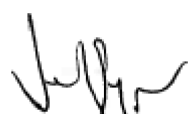
The notes on pages 56 to 71 form part of these accounts.



## Statement of Financial Position as at 31 March 2017

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

		31 March 2017		31 March 2016	
	Note	£000	£000	£000	£000
<b>Non-current assets:</b>					
Property, plant and equipment	6	31		28	
Intangible assets	7	–		–	
Receivables falling due after more than one year	11	–		–	
<b>Total non-current assets</b>			31		28
<b>Current assets:</b>					
Trade and other receivables	11	1,758		176	
Cash and cash equivalents	10	38		1,387	
<b>Total current assets</b>			1,796		1,563
<b>Total assets</b>			1,827		1,591
<b>Current liabilities:</b>					
Trade and other payables	12	(2,888)		(3,382)	
Provisions	13	(283)		(61)	
<b>Total current liabilities</b>			(3,171)		(3,443)
<b>Total assets less current liabilities</b>			(1,344)		(1,852)
<b>Non-current liabilities</b>					
Provisions	13	–		–	
<b>Total non-current liabilities</b>			–		–
<b>Total assets less total liabilities</b>			(1,344)		(1,852)
<b>Taxpayers' equity and other reserves</b>					
General fund			(1,344)		(1,852)
Revaluation reserve			–		–
<b>Total equity</b>			(1,344)		(1,852)



**Jenny Pyper**  
**Accounting Officer**  
**15 June 2017**

The notes on pages 56 to 71 form part of these accounts.

## Statement of Cash Flows for the year ended 31 March 2017

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

	Note	<b>2016-17</b> £000	2015-16 £000
<b>Cashflows from operating activities</b>			
Net operating cost	SOAS 2	(264)	(253)
Adjustments for non cash transactions	4	391	148
(Increase)/Decrease in trade and other receivables	11	(1,582)	184
<i>less movements in receivables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>		-	-
- Supply amounts due to the Consolidated Fund	11	488	-
Increase/(Decrease) in trade and other payables	12	(494)	(245)
<i>less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure</i>			
- Supply amounts due to the Consolidated Fund	12	1,300	200
- Capital accruals		(5)	-
- CFER amounts due to the Consolidated Fund	12	(1,194)	78
Use of provisions	13	(11)	(7)
<b>Net cash outflow from operating activities</b>		<b>(1,371)</b>	<b>105</b>
<b>Cashflows from investing activities</b>			
Purchase of property, plant and equipment	6	(4)	(18)
Purchase of intangible assets	7	-	-
<b>Net cash outflow from investing activities</b>		<b>(4)</b>	<b>(18)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - current year		1,413	1,300
From the Consolidated Fund (Supply) - prior year		-	-
Advances from the Contingencies Fund		-	-
Repayments to the Contingencies Fund		-	-
<b>Net financing</b>		<b>1,413</b>	<b>1,300</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>38</b>	<b>1,387</b>
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payments of amounts due to the Consolidated Fund		(1,387)	(1,665)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(1,349)</b>	<b>(278)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	10	<b>1,387</b>	<b>1,665</b>
<b>Cash and cash equivalents at the end of the period</b>	10	<b>38</b>	<b>1,387</b>

The notes on pages 56 to 71 form part of these accounts.

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

This statement shows the movement in the year on the different reserves held by NIAUR, analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

	Note	General fund £000	Revaluation Reserve £000	Total Reserves £000
<b>Balance at 31 March 2015</b>		(1,653)	–	(1,653)
Net Assembly Funding		1,300	–	1,300
Supply (payable)/receivable adjustment		(1,300)	–	(1,300)
CFERs payable to the Consolidated Fund		(87)	–	(87)
Comprehensive Net Expenditure for the Year	SOAS 3.1	(253)	–	(253)
<b>Non-cash adjustments</b>				
Non-cash charges - auditor's remuneration	4	23	–	23
Non-cash charges - other	4	118	–	118
<b>Movements in reserves</b>				
Transfer between reserves		–	–	–
<b>Balance at 31 March 2016</b>		<b>(1,852)</b>	–	<b>(1,852)</b>
Net Assembly Funding - drawn down		1,413	–	1,413
Supply (payable)/receivable adjustment		488	–	488
CFERs payable to the Consolidated Fund	SOAS 4.1	(1,281)	–	(1,281)
Comprehensive Expenditure for the Year	SOAS 2	(264)	–	(264)
<b>Non-cash adjustments</b>				
Non-cash charges - auditor's remuneration	4	23	–	23
Non-cash charges - other	4	129	–	129
<b>Movements in reserves</b>				
Transfer between reserves		–	–	–
<b>Balance at 31 March 2017</b>		<b>(1,344)</b>	–	<b>(1,344)</b>

The notes on pages 56 to 71 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 2016-17 Government Financial Reporting Manual (FReM) issued by the Department of Finance (DoF, formerly 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. These 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 Utility Regulator to prepare one additional primary statement. The Statement of Assembly Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

#### **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 and amortisation 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 in the following ranges:

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

## 1.5 Revaluation of non-current assets

Increases in value are credited to the Revaluation Reserve unless it reverses a revaluation decrease of the same asset which was previously taken directly to the Statement of Comprehensive Net Expenditure. In these cases the increase is recognised in the Statement of Comprehensive Net Expenditure. Decreases in value are taken to the Revaluation Reserve to the extent that there is a sufficient balance in the reserve to offset the decrease.

Any excess devaluation is charged to the Statement of Comprehensive Net Expenditure. Each year, the realised element of the revaluation reserve (i.e. an amount equal to the excess of the actual depreciation over depreciation based on historical cost) is transferred from the reserve to the General Fund.

## 1.6 Cost Apportionment

Utility Regulator total costs in 2016-17 were apportioned on the basis of each directorates directly identifiable costs plus a percentage allocation of common costs based on either the relationship of divisional staff numbers to total Utility Regulator staff numbers or the estimated allocation of staff time to a particular division.

## 1.7 Revenue Recognition

The costs of the Utility Regulator are offset primarily by annual licence fees paid on the issue of of electricity, gas and water and sewerage licences as defined under statute. Electricity licence fees are calculated on the basis of a determination made in 2011 by the Utility Regulator. It was decided 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. All licence holders pay a minimum of £1,500. Licence fees are ultimately recovered from electricity customers through an operating cost allowance in the price controls of 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 2012-13 financial year, all supply licence holders will pay a fixed fee of £1,500, increased annually based on the Retail Price Index (RPI). The remaining gas regulatory costs,

net of the fixed supply licence charges, are apportioned between the conveyance licence holders who participate in transmission activities, on the basis of their share of the total forecast volumes transmitted in that year. This reflects a change from the previous methodology for gas licence fees where 80% of the costs of gas regulation were borne by the holders of gas conveyance licences and 20% by the holders of gas supply licences. The holders of conveyance licences who engage in distribution activities previously paid a £50,000 basic fee plus a further amount based on volumes conveyed. Gas licence fees are recovered from gas customers through an operating cost allowance in the price controls of regulated businesses.

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 electricity supply licence holders, on the basis of volumes supplied. The cost of gas consumer issues was recovered from conveyance licence holders who participate in distribution activities, on the basis of their share of the total forecast gas volumes to be distributed in the year. The water and sewerage consumer cost was recovered from the water and sewerage licence holder.

For 2016-17 the Utility Regulator collected and passed on to the Consumer Council an amount of £630,000 of which £185,530 was in respect of its electricity functions, £139,470 in respect of its gas functions and £305,000 in respect of its water functions. These licence fees are accounted for in the accounts of the Consumer Council.

## **1.8 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 DoF approval to reclassify all its expenditure as DEL Other Resource. This reclassification continues to be reflected in the Estimates.

## **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.

The Statement of Financial Position as at 31 March 2017 shows net liabilities of £1.344m, reflecting liabilities due in future years. It is considered appropriate to adopt a going concern

basis for the preparation of the financial statements as the department is supply financed and draws its funding from the Consolidated Fund. Therefore there is no liquidity risk in respect of the liabilities due in future years.

### **1.10 Value Added Tax**

VAT is accounted for in accordance with IAS 12.

The amount due from HM Revenue and Customs 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. 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 April 2015, civil servants may choose between membership of the PCSPS (NI) Alpha scheme 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 and Staff Report.

Employees may opt out of the PCSPS (NI) and receive an uplift in lieu of employer contributions of 18.5% of base salary. No employer pension contributions are payable by the Utility Regulator in respect of those employees that opt out of the pension scheme. Following auto-enrolment, any new employees will be automatically enrolled in PCSPS (NI) however if those employees opt out of the pensions scheme they will not receive an uplift in lieu of pension.

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**

The Utility Regulator discloses for Assembly 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 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.

### **1.18 Impending application of newly issued accounting standards not yet effective**

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.



## 2 Statement of Operating Costs by Operating Segment

The reportable segments are the principal activities of the organisation, with overhead costs split on the basis of an agreed methodology. This split is in line with previous reporting under the Statement of Operating Costs by Departmental Strategic Objectives.

	2016-17				2015-16			
	Reportable Segment 1	Reportable Segment 2	Reportable Segment 3	Total	Reportable Segment 1	Reportable Segment 2	Reportable Segment 3	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross Expenditure	6,822	3,005	392	10,219	5,415	2,352	487	8,254
Income	6,658	2,918	379	9,955	5,260	2,273	468	8,001
Net Expenditure	164	87	13	264	155	79	19	253

### Description of Segments

Segment 1 - To protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission or supply of electricity.

Segment 2 - To promote the development and maintenance of an efficient, economic and co-ordinated gas industry in Northern Ireland.

Segment 3 - To protect the interests of consumers of water and sewerage services, where appropriate by the promotion of effective competition.

### 2.1 Reconciliation between Operating Segments and SoCNE

	2016-17	2015-16
	£000	£000
Total net expenditure reported for operating segments	<b>264</b>	<b>253</b>
Reconciling items:		
Income	—	—
Expenditure	—	—
Total net expenditure per Statement of Comprehensive Net Expenditure	<b>264</b>	<b>253</b>

### 3 Staff numbers and related costs

Staff costs comprise:

	2016-17					2015-16
	Total	Permanently employed Staff	Other	Ministers	£000 Special Advisers	£000 Total
Wages and Salaries	3,965	3,662	303	–	–	3,826
Social Security Costs	441	408	33	–	–	354
Other Pension Costs	786	715	71	–	–	759
<b>Sub Total</b>	<b>5,192</b>	<b>4,785</b>	<b>407</b>	<b>–</b>	<b>–</b>	<b>4,939</b>
Less recoveries in respect of outward secondments	–	–	–	–	–	–
<b>Total net costs*</b>	<b>5,192</b>	<b>4,785</b>	<b>407</b>	<b>–</b>	<b>–</b>	<b>4,939</b>

Of which:

	Charged to Administration	Charged to Programme	Total
Department	–	5,192	5,192
	–	<b>5,192</b>	<b>5,192</b>

\*Of which £nil has been charged to capital

## 4 Other non-staff costs

	<b>2016-17</b>		2015-16	
	£'000	£'000	£'000	£'000
<b>Rentals under operating leases:</b>				
Property rentals	152		182	
Hire of office equipment	<u>5</u>		<u>8</u>	
		157		190
<b>Non-cash items:</b>				
Depreciation on property, plant and equipment	6		7	
Amortisation on intangible assets	–		–	
Impairment of non current assets	–		–	
Reversal of prior year revaluation	–		–	
Auditors' remuneration and expenses	23		23	
Provision provided in year	278		–	
Provisions not required written back	(45)		–	
Other notional costs	<u>129</u>		<u>118</u>	
<b>Total non-cash items</b>		391		148
<b>Other Expenditure:</b>				
Consultancy	1,486		1,292	
Management of Renewable Outputs Certificate Scheme	752		634	
Property service charges	78		77	
Managed services	1,675		523	
Communications and Advertising	13		39	
Hospitality	7		6	
Travel and Subsistence	63		50	
Rates	81		78	
Training	51		49	
Utilities	38		35	
IT Costs	20		13	
Exchange Losses	2		1	
Procurement charges	15		–	
Regulatory Costs	11		13	
Miscellaneous expenditure	187		167	
		4,479		2,977
<b>Total</b>		<b><u>5,027</u></b>		<b><u>3,315</u></b>

During the year, £1k was paid to the NIAO for work associated with the National Fraud Initiative (NFI) 2016-17 exercise. There was no auditor remuneration, actual or national, for non-audit work in 2015-16.

## 5 Income

	<b>2016-17</b>	2015-16
	£000	£000
Electricity Licence Fees	5,926	4,628
Gas Licence Fees	2,917	2,272
Water Licence Fees	379	467
Miscellaneous Income	<u>733</u>	<u>634</u>
<b>Total</b>	<b><u>9,955</u></b>	<b><u>8,001</u></b>

## 6 Property, plant and equipment

<b>2016-17</b>	Leasehold improvements	Information Technology Equipment	Office Equipment	Furniture & Fittings	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 April 2016	67	5	48	76	196
Additions	–	5	2	2	9
Disposals	–	–	–	–	–
Impairments	–	–	–	–	–
Revaluations	–	–	–	–	–
<b>At 31 March 2016</b>	<b>67</b>	<b>10</b>	<b>50</b>	<b>78</b>	<b>205</b>
<b>Depreciation</b>					
At 1 April 2016	67	5	34	62	168
Charged in year	–	–	4	2	6
Disposals	–	–	–	–	–
Impairments	–	–	–	–	–
Revaluations	–	–	–	–	–
<b>At 31 March 2017</b>	<b>67</b>	<b>5</b>	<b>38</b>	<b>64</b>	<b>174</b>
<b>Carrying amount at 31 March 2017</b>	<b>–</b>	<b>5</b>	<b>12</b>	<b>14</b>	<b>31</b>
Carrying amount at 31 March 2016	–	–	14	14	28
<b>Asset financing:</b>					
Owned	–	5	12	14	31
<b>Carrying amount at 31 March 2017</b>	<b>–</b>	<b>5</b>	<b>12</b>	<b>14</b>	<b>31</b>

## 6 Property, plant and equipment (continued)

2015-16	Leasehold improvements	Information Technology Equipment	Office Equipment	Furniture & Fittings	Total
	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>					
At 1 April 2015	62	5	39	66	172
Additions	–	–	8	10	18
Disposals	–	–	–	–	–
Impairments	–	–	–	–	–
Revaluations	5	–	1	–	6
<b>At 31 March 2016</b>	<b>67</b>	<b>5</b>	<b>48</b>	<b>76</b>	<b>196</b>
<b>Depreciation</b>					
At 1 April 2015	59	4	31	61	155
Charged in year	3	1	2	1	7
Disposals	–	–	–	–	–
Impairments	–	–	–	–	–
Revaluations	5	–	1	–	6
<b>At 31 March 2016</b>	<b>67</b>	<b>5</b>	<b>34</b>	<b>62</b>	<b>168</b>
<b>Carrying amount at 31 March 2016</b>	<b>–</b>	<b>–</b>	<b>14</b>	<b>14</b>	<b>28</b>
Carrying amount at 31 March 2015	3	1	8	5	17
<b>Asset financing:</b>					
Owned	–	–	14	14	28
<b>Carrying amount at 31 March 2016</b>	<b>–</b>	<b>–</b>	<b>14</b>	<b>14</b>	<b>28</b>

## 7 Intangible assets

Intangible assets comprise software licences

2016-17	Software Licences
	£'000
<b>Cost or valuation</b>	
At 1 April 2016	16
Additions	–
Disposals	–
Impairments	–
Revaluation	–
<b>At 31 March 2017</b>	<b>16</b>
<b>Amortisation</b>	
At 1 April 2016	16
Charged in year	–
Disposals	–
Impairment	–
Revaluation	–
<b>At 31 March 2017</b>	<b>16</b>
<b>Carrying amount at 31 March 2017</b>	–
Carrying amount at 31 March 2016	–
<b>Asset Financing:</b>	
Owned	–
<b>Carrying amount at 31 March 2017</b>	–

## 7 Intangible assets (continued)

2015-16	<div>Software Licences</div> <div>£'000</div>
<b>Cost or valuation</b>	
At 1 April 2015	16
Additions	–
Disposals	–
Impairments	–
Revaluation	–
<b>At 31 March 2016</b>	<b>16</b>
<b>Amortisation</b>	
At 1 April 2015	16
Charged in year	–
Disposals	–
Impairments	–
Revaluation	–
<b>At 31 March 2016</b>	<b>16</b>
<b>Carrying amount at 31 March 2016</b>	–
Carrying amount at 31 March 2015	–
<b>Asset Financing</b>	
Owned	–
<b>Carrying amount at 31 March 2016</b>	–

## 8 Capital and other commitments

### 8.1 Capital Commitments

There were no contracted capital commitments at 31 March 2017 (£Nil, at 31 March 2016).

### 8.2 Commitments under leases

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

	<b>2016-17</b>	<b>2015-16</b>
	<b>£'000</b>	<b>£'000</b>
<b>Obligations under operating leases comprise</b>		
Land and Buildings		
Not later than one year	143	143
Later than one year and not later than five years	357	500
Later than five years	–	–
	<u>500</u>	<u>643</u>
<b>Other</b>		
Not later than one year	4	4
Later than one year and not later than five years	9	13
Later than five years	–	–
	<u>13</u>	<u>17</u>

### 8.3 Other financial commitments

The Utility Regulator has not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2017 (£Nil, at 31 March 2016).

## 9 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 Utility Regulator's expected purchase and usage requirements and the Utility Regulator is therefore exposed to little credit, liquidity or market risk.



## 10 Cash and cash equivalents

	<b>2016-17</b>	<b>2015-16</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 April	1,387	1,665
Net change in cash and cash equivalent balances	(1,349)	(278)
<b>Balance at 31 March</b>	<b>38</b>	<b>1,387</b>
The following balances at 31 March were held at:		
Government Banking Service	–	–
Commercial banks and cash in hand	38	1,387
Short term investments	–	–
<b>Balance at 31 March</b>	<b>38</b>	<b>1,387</b>

## 11 Trade receivables and other current assets

	<b>2016-17</b>	<b>2015-16</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year:</b>		
Trade receivables	3	9
VAT receivable	166	64
Prepayments and Accrued Income	1,101	103
Amounts due from the Consolidated Fund in respect of supply	488	–
	<b>1,758</b>	<b>176</b>
<b>Amounts falling due after more than one year:</b>		
Trade receivables	–	–
	<b>1,758</b>	<b>176</b>

## 12 Trade payables and other current liabilities

	<b>2016-17</b>	<b>2015-16</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>		
Trade payables	9	4
Other taxation and social security	108	106
Accruals and deferred income	1,490	1,885
Amounts issued from the Consolidated Fund for supply but not spent at year end	–	1,300
Consolidated Fund extra receipts due to be paid to the Consolidated Fund - received	1,281	87
Consolidated Fund extra receipts due to be paid to the Consolidated Fund - receivable	–	–
	<b>2,888</b>	<b>3,382</b>

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

### 13 Provisions for liabilities and charges

	<u>2016-17</u>	<u>2015-16</u>
	<u>£'000</u>	<u>£'000</u>
Balance at 1 April 2016	61	68
Provided in the year	278	-
Utilised during the year	(11)	(7)
Provisions not required written back	(45)	-
<b>Balance at 31 March 2017</b>	<u>283</u>	<u>61</u>

The provision is in respect of legal and other costs for which a reasonable estimate can be made at year end.

### 14 Analysis of expected timing of discounted cashflows

	<u>2016-17</u>	<u>2015-16</u>
	<u>£'000</u>	<u>£'000</u>
Not later than one year	283	61
Later than one year and not later than five years	-	-
Later than five years	-	-
<b>Balance at 31 March 2016</b>	<u>283</u>	<u>61</u>

### 15 Contingent liabilities

There were no contingent liabilities existing as at 31 March 2017.

### 16 Financial Guarantees, Indemnities and Letter of Comfort

The Utility Regulator has not entered into any guarantees, indemnities or provided letters of comfort.

### 17 Related-Party Transactions

The Utility Regulator has had a number of transactions with other Government departments and Central Government bodies. These include the Department for the Economy (DfE), Department for Infrastructure DfI and DoF.

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

William Emery is Chair of the Utility Regulator Board and is also an Associate of Indepen, and has declared his role in Indepen to the Utility Regulator. Indepen is a strategy and economics consultancy business assisting organisations in regulation, deregulation, competition and restructuring. Indepen is a participant in an OFGEM framework agreement to which the Utility Regulator has access. The Utility Regulator has not drawn down any services from Indepen and were it to do so, William Emery would not have any involvement in the selection process or any subsequent work commissioned.

William Emery is also Chair of the Centre on Regulation in Europe (CERRE), to which the Utility Regulator is a member organisation. The CERRE brings together academics, regulators and companies across the range of utilities for the purpose of promoting robust and consistent regulation in Europe's network industries.

Richard Rodgers, is a member of the Utility Regulator board and is currently a Strategic Advisor (Energy Wise and other energy matters) at Strategic Investment Board (NI) - a developing Government energy efficiency initiative.

Richard Rodgers has declared this role to the Utility Regulator and will consider with the Chair any possible conflicts as they arise. Richard Rodgers is also currently Business Development Director at GF Sustainable Limited, an Ireland and UK Energy Services Business in the industrial and commercial sector. Richard is also a Director at Tempense Ltd, an Irish energy technology business. Both of these roles have been declared to the Utility Regulator.

Teresa Perchard is a member of the Utility Regulator Board and from April 2016 was Chair of the Affinity Water Customer Scrutiny Group. Affinity Water is a water supply company based in England. As the UR regulates the only NI water supply company, NIW, it is unlikely that any conflicts with this role will arise. However this will be considered on an ongoing basis.

Teresa Perchard is also Consumer Champion for the Cavity Insulation Guarantee Agency, an independent body that provides guarantees for cavity wall insulation fitted by registered installers in the UK. Cavity wall insulation may be provided under the NISEP scheme that the Utility Regulator administers. The Board would not normally have any role in the approval of NISEP schemes. Teresa Perchard has disclosed this role to the Utility Regulator.

Alex Wiseman is a member of the Utility Regulator Board and is also a Director of Alex Wiseman Associates Ltd, a consultancy company specialising in energy related matters. Alex Wiseman will not be involved in any consultancy contracts with the Utility Regulator either in a direct or sub-contract capacity.

Jon Carlton is a member of the Utility Regulator Board and is also Chairman and Director of the National Grid Electricity Group Trustee Limited, part of the UK and US based company responsible for consumer energy connections. This company does not operate in NI.

Jon Carlton is also Director of Guille Carlton Solutions Limited, an energy consultancy business. Jon has declared this role to the Utility Regulator and will not be involved in any consultancy contracts with the Utility Regulator in either a direct or sub-contract capacity.

David Newbery is the deputy independent member of the SEMC and is a non-executive director of CEPA, a firm providing consultancy support to the Utility Regulator. CEPA were engaged during 2016-17, including on the I-SEM project, and in total payments of £322,360 were made to them in this financial year (of which £101,508 related to matters under the auspices of the SEMC). David Newbery is not involved in any decisions to appoint CEPA, or any other consultants engaged on this project, and does not participate directly in any work undertaken by them on behalf of the Utility Regulator. David is involved in the review of papers from CEPA along with those from other firms providing support on the I-SEM project as part of his role on the SEMC. David has declared this role to the SEMC.

Tanya Hedley, Director of Compliance and Network Operations, holds a pension with NIE Pensions Scheme. Tanya Hedley disclosed this pension to the Utility Regulator and has not participated in the preparation or clearance of advice, proposals or papers and has absented herself from any pensions related discussions. Tanya Hedley was also project collaborator for the University of Ulster and University College Dublin Investigator Programme 'Energy storage and demand-side flexibility within future electricity markets'. Tanya declared this role to the Utility Regulator and there were no perceived conflicts with her participation.

Donald Henry, Director of Corporate Affairs, is also a member of the EnergyWise project board. Donald has declared this role and any conflicts will be managed as they arise.

## **18 Events after the reporting period**

On 12 April 2017 the Utility Regulator's decision on the SONI price control was referred to the Competition and Markets Authority. This will be defended by the Utility Regulator. No adjustment has been made in the 2016-17 accounts for the cost of this.

### **Date of authorisation for issue**

The Accounting Officer authorised these financial statements for issue on 21 June 2017.





