



OFFICE FOR THE REGULATION OF ELECTRICITY AND GAS

RESOURCE ACCOUNTS

2001 - 2002

(YEAR ENDED 31 MARCH 2002)

Presented to The House of Commons
by the Secretary of State for Northern Ireland
by Command of Her Majesty

November 2002

Laid before the Northern Ireland Assembly in accordance with
Subsection 10(4) of the Government Resources and Accounts Act (Northern Ireland) 2001
by the Department of Finance and Personnel

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OFFICE for the REGULATION of ELECTRICITY and GAS

Resource Accounts
for the year ended 31 March 2002

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ANNUAL REPORT

Introduction

These Resource Accounts have been prepared and published by The Office for the Regulation of Electricity and Gas (Ofreg). The Accounts have been prepared under a direction issued by the Department of Finance and Personnel and in accordance with the guidance set out in the Northern Ireland Resource Accounting Manual (NIRAM). The accounts demonstrate the resources that have been used to deliver Ofreg's objectives.

HISTORY OF THE DEPARTMENT

Status

The role of the Director General of Electricity Supply for Northern Ireland was predicated by the Electricity (Northern Ireland) Order 1992 and the first Director General of Electricity Supply was appointed on 1 March 1992.

The role of the Director General of Gas for Northern Ireland was predicated by the Gas (Northern Ireland) Order 1996 and the first Director General of Gas was appointed on 10 June 1996.

Mr Douglas Mc Ildoon is the current holder of the posts of Director General of Electricity Supply for Northern Ireland and Director General of Gas for Northern Ireland both of which are part-time, fixed term, statutory appointments. He is supported by the Office for the Regulation of Electricity and Gas (Ofreg) (formerly OFFER NI) an independent, non-Ministerial Government Department.

Statutory authority for the office is vested in the Director General of Electricity Supply under (Schedule 1) of the Electricity (Northern Ireland) Order 1992 and the Director General of Gas under (Schedule 1) of the Gas (Northern Ireland) Order 1996.

The Director General of Electricity Supply and the Director General of Gas are jointly and severally the Accounting Officer for Ofreg.

The Director General of Electricity Supply was responsible for establishing and is responsible for funding and supporting the Northern Ireland Consumer Committee for Electricity, the Chairman of which is appointed by him and the members by him in conjunction with the Chairman.

The Director General of Gas for Northern Ireland is permitted to fund that part of the work of The General Consumer Council for Northern Ireland identified as relating to gas consumer issues.

The Director General of Electricity Supply and the Director General of Gas are both appointed by the Department of Enterprise Trade and Investment (DETI) formerly the Department of Economic Development (DED). All Ofreg staff are seconded from DETI, the Department of Finance and Personnel (DFP) or the Department of Regional Development (DRD).

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DEPARTMENTAL AIMS AND OBJECTIVES

Strategic Aim 1

Protecting Electricity and Gas consumers with regard to price and quality of service.

Strategic Objectives

- (i) To promote competition in the generation and supply of electricity and to protect the interests of electricity consumers with regard to price and quality of service.
- (ii) To promote the development and maintenance of an efficient economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service.
- (iii) To promote energy efficiency and reduce harmful environmental emissions.

Performance Targets

Objective (i)

to assist DETI in developing a trading system to comply with E.U. Directive - 35% of market open to customers by 2004;
to reduce the cost of electricity to consumers in Northern Ireland to £253 p.a. by 2002; and
to set and monitor standards of customer service by the Public Electricity Supplier.

Objective (ii)

to promote the development of the natural gas industry in NI;
to ensure that the number of premises passed in relevant districts is in line with Phoenix Natural Gas development plan;
to issue gas conveyance licences for areas outside Greater Belfast and Larne;
and
to set and monitor standards of customer service to be provided by gas suppliers.

Objective (iii)

to facilitate and support energy efficiency incentives; and
to create total energy savings of 55GWh per annum.

Efficiency

Service Delivery Targets

To put in place by April 2002 the second price control for Northern Ireland Electricity plc (NIE).

To increase the transparency of Ofreg's decision making process as suggested in the Modernisation of Utility Regulation.

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Efficiency Targets

- To reply to all customer complaint correspondence within three working days.
- To pay all creditors within 30 working days of receipt of a valid invoice.

DEPARTMENTAL ACTIVITIES

Activities

The main duties of the Director General of Electricity Supply as set out in the Electricity Order are:

- ensuring that all reasonable demands for electricity are satisfied;
- ensuring that licensees can finance their licensed activities; and
- promoting competition in generation and supply while ensuring that the public electricity supplier is not competitively disadvantaged and that prices charged to customers do not distinguish between different areas within Northern Ireland.

The main duties of the Director General of Gas as set out in the Gas Order are:

- promoting the development and maintenance of an efficient and co-ordinated gas industry in Northern Ireland; and
- ensuring that licensees can finance their licensed activities.

Funding

As a non-ministerial Government Department, Ofreg's funds are voted by Parliament and accounted for on an annual basis through the Resource Account.

A change flowing from the Government's consultation on Utility Regulation was that receipts from electricity and gas licensees, which are classified as CFERs within the respective Orders, have, in line with a treasury direction using its powers under the 1920 Treasury Act, been reclassified as Accruing Resources. To put this into effect DETI gave the Director General of Electricity Supply a delegated authority to collect licence fees on its behalf. These were licence fees due to DETI in respect of licences issued at the time of privatisation of the electricity industry. Gas licences issued by DETI and the Director General of Gas provided for licence fees to be paid to the Director. Prior to this electricity and gas licence fees were paid directly into the Northern Ireland Consolidated Fund by DED and Ofreg respectively.

Ofreg's expenditure is therefore primarily offset by annual licence fees paid by the electricity and gas licensees and recovered from electricity and gas customers. Licence fees are calculated on the basis of annual determinations made by the Director General of Electricity Supply for Northern Ireland and the Director General of Gas for Northern Ireland respectively.

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Pension Liabilities

The Department is covered by the Northern Ireland Civil Service Pension Scheme (PCSPS (NI)) and bears the cost of pension provision for its staff by payment of an Accruing Superannuation Liability Charge (ASLC).

Departmental Boundary

The Departmental boundary is determined by the way in which in-year budgetary control is exercised by the Department and for the year 2001-02 the following are considered within the boundary:

Northern Ireland Consumer Committee for Electricity.

Operating and Financial Review

The work of the Director General of Electricity Supply for Northern Ireland and the Director General of Gas for Northern Ireland is set out in the respective Electricity and Gas orders.

The Directors General are required to make a full review of their activities in annual reports to DETI which are in turn laid before the assembly. These reports are currently made on a calendar year basis. The Directors General are independent of Ministers.

As a non-ministerial government department Ofreg's objectives are set by the Directors General in line with the duties set out in the respective Electricity and Gas Orders. In addition the Directors General published a Forward Work Plan for 2001/2002 which contained elements which were in most cases designed to take forward the Department's objectives as herein before detailed.

The introduction of a new price control for Northern Ireland Electricity plc's Transmission and Distribution Business with effect from 1 April 2002

This work, which at 31 March 2002 had slipped some six months behind target, had however reached the stage where initial proposals had been issued in mid March 02. Whilst these proposals would bring the T & D component of the electricity bill broadly into line with the £253 p.a. target set in 1999/00, the generation component remains significantly above the level which would contribute to this being achieved. Potential solutions to the high generation cost problem are still being investigated.

A review of the Guaranteed and Overall Standards of Performance set by Ofreg led to the conclusion that the existing standards were delivering cost effective benefits.

The promotion of a high quality of service for electricity customers (of which there is some 670,000 in Northern Ireland) is a major objective of Ofreg. The services available through Ofreg are promoted widely and contact details are included on the back of all electricity bills issued by NIE.

A major feature of Ofreg's interface with electricity customers is a complaint handling service which aims, through its continuous dialogue with NIE, to eventually eradicate customer complaints to Ofreg. A substantial impact has been and continues to be made with the number of complaints reduced, for example, from 281 in the year ended 31 March 1996/97 to 28 in the year ended 31 March 2002.

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In October Ofreg published its Revenue Protection Policy Statement which sets out how NIE should deal with the illegal extraction of electricity.

Promoting competition in the generation and supply of electricity.

The Moyle interconnector was commissioned on 1 January 2002 and Ofreg has allocated its capacity and that of the North/South interconnector to 31 March 2003.

50 Megawatts of Moyle import capacity has been allocated to 31 March 2005.

The Internal Market in Electricity Directive required that the market be opened progressively to 35% by 2003, the Northern Ireland market achieved this target on 1 April 2001.

The long-term development of the role and structure of the Transmission System Operator (TSO) is under consideration in conjunction with DETI, following public consultation in March 2002.

In February 2002 Ofreg published initial price control proposals for the period to 31 March 2005 in respect of the Power Procurement Business and the TSO Business, which are separate regulated businesses.

Promoting the Development and Maintenance of an Efficient Economic and co-ordinated gas industry and protecting the interests of gas consumers with regard to price and quality of service

Following lengthy discussions with private companies, Ofreg issued two new gas licences to enable the expansion of the natural gas industry: a licence to Bord Gais Eireann for the conveyance of gas outside the Greater Belfast area and a licence to Electricity Supply Board International to supply gas to the new CCGT facility at Coolkeeragh.

Under its gas conveyance licence, Phoenix Natural Gas has exclusive rights to convey gas in its licenced area until 2016, subject to five-yearly price controls on conveyance charges. During the year, Ofreg conducted a review of Phoenix's allowed expenditure and reached agreement with the company on their allowed conveyance charges over the five years commencing 1 January 2002. The agreement ensures that Phoenix's charges are based on an efficient business and results in a fair system of charges for Phoenix's 41,000 customers.

Also during the year Ofreg successfully completed work on the implementation of the Premier Transmission Network Code.

Energy Efficiency and Fuel Poverty

Ofreg, in conjunction with NIE has facilitated energy efficiency incentives through the Supply Price Control and the energy efficiency levy. Final total energy savings are not yet available to 31 March 2002 but, based on previous year's results, are expected to exceed the annual 55GWh target.

Other Activities

Ofreg is actively seeking to resolve the funding discrepancy associated with its accreditation work on the Climate Change Levy exemption scheme, the current funding arrangement only lasts to 31 March 2002.

Ofreg published its approved Equality Scheme on 5 July 2001.

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Important Events Occurring After Year End

There have been no significant events since the year-end which would affect these accounts.

Future Developments

Future developments will be governed by the new Utilities legislation which is set to be introduced by DETI in 2003.

Management

Mr Douglas McIldoon was appointed Director General of Electricity Supply on 1 December 1995 for a period of 5 years, this has been renewed for a further period of 5 years ending 30 November 2005.

Mr Douglas McIldoon was additionally appointed Director General of Gas on 10 June 1996 for a period co-terminus with that of the Director General of Electricity Supply, this has also been renewed for a period of 5 years ending 30 November 2005, both of these are part time statutory appointments made by the Department of Enterprise Trade and Investment under the respective legislation. Mr Mc Ildoon as a career civil servant is paid at the equivalent civil service rate commensurate with the grade agreed for this post (this is a non substantive grade) and in addition receives increases in line with those paid to senior civil servants within his parent department (DETI). The Directors General when appointed are required to carry out the duties as detailed in the respective Orders and are personally responsible for their actions and may be challenged in the courts. It was and still is government policy that economic regulation should be conducted at arms length from ministers by independent regulators.

Management Boards

The Department's management board which held its inaugural meeting in December 1998 is made up of the Directors General and the heads of each division within Ofreg and meets on a regular basis. During the period under review the board consisted of the following individuals Douglas Mc Ildoon, Leslie Adams, Mary Mc Williams, Kevin Shiels, James Hutchinson and Gerry Donnelly. Details of the remuneration of senior officers in salary bands are provided in **Note 2** to these accounts.

NICCE

In accordance with the Electricity Order the Director General of Electricity Supply is required to establish a Consumer Committee for Electricity, appoint a chairman (for a period not exceeding 4 years) after consultation with DETI and after consultation with that chairman appoint a minimum of 6 and a maximum of 9 other members. The committee was established in 1992 and the current chairman is Mrs Felicity Huston, who was appointed on 1 April 2000 for a term of 3 years. The budget for the committee, in exercising the functions attributed to it under the Order includes the chairman's salary and expenses together with members' expenses but excludes support staff provided by Ofreg, is approved annually by the Director General of Electricity Supply and paid for from the electricity licence fees collected by Ofreg.

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GCCNI

In accordance with the Gas Order the Director General of Gas, with the approval of DFP, is permitted to defray or contribute to that part of the costs incurred by the General Consumer Council in exercising the functions attributed to it under the Order. The budget for this area of work is approved annually by the Director General of Gas and paid for from the gas licence fees collected by Ofreg.

Fixed Assets

Details of the movement of fixed assets are set out in Note 10 to the Accounts. There were £17,000 of additions to fixed assets during the financial year consisting mainly of computer replacement across the Department.

Equal Opportunities

The Department 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 Department and promotes a harmonious working environment.

Disabled Persons

The Department's Equal Opportunities policy applies to the employment of people with a disability. The Department is committed to ensuring that its policies and practices comply with the requirements of the Disability Discriminations Act 1995.

Employee Involvement

The Department recognises the benefit of keeping all its employees regularly informed about progress towards achieving its aims and objectives. The Department circulates the agenda for each board meeting to all staff in advance to encourage participation and also circulates the ensuing minutes to all staff.

Health and Safety

The Department 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 Department has circulated to all staff a Health and Safety Policy Statement and associated Organisation and other Arrangements to ensure safe and healthy working conditions.

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Payment to Suppliers

The Department is committed to the prompt payment of bills for goods and services received in accordance with the Late Payment of Commercial Debts (Interest) Act 1998 and British Standard BS 7890 – Achieving Good Payment Performance in Commercial Transactions. Unless otherwise stated in the contract, payment is due within 30 days of the receipt of the goods or services, or on presentation of a valid invoice or similar demand, whichever is later. During the year, 95% per cent of bills were paid within this standard.

Equality Scheme

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

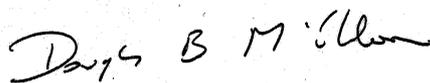
Climate Change Levy

In the Finance Act 2000 “the Director General of Electricity Supply” was tasked with the responsibility of administering the Climate Change Levy scheme on behalf of Customs and Excise. As this work fell outside his statutory responsibilities as covered by the Order it was agreed that funding for this work should during the period to 31 March 2002, be provided by DETI, subsequent funding arrangements have not yet been resolved.

External Auditor

Under section 10 of the Government Resource and Accounts Act (Northern Ireland) 2001, the Controller and Auditor General for Northern Ireland is the statutory auditor for the Department.

Douglas B McIlDoon



Accounting Officer _____

Date: 25/10/2002

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STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL

STATEMENT OF INTERNAL CONTROL - TRANSITIONAL STATEMENT

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

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of departmental aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I have been considering in the period to March 2002 what procedures are necessary to implement DFP guidance. This takes account of the time needed to fully embed any processes which the Department agrees should be established and improve their robustness and will report to the Audit Committee in December.

We are in the process of carrying out appropriate procedures to ensure that we have identified the Department's objectives and risks and determined a control strategy for any significant risks. As a result, risk ownership will be allocated to the appropriate staff and the department has plans to set out its attitude to risk to the achievement of the departmental objectives.

The management board will ensure that procedures are in place for verifying that aspects of risk management and internal control are regularly reviewed and reported on. There will be a full risk and control assessment before reporting on the year ending 31 March 2003. Risk management will be incorporated more fully into the corporate planning and decision making processes of the Department.

The board receives periodic reports concerning internal control. Appropriate steps will be taken to manage risks in any significant areas of responsibility and monitor progress on key projects.

Following the identification of the Department's key objectives and risks, further work will be done to bring about more consistency in the way in which the Department treats risks.

In addition to the actions mentioned above, in the coming year the Department plans to:

- Regularly review and update the record of risks facing the organisation;
- Set up a system of key performance and risk indicators; and
- Develop and maintain a risk register.

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The Department has contracted out its Internal Audit services to Helm Corporation, an organisation which operates to standards defined in the Government Internal Audit Manual. It submits annual reports which include opinion on the adequacy and effectiveness of the department's system of internal control together with recommendations for improvement.

My review of the effectiveness of the system of internal financial control is informed by the work of the audit unit, the Management Board which oversees the work of the audit unit, the executive managers within the Department who have responsibility for the development and maintenance of the financial control framework, and comments made by the external auditors in their management letter and other reports.

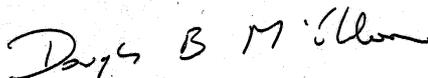
The internal audit assignment carried out during 2001/2002 concluded that it could only provide me with a limited assurance regarding the effectiveness of the system of internal control. In particular two of the areas reviewed within the Department require immediate strengthening.

Consultancy: Management is currently revising its guidelines on the appointment and management of consultants for approval by the audit committee. All staff will be made aware that there can be no exceptions to the procedures defined therein.

Computer Systems: As a first step backup problems will be resolved during October and a disaster recovery plan will be put in place as part of the ongoing risk assessment.

In view of the conclusions expressed by Internal Audit, Management is taking action to ensure that systems of internal control are improved, and will develop a comprehensive procedures manual to address the issues highlighted in their report.

Douglas B McIlloin



Accounting Officer _____

Date: 25/10/2002

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STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES WITH RESPECT TO RESOURCE ACCOUNTS FOR OFREG

1. Under the Government Resources and Accounts Act (NI) 2001, Ofreg is required to prepare resource accounts for each financial year, in conformity with a DFP direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.
2. The Resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.
3. DFP has appointed the Director General of Electricity Supply for Northern Ireland and the Director General of Gas for Northern Ireland jointly and severally as Accounting Officer of Ofreg, with responsibility for preparing the Department's accounts and transmitting them to the Comptroller and auditor General.
4. In preparing the accounts the Accounting Officer is required to comply with the Northern Ireland Resource Accounting Manual (NIRAM) prepared by DFP, and in particular to:
 - observe 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 NIRAM have been followed, and disclose and explain any material departures in the accounts; and
 - prepare the accounts on a going concern basis.
5. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets are set out in the Accounting Officers' Memorandum issued by DFP and published in "Government Accounting Northern Ireland".

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

I certify that I have audited the financial statements on pages 15 to 34 under the Government Resources and Accounts Act (Northern Ireland) 2001. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 to 25.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 12, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 10 and 11 reflects the Department's compliance with the Department of Finance and Personnel's guidance 'Corporate Governance: Statement on Internal Control.' I report if it does not meet the requirements specified by the Department of Finance and Personnel, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Office for the Regulation of Electricity and Gas at 31 March 2002 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel; and
- in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.



J M Dowdall
Comptroller and Auditor General

Date 30/10/02

Northern Ireland Audit Office
106 University Street
Belfast BT7 1EU

OFFICE for the REGULATION of ELECTRICITY and GAS

Schedule 1

Summary of Resource Outturn for the year ended 31 March 2002

2001-02		Estimate			Outturn		
	Gross expenditure	Accruing Resources	NET TOTAL	Gross expenditure	Accruing Resources	NET TOTAL	Net total outturn compared with Estimate saving
	1	2	3	4	5	6	7
	£000	£000	£000	£000	£000	£000	£000
Request for Resources A (notes 5 and 8)	2,492	(2,200)	292	1,897	(1,666)	231	61
Total resources			292			231	61
Net cash requirement			420			257	163
Reconciliation of resources to cash requirement	Note		£000			£000	£000
Net total resources			292			231	61
Capital:							
Purchase of fixed assets	10 and 11		23			17	6
Non-operating cost							
Accruing Resources							
Accruals adjustments:							
Non-cash items	3&4		(120)			(59)	(61)
Changes in working capital other than cash	12		225			68	157
Use of provision			-			-	
Excess cash receipts to be surrendered to the Consolidated Fund			-			-	-
Net cash requirement			420			257	163
	(Schedule 4)						

Explanation of the variation between Estimate and outturn (net total resources):

The variation largely arises from the fact that consultancy expenditure was lower than anticipated

Explanation of the variation between Estimate and net cash outturn net cash requirement:

Projected increase in working capital did not materialise

Notes

1 Actual Outturn – Resources

RfR A: Net total outturn £230,605.51

Actual amount of saving compared to estimate £61,394.49

2 Actual Outturn – Cash

Net Cash requirement: Outturn net requirement £257,241.75 which is £162,758.25 less than Estimate

The notes on pages 23 to 35 form part of these accounts

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Analysis of income payable to the Consolidated Fund

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

	Note	2001-02 forecast		2001-02 outturn	
		Income	Receipts	Income	Receipts
		£000	£000	£000	£000
Operating income and receipts not classified as Accruing Resources	5	5	5	8	8
Total		5	5	8	8

Notes:

The actual receipts surrendered to the Consolidated Fund are £7,844.07

The notes on pages 23 to 35 form part of these accounts

**Operating Cost Statement
for the year ended 31 March 2002**

	<u>Note</u>	<u>2001-02</u> <u>£000</u>	<u>£000</u>
Administration Costs			
Staff Costs	2		684
Other administration Costs	3		340
			<u>1,024</u>
Gross Administration Costs			1,024
Operating Income	5		(1,674)
			<u>(650)</u>
Net Administration Income			
Programme Costs			
Request for Resources A			
Expenditure	4	873	
Less: income		-	
			<u>873</u>
Net Programme Costs			873
NET OPERATING COST	7&8		<u>223</u>
NET RESOURCE OUTTURN	7&8		231

All income and expenditure are derived from continuing operations

The notes on pages 23 to 35 form part of these accounts

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Statement of Recognised Gains and Losses for the year ended 31 March 2002

	2001-02	
Total recognised gains and losses for the Financial year	<u>Note</u>	<u>£000</u>
Surplus on revaluation of tangible fixed assets	16	<hr/> 2

The notes on pages 23 to 35 form part of these accounts

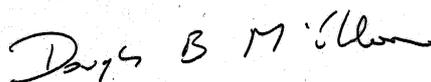
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Schedule 3

Balance Sheet as at 31 March 2002

	Note	31 March 2002		31 March 2001	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	10	62		71	
Intangible assets	11	8		8	
			70		79
Current Assets					
Debtors	13	296		448	
Cash at bank and in hand	14	141		307	
		437		755	
Creditors (amounts falling due within one year)	15	(1,003)		(1,178)	
Net Current Liabilities			(566)		(423)
Total Assets less Total Liabilities			(496)		(344)
TAXPAYERS' EQUITY					
General Fund	21		(505)		(354)
Revaluation Reserve	16		9		10
			(496)		(344)

Douglas B McIlldoon



SIGNED

Accounting Officer: 25/10/2002

The notes on pages 23 to 35 form part of these accounts

Cash Flow Statement for year ended 31 March 2002

		2001-02
	Notes	<u>£000</u>
Net cash (outflow) from operating activities	(i)	(21)
Capital expenditure and financial investment	(ii)	(16)
Payments of amounts due to the Consolidated Fund	15	(520)
Financing from the consolidated fund	(iii)	391
(Decrease) in cash in the period		<u>(166)</u>

Notes to the Cash flow Statement

(i). Reconciliation of operating cost to operating cash flows

		2001-02
		<u>£000</u>
Net operating cost		223
Adjustments for non-cash transactions	3 & 4	(59)
Adjustments for movements in working capital other than cash	12	(143)
Use of provision		-
Net cash outflow from operating activities		<u>21</u>

(ii). Analysis of capital expenditure and financial investment

		2001-02
		<u>£000</u>
Tangible fixed-asset additions	9	17
Proceeds from disposal of fixed assets		(1)
Net cash outflow from investing activities		<u>16</u>

The notes on pages 23 to 35 form part of these accounts

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(iii). *Analysis of financing, and reconciliation to the net cash requirement*

		2001-02
	Notes	£000
Re-payments to the consolidated fund – prior year #	15	(312)
From the Consolidated Fund (Supply) - current year *		391
Payments to the Contingency Fund		(391)
Advances from the Contingency Fund		391
Net Financing		<u>79</u>
Decrease in cash	14	<u>166</u>
Net cash flows other than financing		<u>245</u>
Adjustment for payments and receipts not related to Supply:		
Amounts due to the Consolidated Fund – received in a prior year and paid over – excess Accruing Resources	15	(173)
Amounts due to the Consolidated Fund – received in a prior year and paid over – other CFERS	15	(34)
Amounts due to the Consolidated Fund – received and not paid over – other CFERS	15	8
Transitional Adjustment	12	211
Net cash requirement (Schedule 1)		<u>257</u>

Amount of grant actually issued to support the prior year net cash requirement £312,000.00.

* Amount of grant actually issued to support the net cash requirement £390,652.23.

The notes on pages 23 to 35 form part of these accounts

**Resources by Departmental Aims and Objectives
for year ended 31 March 2002**

AIMS/OBJECTIVES	Programme		Net £000
	Gross £000	Income £000	
Objective 1 To promote competition in the generation and supply of Electricity and to protect the interests of electricity consumers with regard to price and quality of service	1,444	(1,369)	75
Objective (II) To promote the development and maintenance of an efficient, economic and co-ordinated gas industry and to protect the interests of gas consumers with regard to price and quality of service	424	(276)	148
Objective (III) To promote energy efficiency and reduce harmful emissions	29	(29)	0
TOTAL (Schedule 2)	1,897	(1,674)	223

The notes on pages 23 to 35 form part of these accounts

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Notes to the Departmental Resource Accounts for the year ended 31 March 2002

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the Northern Ireland Resource Accounting Manual (NIRAM) issued by DFP and the relevant accounting standards. The accounting policies contained in the NIRAM follow UK generally accepted accounting practice for Companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. The particular accounting policies adopted by the Department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Basis of Accounting and Consolidation

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, at their value to the business by reference to their current costs.

These accounts include the costs of the Northern Ireland Consumer Committee for Electricity and that part of the costs of the General Consumer Committee related to gas consumer issues.

1.2 Tangible Fixed Assets

The minimum level for capitalisation of a tangible fixed asset is £500 for PC's and £1000 for all other assets. Where material assets may be pooled/grouped so as to reflect more accurately asset holdings.

The following asset categories existed at the start of the year, namely IT equipment, office equipment, fixtures 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.

1.3 Intangible Fixed Assets

Intangible fixed assets comprise computer software licences with a capitalisation threshold of £1000. They are revalued annually by reference to the RPI.

1.4 Depreciation and Amortisation

Depreciation is provided at rates calculated to write off the valuation of tangible fixed assets by equal instalments over their estimated useful lives. Lives are normally in the following ranges:

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

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1.5 Revenue Recognition

The costs of Ofreg are offset primarily by annual licence fees paid on the issue of electricity and gas licences as defined under statute.

Electricity fees are calculated on the basis of a determination made by the Director General of Electricity Supply for Northern Ireland which stipulates that one third of the cost of electricity regulation should be charged to the holders of generation licences, one third to the holders of transmission licences and one third to the holders of public electricity supply licences, second tier licence holders pay a minimum fee of £250 which reduces the fee payable by the public electricity supply licence holders. In addition the cost of the Northern Ireland Consumer Committee for Electricity is recovered from the public electricity supply licence holder. Licence fees are ultimately recovered from electricity customers through an operating cost allowance in the Price Controls of NIE's regulated businesses.

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

Gas licence fees are calculated on the basis of a determination made by the Director General of Gas for Northern Ireland which stipulates that 95% of the cost of gas regulation should be borne by the holders of gas conveyance licences and 5% by the holders of gas supply licences. In addition that part of the costs of the General Consumer Council for Northern Ireland related to gas issues is recovered from the holder of the gas equivalent of the public electricity supply licence. Gas licence fees are recovered from gas customers through an operating cost allowance in the Price Control of Phoenix Natural Gas's conveyance business.

In the year following payment of licence fees, the Department 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 Creditors and any under-recovery as Accrued Income within Debtors.

1.6 Administration and Programme Expenditure

Administration costs reflect the costs of running the Department as defined under the Administration Cost Control Regime, together with associated operating income. Programme costs reflect non-administration costs, including publicity and consultancy and other disbursements by the Department.

1.7 Capital Charge

A capital charge, reflecting the cost of capital utilised by the Department, is included in operating costs. The charge is calculated at the Government's standard rate of 6% in real terms on all assets less liabilities.

1.8 Taxation

VAT is accounted for in accordance with SSAP5.

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The amount due to HM Customs and Excise in respect of VAT is included within Debtors within the Balance Sheet.

1.9 Foreign Exchange

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

1.10 Notional Costs

Since Resource Accounts are required to show the full cost of delivery of public services, the operating cost statement therefore includes certain notional items of expenditure.

1.11 Leases

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

1.12 Pensions

Present and past employees are covered by the provision of the NI Principal Civil Service Pension Scheme (PCSPS (NI)) which is non-contributory and unfunded. There is a separate scheme statement for PCPS (NI) as a whole. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS (NI). Departments, agencies and other bodies covered by the PCSPS (NI) meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. For 2001/02 the rates were in the range (12 - 19.5%) of pensionable pay.

1.13 Early Departure Costs

As all Ofreg staff are on loan 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.

2. Staff Numbers and Costs

The average number of whole-time equivalent persons employed (including senior management) during the year was as follows:

	2001-02
	Number
Employees	22

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The aggregate payroll costs of these persons were as follows:

	£000
Wages and salaries	551
Social Security costs	42
Other pension costs	82
Agency Staff	9
	<hr/>
	684
	<hr/> <hr/>

The PCSPS (NI) is an unfunded multi employer defined benefit scheme but Ofreg is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999 and details can be found in the separate scheme statement of the PCSPS (NI).

For 2001-02, normal employer contributions of £81,496.26 were payable to the PCSPS (NI), for (2000-01 £85,663.13) at rates in the range 11 to 19.5 per cent of pensionable pay. It has been agreed that contributions will remain at that level for the next two years. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

The average number of whole-time equivalent persons employed (including senior management), by objective during the year was as follows:

	2001 – 02 No. of Employees
Objective 1	15.8
Objective 2	6.0
Objective 3	0.2
	<hr/>
	22
	<hr/> <hr/>

The salary and pension entitlements of the most senior members of the Department were as follows:

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	Salary (as Age defined below)	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2002
	Yrs	£000	£000
<i>Ministers</i>			
<i>None</i>			
<i>Officials</i>			
Mr Douglas McIlldoon <i>Director General of Electricity</i> <i>Director General of Gas</i>	56	70-75	0-2.5
Mr Leslie Adams	59	40-45	0-2.5
Mr Gerry Donnelly	55	35-40	0-2.5
Mr Kevin Shiels	34	30-35	0-2.5
Mr James Hutchinson	30	25-30	0-2.5
Mrs Mary McWilliams	33	30-35	0-2.5
Mrs Felicity Huston Chairman of the Northern Ireland Consumer Committee for Electricity (3 days per week)	38	25-30	0-2.5

“Salary” includes gross salary; performance pay or bonuses; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Officials’ pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS (NI)). This is a statutory scheme which provides benefits on a “final salary” basis at a normal retirement age of 60. Benefits 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. Members pay contributions of 1.5 per cent of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member’s pension. On death in service, the scheme pays a lump-sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse’s pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Salaries include gross salaries, performance bonuses payable, recruitment and retention allowances, and private office allowances. It does not include the estimated monetary value of benefits in kind.

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3. Other administration costs

	2001-02 £000	2001-02 £000
Rental under operating leases (see note 18)	68	
Hire of Office equipment	8	
	<hr/>	76
Non cash items:		
Diminution in value of fixed assets	3	
Depreciation	25	
Profit on disposal of fixed assets	(1)	
Cost of capital charge	(9)	
Auditors remuneration and expenses	26	
Other Notional Costs	14	
Bad debts provision	1	
	<hr/>	59
Hospitality	6	
Travel and Subsistence	43	
Rates	34	
Training	25	
Other Expenditure	97	
	<hr/>	205
		<hr/>
		340
		<hr/>

4. Net programme costs

	2001-02 £000
Consultancy	825
Publicity	48
	<hr/>
	873
	<hr/>

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5. Operating Income	Accruing Resources	Payable to NICF	Total 2001-02
	£000	£000	£000
Operating income for 2001-02, analysed by classification and activity, is as follows:			
Administration income:			
Other – fees and charges external customers	-	-	-
Electricity Licence Fees			
Electricity Licence Fees	1,384		1,384
Miscellaneous	-	-	-
Gas Licence Fees			
Gas Licence Fees	276		276
Miscellaneous	-	-	-
Other - fees and charges other departments	6	8	14
	1,666	8	1,674
Programme income:			
	-	-	-
	1,666	8	1,674

Accruing Resources represent income due to Ofgem or collected by it under a delegated authority from DETI that can be retained for offset against other public expenditure. This contrasts with CFERs which are remitted by Ofgem to the Consolidated Fund.

6. Administration cost limits

The outturn against the administration costs control regime shown against administration costs limits is as follows:

	Limit £000	Outturn £000
Request for Resources A	<u>1,388</u>	<u>965</u>

7. Reconciliation of net operating cost to control total and net resource outturn.

	2001-02 £000
Net Operating Cost	223
Add	
- operating income not classified as A-in-A	8
Net Resource Outturn	231

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Net operating cost is the total of expenditure and income appearing in the operating cost statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Department's Supply Estimates.

8. Analysis of net resource outturn and net operating cost by function.

	2001-02							
	Admin	Other current	Current grants	Capital Grants	Accruing Resources	Net Resource	Estimate	Net total outturn compared to estimate
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for Resources A								
Control Admin	965	873			(1,666)	172	172	-
Non Cash Items	59					59	120	61
Resource Outturn	1,024	873			(1,666)	231	292	61
Non Supply expenditure						-		
Non Accruing Resources operating income						(8)		
Net Operating Cost (Surplus)						<u>223</u>		

Functions represent the disaggregation of Requests for Resources for control purposes and Parliamentary approval.

They may not correspond to departmental objectives, which in turn reflect a disaggregation of departmental aims for the management of activities. (For analysis of Accruing Resources see note 5).

9. Analysis of capital expenditure, financial investment and associated Accruing Resources.

	2001-02			
	Capital Expenditure	Loans etc	Accruing Resources	Net Total
	£000	£000	£000	£000
Request for Resources A	17			17
Total	<u>17</u>	<u>-</u>	<u>-</u>	<u>17</u>

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10. Tangible Fixed Assets

	Leasehold Improvements £000	IT Equipment £000	Office Equipment £000	Fixtures and Fittings £000	Total £000
Cost or valuation					
At 1 April 2001	363	56	4	53	476
Additions		17			17
Disposals		(24)			(24)
Revaluation	11	(7)		2	6
At 31 March 2002	374	42	4	55	475
Depreciation					
At 1 April 2001	317	40	4	44	405
Charged in year	8	11		6	25
Disposals		(24)			(24)
Revaluations	10	(4)		1	7
At 31 March 2002	335	23	4	51	413
Net book value					
At 31 March 2002	39	19	-	4	62
At 1 April 2001	46	16	-	9	71

11. Intangible Fixed Assets

	2001-02 £000
Cost or valuation	
At 1 April 2001	8
Additions	
Disposals	-
Revaluation	-
At 31 March 2002	8
Depreciation	
At 1 April 2001	-
Charged in year	-
Disposals	-
Revaluations	-
At 31 March 2002	-
Net book value	
At 31 March 2002	8
At 1 April 2001	8

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12. Movements in working capital other than cash

	2001-02 £000	2000-01 £000
Increase in debtors	(59)	(184)
Increase in creditors	202	266
Net increase in working capital other than cash (Sch 4)	143	82
Transitional Adjustment	(211)	-
Changes in Working Capital other than cash (Sch 1)	(68)	82

13. Debtors

	2001-02 £000	2000-01 £000
Amounts falling due within one year:		
Trade debtors	166	12
Other debtors	-	-
Prepayments and accrued income	24	127
VAT debtor	106	98
	<u>296</u>	<u>237</u>
Amounts due from Consolidated Fund in respect of supply	0	211
	<u>296</u>	<u>448</u>

14. Cash at Bank and in Hand

	2001-02 £000	2000-01 £000
Balance at 1 April 2001	307	277
Net Cash (Outflow)/Inflow:	(166)	30
Balance at 31 March 2002	141	307
All cash is held in commercial banks or as cash in hand		
CFERs	8	34
Excess Accruing Resources	-	172
Surplus issues	133	312
Transitional Adjustment	-	(211)
	<u>141</u>	<u>307</u>

15. Creditors: amounts falling due within one year

	2001-02 £000	2000-01 £000
Trade creditors	43	21
Other creditors		
Accruals and deferred income	819	639
Cash balance payable to Consolidated Fund		
CFERs payable	8	34
Excess Accruing Resources	-	172
Surplus Issues	133	312
	<u>1,003</u>	<u>1,178</u>

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16. Revaluation Reserve

	£'000
Balance at 1 April 2001	10
Arising on revaluation during the year (net)	2
Transferred to General Fund in respect of realised element of Revaluation Reserve – all excess depreciation.	(3)
Balance at 31 March 2002	9

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

17. Capital Commitments

There were no contracted capital commitments at 31 March 2002.

18. Commitments under operating leases

At 31 March 2002 the Department was committed to making the following payments in respect of operating leases expiring:

	£000	£000	2001-02 £000
	Buildings	Other	TOTAL
Within one year	88	7	95
Between two to five years	334	10	344
After five years	-	-	-
	422	17	439

The above amounts reflect the total amounts due over the life of the operating leases.

19. Other Commitments

The Department has not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2002.

20. Contingent Liabilities

There were no contingent liabilities existing as at 31 March 2002.

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21. Reconciliation of net operating cost to changes in General Fund

	2001-02 £000	2000-01 £000
Net Operating (Cost)/Surplus for the year (Schedule 2)	(223)	166
Net parliamentary funding	391	0
Income payable to Consolidated Fund -	(8)	(206)
Transitional adjustment	(211)	211
Consolidated Fund: Creditor for cash unspent	(133)	0
	<u>(184)</u>	<u>171</u>
Non-cash charges:		
Cost of capital	(9)	(7)
Notional Costs	39	28
Transfer from Revaluation Reserve	3	8
	<u>(151)</u>	<u>200</u>
Net Increase in General Fund		
Prior Year adjustment	0	7
General Fund at 1 April 2001	(354)	(561)
General Fund at 31 March 2002 (Schedule 3)	<u>(505)</u>	<u>(354)</u>

The prior year adjustment relates to a restatement of the opening depreciation reserve balances to reflect an adjustment to the useful economic life used of assets held at 01 April 2000.

The negative value of total net assets arises because the funds owed to Electricity and Gas licensees are correctly shown as a liability. However under Government Accounting rules Ofreg is required to surrender surpluses to the Consolidated Fund, these are the subject of an in year bid in the following financial year. This is required because the respective Electricity and Gas licences make provision for a reduction in the licence fee collected to reflect any underspend in the previous year.

22. Related Party Transactions

Ofreg has had a number of transactions with other Government departments and Central Government bodies. These include DETI and DFP.

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

23. Financial Instruments

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

As allowed by FRS 13, the Department has elected to exclude from disclosure all debtors and creditors which mature or become payable within 12 months from the balance sheet date.

Liquidity risk

The Department's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. It is not, therefore, exposed to significant liquidity risks.

Foreign Currency Risk

The Department's exposure to foreign currency risk is not significant. Foreign currency income is negligible and foreign currency expenditure is not significant.

Fair values

The Department had no financial assets and liabilities at 31 March 2002.