

Office of Water Services

Resource Accounts

2000–01

Office of Water Services Resource Accounts 2000–01

(For the year ended 31 March 2001)

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The Ofwat Financial Accounts and Summary of Annual Report 2000-01

Summary of the Annual Report

The Office of Water Services (Ofwat) Annual Report was published on 9 May 2001 (HC 441) and included reference to the following achievements:

- **Setting Prices:** the 1999 price review came into force from April 2000. Domestic customers saw their bills fall by an average of 12.5% before inflation. Mid Kent and Sutton & East Surrey did not accept their price limits and appealed to the Competition Commission. Ofwat provided written submissions; attended hearings with the Commission Panel and had working level meetings with commission staff. The results were published in September 2000. Three companies applied for adjustments to their price limits through the interim determinations process. Decisions were published in December 2000 with revised price limits for two companies.
- **New Company Structures:** after consultation a framework was put into place for assessing restructuring proposals. Proposals made by the Kelda Group and Glas Cymru were considered; consulted upon and our views published in July 2000 and January 2001 respectively.
- **Extending Competition and Merger Activity:** Ofwat in the past year has contributed to the interdepartmental study on extending competition; published a revised paper 'Current state of market competition in the water sector' and investigated over 40 complaints. Companies have been required to publish access codes for the shared use of their networks with other suppliers. There have been three mergers. On each we have consulted and agreed licence modifications.
- **Regulating Company Performance:** the powerful tool of comparative competition has continued to be applied through the collection of information which has undergone independent scrutiny. This information has been analysed resulting in the publication of our five annual reports.
- **Approving Water and Sewerage Charges:** Ofwat has approved companies charges schemes and reviewed the approval process. Consultation took place with the industry on a number of areas of tariff policy.
- **Working with Customer Representatives and Protecting Customers:** Customers are our most important stakeholders. Ofwat Head Office dealt with over 650 complaints and disputes during the year. We obtained compensation and rebates amounting to £553,000. We continue to work closely with the Customer Service Committees (CSCs) and the Ofwat National Consumer Council (ONCC).

Further information is included in Ofwat's Annual Report.

Foreword

Introduction

The Accounts cover the operation of Ofwat for the period 1 April 2000 to 31 March 2001. They have been prepared on an accruals basis in accordance with the HM Treasury (HMT) Resource Accounting Manual. The Accounts cover the work carried out by the Head Office in Birmingham, as well as 10 Regional Customer Service Committees (CSCs) and the Ofwat National Consumer Council (ONCC).

The Financial Year 2000–01 was a year of achievement for Ofwat. The important outputs included:

- completion of the Competition Commission references;
- responding to restructuring and mergers proposals;
- deciding on complaints under the new Competition Act;
- bringing forward the reduced annual information return from companies;
- completing the review of PR99;
- recruitment of six new CSC Chairmen.

The main financial highlights are summarised below:

Operations Cost Summary	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
Income per Licence fees	10,915	11,900
Other income	637	46
Deferred income current year	(1,194)	(1,196)
Deferred income prior year	1,196	—
Total Income	<u>11,554</u>	<u>10,750</u>
Administration costs	10,918	10,705
Net Operating Cost	<u>(636)</u>	<u>(45)</u>
Balance Sheet Summary		
Total assets	2,159	1,857
Total liabilities	(3,505)	(3,224)
TOTAL NET ASSETS	<u>(1,346)</u>	<u>(1,367)</u>

Licence Fee income is subject to the constraints set out in Condition N and negotiation with HMT. Fees are based on an estimate of costs at the start of the financial year. In anticipation of these costs, fees recovered from the industry were reduced by £1 M (8%) on the previous year.

Other income recovered during the year included £591,000 from the two companies involved in Competition Commission (CC) referrals. The recovery in respect of the CC referrals also accounts for the movement in the net operating costs.

Total liabilities take into account that Ofwat is required to make full provision for the previous Director General's pension. This is a HM Treasury requirement even though sixty percent of the pension relates to employment prior to Ofwat and will be funded from the Exchequer.

The negative value of total net assets arises because the funds owed to the industry are correctly shown as a liability. However, under Government Accounting rules Ofwat is required to pay over excess cash to HM Treasury. These funds will be returned to Ofwat through HM Treasury's Estimate process. Ofwat is not able to account for these funds as an asset as they are voted on a year by year basis.

The implementation of the Resource Accounts and Budgeting (RAB) continued in accordance with the HM Treasury timetable.

Ofwat's Aim and Objectives

The Director General of Water Services is the Economic Regulator of the water and sewerage industry in England and Wales. His duties are laid down in Section II of the Water Industry Act 1991.

Ofwat aims to regulate the water and sewerage companies in a fair and open way in order to secure continuing improvements in quality of service and value for money for their customers. This includes:

- ensuring that companies carry out their functions;
- ensuring that companies can finance their functions;
- protecting customers;
- promoting economy and efficiency;
- facilitating competition;
- taking regard of environmental issues.

The costs of delivering Ofwat's main objectives are set out at Schedule 5 of the accounts.

Scope of the Accounts

There are no public sector bodies outside the boundary for which the Department has lead policy responsibility. Therefore, the accounts cover Ofwat, CSCs and ONCC only.

Roles and Responsibilities

Ofwat is a non-ministerial Central Government Department with its own Resource Estimate. It is led by the Director General who carries the responsibilities of the Accounting Officer, supported by the Director of Operations who is the Principal Finance Officer. The Director General presented his annual report to the Rt. Hon John Prescott MP Deputy Prime Minister, Secretary of State for the Environment Transport and the Regions and the Rt. Hon Rhodri Morgan MP First Secretary of the National Assembly for Wales, on the performance of the office on 9 May 2001.

The composition of the Senior Management Team in the reporting period was as follows:

Sir Ian Byatt	Previous Director General (retired 31 July 2000)
David Rees	Director of Corporate Finance and Economic Affairs (left the Department on 6 October 2000).
Philip Fletcher*	Director General
Mike Saunders*	Director of Consumer Affairs
Bill Emery*	Director of Costs & Performance and Chief Engineer
Keith Mason*	Director of Regulatory Finance
Roger Dunshea*	Director of Operations
Julia Havard	Head of External Relations
Allan Merry	Legal Adviser
Roy Wardle	Head of Consumer Representation

* denotes management board member from October 2000

The Director General was appointed on 1 August 2000 by the Secretary of State for the Environment Transport and the Regions under Section I of the Water Industry Act 1991. The Director General's remuneration is agreed as part of his employment contract. His contract is for a fixed five year period and can only be terminated due to incapacity or misbehaviour. The contracts of other members of the Senior Management Team can be terminated by the standard process as set out in the Civil Service Management Code.

During the new year the Director General strengthened the management of Ofwat by setting up a Management Board. In May the Regulatory Policy Committee met for the first time. This includes three independent members, with Plc board level experience.

Members of the Senior Management Team are members of the Senior Civil Service and are appraised and remunerated, (including performance pay) in line with Senior Civil Service requirements. The details of remuneration are included at Note 2 to the Accounts.

Staff Remuneration

Staff salaries are set on the basis of recruiting and retaining high calibre staff within the framework of controlling public expenditure set by Government. Members of the Senior Civil Service receive increases in line with Senior Salaries Review Body guidance. The Remuneration Committee determines pay awards for the rest of the Office. The Office follows a performance related pay policy.

Pension Liabilities

The main pension scheme for Ofwat staff is the Principal Civil Service Pension Scheme (PCSPS). This is a defined benefit, unfunded scheme. The payment of benefits from the scheme are borne by the Civil Service Superannuation Vote. The pension liabilities arising from Ofwat's employees' membership of the PCSPS are not provided for in these accounts in accordance with the Treasury instructions and as described in Note 1 to the financial statements.

A "By-Analogy Scheme" may be established to meet the pension requirements of the Director General. As the Scheme will have by-analogy status it will offer similar benefits to the PCSPS.

Full provision has been made in the accounts for the previous Director General's pension as required by HM Treasury. In future years claims will be made on the Exchequer to cover the pension costs that relate to employment other than with Ofwat.

Equal Opportunities Policy

Ofwat recruits staff on merit through fair and open competition. This ensures equal opportunity for employment, regardless of race, sex, physical disability or marital status. All recruitment activity is subject to audit by the Civil Service Commissioners to ensure that Ofwat complies with the guidance set out in its recruitment code.

Payment of Suppliers

Ofwat achieved 99% against the Government target for paying invoices within 30 days of receipt in 2000–01 and is committed to achieving the 100% target for 2001–02.

Audit

The Internal Audit Service for the Department during 2000–01 was provided by Deloitte & Touche on a contract basis. The external auditor for the Department is the Comptroller and Auditor General.

Philip Fletcher
Accounting Officer

25 October 2001

Statement of Accounting Officer's Responsibilities

Under Section 5 of the Exchequer and Audit Departments Act 1921 Ofwat is required to prepare resource accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The Treasury has appointed the Director General as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Accounting Officer is required to comply with the Resource Accounting Manual prepared by the Treasury, 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 Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on the going concern basis.

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 Officer's Memorandum, issued by the Treasury and published in *Government Accounting*.

Statement on the System of Internal Financial Control

This statement is given in respect of the Resource Account for the Office of Water Services (Ofwat). As Accounting Officer for the Department, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Heads of Divisions;
- regular reviews by the Management Board of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure against forecast;
- clearly defined capital investment control guidelines; and
- as appropriate, formal project management disciplines.

The Department has an internal audit function, which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit function is informed by an analysis of the risks to which the Department is exposed, and annual internal audit plans are based on this analysis. The analysis and the internal audit plans are endorsed by me as the Accounting Officer. Our Internal Auditor provides me with an annual report on internal audit activity in the Department with interim reports during the year. The annual report includes the Internal Auditor's independent opinion on the adequacy and effectiveness of the Department's system of internal financial control. The Ofwat Audit Committee was established during 1999–2000. Its members comprise a chairman and members who are not OFWAT executives. The work of the committee is supported by representatives of OFWAT management.

My review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the Financial Control Framework, and comments made by the external auditors in their management letter and other reports.

Implementation of the Turnbull Report

As Accounting Officer, I am aware of the recommendations of the Turnbull Committee and I am taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ended 31 March 2002, in accordance with guidance issued by them.

Philip Fletcher
Accounting Officer

25 October 2001

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 10 to 23 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets and the accounting policies set out on pages 15 to 16.

Respective Responsibilities of the Accounting Officer and Auditor

As described on page 7 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Exchequer and Audit Departments Act 1921 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the summary 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 Exchequer and Audit Departments Act 1921 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword 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 other information in the summary 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 page 8 reflects the Department's compliance with Treasury's guidance "Corporate governance: statement on the system of internal financial control". I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Audit Opinion

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.

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 Parliament 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 of Water Services at 31 March 2001 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 Exchequer and Audit Departments Act 1921 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

30 October 2001

National Audit Office
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SCHEDULE 1

Summary of Resource Outturn
for the year ended 31 March 2001

	Estimate			Outturn			Net Total Outturn Compared with Estimated Saving/ (excess)	Prior- year outturn
	Gross Expenditure	AinA	Net Total	Gross Expenditure	AinA	Net Total		
	1	2	3	4	5	6		
	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resource 1	11,527	10,915	612	10,918	10,917	1	611	1
Non Operating Cost A-in-A	—	—	—	—	—	—	—	—
Net Cash Requirement	—	—	612	—	—	1	611	1

Reconciliation of Resources
to Cash Requirement

	Note	£000	£000	£000	£000
Net total resources		612	1	611	1
Capital:					
Purchase of fixed assets	7.1&7.2	300	98	202	210
Accruals adjustments:					
Non-cash items	3	(280)	(296)	16	(280)
Prior Period Adjustment	14	—	414	(414)	—
Prior Period Adjustment	14	—	(414)	414	—
Changes in working capital					
Other than cash	6	(20)	(37)	17	(632)
Use of provision	11	—	238	(238)	29
Disposal of fixed assets	7.1&7.2	—	(4)	4	(3)
Excess Cash receipts to be surrendered to the Consolidated Fund		—	193	(193)	676
Net Cash Requirement (Schedule 4)		612	193	419	1

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

- (i) Under spend on Capital expenditure.
(ii) End of year flexibility drawn down and not utilised on a resource basis.

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

- (i) End of year flexibility and previous Director General's pension provision not accounted for in the Estimate.

Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid the following income relates to the office and is payable to the Consolidated Fund (cash receipts being shown in italics):

	2000–01 Forecast		2000–01 Outturn	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income not classified as A-in-A (see note 4)	309	309	637	637
Other amounts collectable on behalf of the Consolidated Fund (see note 1.11)	250	250	280	244
Excess cash receipts to be surrendered to the Consolidated Fund	—	—	—	—
	559	559	917	881

Note: All Estimate figures are illustrative and have no Parliamentary status. In consequence, treatments of income as Appropriations in Aid and Excess Appropriations in Aid also have no Parliamentary significance. The information disclosed in Schedule 1 is to illustrate the functioning of the Schedule, including the Reconciliation from Schedule 2, in advance of resource-based Supply being introduced from 2001–02.

The amount of cash receipts which a department may apply towards its outturn net cash requirement and those which must be surrendered to the Consolidated Fund are not necessarily the same in Resource Accounts as in the department's Appropriation Accounts.

SCHEDULE 2**Operating Cost Statement**

for the year ended 31 March 2001

		2000–01		1999–2000	
	Note	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Administration Costs					
Staff costs	2	5,897		5,981	
Other administration costs	3	<u>5,021</u>		<u>4,724</u>	
Gross Administration Costs			10,918		10,705
Operating income	4		(11,554)		(10,750)
Net Administration Costs			(636)		(45)
Net Operating Cost	5.1		(636)		(45)
Net Resource Outturn	5.1		1		1

All income and expenditure are derived from continuing operations

Statement of Total Recognised Gains and Losses

for the year ended 31 March 2001

	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
Net operating cost	(636)	(45)
Unrealised surplus arising on revaluation of tangible fixed asset	(13)	(4)
Total recognised gain for the financial year	<u>(649)</u>	<u>(49)</u>
Prior period adjustment as explained in Note 14	414	—
Total recognised gain since last Resource account	<u>(235)</u>	<u>(49)</u>

The notes on pages 15 to 23 form part of these accounts.

SCHEDULE 3**Balance Sheet**

as at 31 March 2001

	Notes	31 March 2001		31 March 2000	
		<u>£000</u>	<u>£000</u>	<u>£000</u> As restated	<u>£000</u> As restated
Fixed Assets					
Tangible assets	7.1	422		510	
Intangible assets	7.2	<u>18</u>		<u>39</u>	
			440		549
Current assets					
Debtors	8	844		834	
Cash at bank and in hand	9	<u>875</u>		<u>474</u>	
		1,719		1,308	
Creditors (due within 1 year)					
Creditors	10	<u>(2,867)</u>		<u>(2,360)</u>	
Net Current Assets			(1,148)		(1,052)
Total Assets less Current Liabilities			(708)		(503)
Provision for Liabilities and Charges	11	(638)		(864)	
			(638)		(864)
Total Net Assets			(1,346)		(1,367)
Taxpayers' Equity					
General Fund	13	(1,446)		(1,454)	
Revaluation reserve	12	<u>100</u>		<u>87</u>	
			(1,346)		(1,367)

Philip Fletcher
Accounting Officer

25 October 2001

SCHEDULE 4**Cash Flow Statement**

for the year ended 31 March 2001

	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
Net cash inflow from operating activities (Note a)	731	928
Capital expenditure and financial investment (Note b)	(94)	(207)
Payments of amounts due to the Consolidated Fund	(847)	(1031)
Financing	611	—
Increase/(Decrease) in cash in the period	<u>401</u>	<u>(310)</u>

	Notes	2000–01	1999–2000
		<u>£000</u>	<u>£000</u>
Note a: Reconciliation of operating cost to operating cash flows			
Net Operating Cost	5.1	636	45
Adjustment for non-cash transactions	3	296	280
Adjustment for movements in working capital other than cash	6	37	632
Use of Provisions	11	(238)	(29)
Net Cash inflow from operating activities		<u>731</u>	<u>928</u>

Note b: Analysis of capital expenditure and financial investment

Intangible Fixed Asset additions	7.2	4	5
Tangible Fixed Assets additions	7.1	94	205
Proceeds from disposal of fixed assets	7.1	(4)	(3)
Net cash outflow from investing activities		<u>94</u>	<u>207</u>

Analysis of financing, and reconciliation to the net cash requirement

From the Consolidated Fund—current year		611	—
Advance from the Contingencies Fund		2,000	2,000
Repayment to the Contingencies Fund		(2,000)	(2,000)
Net Financing		611	—
(Decrease)/Increase in cash	9	(401)	310
Net cash flows other than financing		<u>210</u>	<u>310</u>

Adjustment for payments and receipts not related to Supply:

Amounts due to the Consolidated Fund received in a prior year and paid over		(847)	(1,031)
Amounts due to the Consolidated Fund received and not paid over		830	722
Net cash requirement (Schedule 1)		<u>193</u>	<u>1</u>

SCHEDULE 5**Resources by Departmental Aims and Objectives**

for the year ended 31 March 2001

	2000–01			1999–2000		
	Gross	Income	Net	Gross	Income	Net
	£000	£000	£000	£000	£000	£000
Aim						
Objective 1						
Quality and Security of Supply and Customer Representation	3,712	—	—	3,639	—	—
Objective 2						
Annual monitoring	3,494	—	—	1,499	—	—
Objective 3						
Set Prices	1,638	—	—	4,175	—	—
Objective 4						
Competition and Tariffs Policy	2,074	—	—	1,392	—	—
Net Operating Costs	10,918	(11,554)	(636)	10,705	(10,750)	(45)

Note:

Income received from Licence Fees and Publications is not specific to one objective but applies to all regulatory objectives.

Direct costs are identified to each objective through the activity costing system. Overheads are apportioned to the objectives on the basis of direct costs. Costs have been analysed over four objectives, rather than the three used in the accounts for 1999–2000, so as to provide a clearer indication of how resources have been utilised. Prior year figures have been restated accordingly.

The Department's capital is employed exclusively for administration purposes. Its distribution between objectives is therefore not markedly different from the related gross administration cost.

Notes to the Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the Accounts Direction, the Resource Accounting Manual issued by HM Treasury and the relevant accounting standards. 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 Accounting Convention

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.

1.2 Fixed Assets

Tangible fixed assets consist of furniture and fittings, office machinery, IT and telecommunications equipment. Intangible assets consist of proprietary software licences.

With the exception of PCs and office furniture, individual assets must exceed a capitalisation threshold for inclusion as fixed assets. PCs and office furniture items falling below the threshold are capitalised as groups.

1.3 Depreciation

Depreciation is provided at rates calculated to write-off the value of tangible and intangible fixed assets by equal instalments over their estimated useful lives, to their estimated residual values. Asset lives are within the following ranges:

Asset Classification	Asset Life
Furniture, fixtures and fittings	10 years
IT equipment	3–5 years
Office machinery	5 years
Telecommunications	3–5 years
Intangible assets	3 years

1.4 Leases

Assets held under finance leases are included under tangible fixed assets at their capital value and depreciated over their useful economic lives. Leasing payments consist of capital and interest elements with the interest element charged to the Operating Cost Statement. Rentals due under operating leases are charged over the lease term on a straight-line basis or on the basis of actual rental payable where this fairly reflects usage.

1.5 Research and Development

Expenditure on research and development is charged as an operating cost in the year in which it is incurred.

1.6 Operating Income

Operating income is income that relates directly to the operating activities for Ofwat. It comprises, primarily of licence fees charged on a full cost recovery basis.

Since all licence costs are recovered via the licence fees, and these are invoiced in advance based on estimated costs, any income from licence fees that exceed the level of operating costs is treated as deferred income. This is taken into account when calculating the future level of licence fees charged to the Water and Sewerage companies under the Water Act 1991.

1.7 Administration and Programme Expenditure

Administration costs are recorded in the operating cost statement. They include the costs of running the Department, as defined under the administration cost-control regime, together with associated operating income. There was no Programme expenditure.

1.8 Capital Charge

A non-cash 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 per cent in real terms on all assets less liabilities, except for:

- a) cash balance with the Office of the Paymaster General (OPG), where the charge is nil;
- b) Consolidated Fund creditors, where the credit is nil.

Notes to the Accounts (*continued*)

1.9 Pensions

Present and past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the Scheme is a defined benefit scheme, liability for payment of future benefits is charged to the PCSPS. Departments, covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

1.10 Early Departure Costs

The Department is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Department provides in full for this cost when the early retirement programme has been announced and is binding on the Department. The Department may, in certain circumstances, settle some or all of its liability in advance by making a payment to the Paymaster General's account at the Bank of England for the credit of the Civil Superannuation Vote. The amount provided is shown net of any such payments.

1.11 Taxation

Other administration costs are stated inclusive of Value Added Tax (VAT). Ofwat recovers VAT on allowable items of expenditure but this income is then paid over to the Consolidated Fund. As Ofwat receives no benefit from the VAT recovered, expenditure is stated gross of VAT.

1.12 Comparative Amounts

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

2. Staff Numbers and Costs

Staff costs consist of:

	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
Wages and Salaries	5,033	4,994
Social Security Costs	310	385
Other Pension Costs	554	602
Total	<u>5,897</u>	<u>5,981</u>

For 2000–01 contributions of £554,220 (1999–2000 £602,334) were paid to the PCSPS at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range 12–18.5 per cent of pensionable pay.

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

	2000–01	1999–2000
Objective 1—Quality and Security of Supply	103	111
Objective 2—Annual Monitoring	54	22
Objective 3—Set Prices	26	61
Objective 4—Competition and Tariffs Policy	30	23
Total	<u>213</u>	<u>217</u>

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

Name and title	Age	Salary* (as defined below)	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2001
		£000	£000	£000
Sir Ian Byatt Director General (retired July 2000)	69	30-35	0.0-2.5	<i>Note 1</i> 20-25
Philip Fletcher Director General (appointed August 2000)	54	80-85	—	<i>Note 2</i> —
David Rees Director of Corporate Finance and Economic Affairs (left October 2000)	41	50-55	0.0-2.5	0-5
Keith Mason Director Regulatory Finance (appointed March 2001)	43	0-5	0.0-2.5	5-10
Mike Saunders Director of Tariffs & Consumer Affairs	57	80-85	0.0-2.5	5-10
Roger Dunshea Director of Operations	45	70-75	0.0-2.5	0-5
Bill Emery Director of Costs and Performance and Chief Engineer	49	75-80	0.0-2.5	5-10
<i>Roy Wardle</i> <i>Head of Consumer Representation</i>	49	65-70	2.5-5.0	<i>Note 3</i> 20-25
<i>Julia Harvard</i> <i>Head of External Relations</i>	46	50-55	0.0-2.5	10-15
<i>Allan Merry</i> <i>Legal Advisor</i>	56	55-60	0.0-2.5	5-10

* Actual payments made in the period

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). 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, recruitment and retention allowances, private office allowances and performance bonuses paid in respect of the year. They do not include the estimated monetary value of benefits in kind.

Note 1

The pension details reflect the amounts as they relate to Ofwat. Total figures relating to Sir Ian Byatt's the former Director General's, pensions are:

Real increase in pension	Total accrued pension at 31 March 2001
£000	£000
2.5-5.0	55-60

Note 2

The pension arrangements have yet to be established for Philip Fletcher, the new Director General.

Notes to the Accounts (*continued*)

Note 3

The total accrued pension takes into account previous employment with other Government Departments in addition to the period of employment with Ofwat.

3. Other Administration Costs

	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
Rentals under operating leases:		
Accommodation	1,002	924
Office equipment	77	75
Other	10	7
	1,089	1,006
Non cash items:		
Depreciation	215	197
Profit on disposal of fixed assets	(4)	(3)
Cost of capital charge	17	21
Auditors remuneration	34	20
Increase in provision	12	10
Unwinding of provision discount	—	1
Permanent diminution of fixed asset	22	34
	296	280
Other expenditure:		
Consultancy services	696	867
Agency staff	129	148
Training	327	160
Travel and subsistence	296	245
Rates	246	277
Computer hire and maintenance	119	122
Other hire and maintenance	61	100
Seminars, meetings and conferences	137	93
Publications	327	409
Books and periodicals	161	171
Postal services and couriers	73	110
Telecommunications	129	118
Recruitment costs	253	137
Other	682	481
	3,636	3,438
	5,021	4,724

4. Operating Income

	2000–01		
	Appropriations-in-aid	Non appropriations-in-aid	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Operating income analysed by classification and activity, is as follows:			
Administration income:			
Allowable within			
Admin cost			
Licence fees	10,915	—	10,915
Licence fees received in Advance— prior year	1,196	—	1,196
Licence fees received in Advance— current year	(1,194)	—	(1,194)
Publication sales	—	25	25
Miscellaneous	—	321	321
Competition Commission	—	291	291
Total	10,917	637	11,554

	1999–2000		Total £000
	Appropriations-in-aid £000	Non appropriations-in-aid £000	
Operating income analysed by classification and activity, is as follows:			
Administration income:			
Allowable within			
Admin cost			
Licence fees	11,900	—	11,900
Licence fees received in Advance— current year	(1,196)	—	(1,196)
Publication sales	—	35	35
Miscellaneous	—	11	11
Total	10,704	46	10,750

Operating income not appropriated-in-aid (ie transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not (see note 5). In 2000–01, all operating income not classified as appropriations-in-aid was within public expenditure. Appropriations-in-aid represent income due to Ofwat that can be retained for offset against other public expenditure. This contrasts with CFERs, which are remitted by Ofwat to the Consolidated Fund.

Included in miscellaneous income for 2000–01 is £300,000 relating to Ofwat's cost for the Competition Commission references, consequently recovered from two water companies. The £290,566 Competition Commission income is money recovered from the two water companies on the Commission's behalf relating to their costs for the references, which will be surrendered to the Consolidated Fund.

5.1 Reconciliation of net operating costs to control total and net resource outturn

	2000–01 £000	1999–2000 £000
Net operating cost	(636)	(45)
Operating income not classified as A-in-A	637	46
Prior Period Adjustment	414	—
Net Resource Outturn	<u>415</u>	<u>1</u>

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 Estimate. The outturn against the Estimate is shown in the summary of resource outturn (Schedule 1). Schedule 1 will not be fully relevant until after the introduction, subject to parliamentary approval, of resource-based Supply.

5.2 Reconciliation of net cash requirement to the Appropriation Account

	2000–01 £000	1999–2000 £000
Net cash requirement	1	1
Expenditure shown in Appropriation account	—	—

The net cash requirement of £1,000 in the Resource accounts reflects Ofwat's status as a token vote in terms of accountability to Parliament. The Appropriation account shows the token vote and that the grant received in the Supplementary was matched by Appropriations-in-Aid.

Notes to the Accounts (*continued*)

6. Movement in working capital other than cash

	2000–01	1999–2000
	£000	£000
(Increase)/Decrease in debtors	(9)	17
Increase/(Decrease) in creditors	46	615
Net increase in working capital other than cash	<u>37</u>	<u>632</u>

7.1 Tangible Fixed Assets

	Furniture Fixtures and Fittings	Office Machinery	Telecom- munications	IT Equipment	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2000	673	136	103	593	1,505
Additions	50	14	9	21	94
Disposals	(1)	(2)	—	(49)	(52)
Revaluation	10	15	(2)	(25)	(2)
At 31 March 2001	<u>732</u>	<u>163</u>	<u>110</u>	<u>540</u>	<u>1,545</u>
Depreciation					
At 1 April 2000	471	92	96	336	995
Charged in year	57	19	7	111	194
Disposals	(1)	(2)	—	(49)	(52)
Revaluation	—	(11)	(1)	(2)	(14)
At 31 March 2001	<u>527</u>	<u>98</u>	<u>102</u>	<u>396</u>	<u>1,123</u>
Net book value at 31 March 2001	<u>205</u>	<u>65</u>	<u>8</u>	<u>144</u>	<u>422</u>
Net book value at 31 March 2000	<u>202</u>	<u>44</u>	<u>7</u>	<u>257</u>	<u>510</u>

Tangible fixed assets have been revalued using indices supplied by the Office of National Statistics in the publication "Current Cost Accounting".

Assets originally purchased to the value of £86,778 were disposed of during 2000–01. Those assets had a nil net book value for which £3,920 was received and credited to the Operating Cost Statement.

7.2 Intangible fixed assets

	Software licences
	£000
Cost or valuation	
At 1 April 2000	87
Additions	4
Revaluation	(4)
At 31 March 2001	<u>87</u>
Depreciation	
At 1 April 2000	48
Charged in year	21
Revaluation	—
	<u>69</u>
Net book value at 31 March 2001	<u>18</u>
Net book value at 31 March 2000	<u>39</u>

8. Debtors

	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Trade debtors	10	5
Other debtors	472	465
Undrawn grant	1	—
Prepayments and accrued income	259	300
HM Customs and Excise (Vat)	102	64
	<u>844</u>	<u>834</u>

Other debtors represent:

- (a) the standing deposit at Chessington Computer Services Ltd. Chessington provide payroll services to Ofwat and the deposit is held against payments that Chessington may need to make on Ofwat's behalf.
- (b) staff advances represent loans outstanding for season ticket loans in respect of 17 employees and housing advances in respect of 2 employees .

9. Cash at Bank and in Hand

	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
Balance at 1 April	474	784
Net cash flow	401	(310)
Balance at 31 March	<u>875</u>	<u>474</u>
The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances are held at 31 March:		
Balance at OPG	861	367
Commercial banks and cash in hand	14	107
	<u>875</u>	<u>474</u>

10. Creditors: amounts falling due within one year

	2000–01	1999–2000
	<u>£000</u>	<u>£000</u>
		As restated
Trade creditors	109	119
Accruals	118	31
Deferred income	1,194	1,196
Consolidated Fund:		
Surplus A in A	193	776
Actual surplus to be surrendered	486	—
Competition Commission	291	—
Other	313	46
VAT	163	192
	<u>2,867</u>	<u>2,360</u>

Notes to the Accounts (*continued*)

11. Provision for Liabilities and Charges

	D G Pension commitments	Early Retirement	2000–01 Total	1999–2000 Total
	As restated £000	£000	£000	£000
Balance at 1 April	708	156	864	882
(Decrease)/Increase in provision	—	12	12	11
Utilised in year	(208)	(30)	(238)	(29)
Balance at 31 March	500	138	638	864
Of which:				
Payable within one year	56	30	86	238

Total liabilities take into account that Ofwat is required to make full provision for the previous Director General's pension. This is an HM Treasury requirement even though 60 per cent of the pension relates to employment prior to Ofwat and will be funded from the Exchequer.

12. Revaluation Reserve

	2000–01 £000	1999–2000 £000
Balance at 1 April	87	83
Arising on revaluation during the year	13	4
Balance at 31 March	100	87

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustment of tangible and intangible fixed assets.

13. Reconciliation of Net Operating Cost to changes in the General Fund

	2000–01 £000	1999–2000 £000
Net operating cost for the year (Schedule 2)	636	45
Correction of prior years CFER creditors	8	—
Correction of prior years Depreciation	17	—
1999–2000 CFER cash timing difference	—	16
Net Parliamentary funding		
Class III Vote 10	(193)	—
Surplus to be surrendered	(485)	—
Other CFERS	(637)	(46)
Funding draw down	611	—
	(43)	15
Non-cash charges:		
Cost of capital charge	17	21
Auditor's remuneration	34	20
Net increase in the General Fund	8	56
General Fund at 1 April	(264)	
Prior period adjustment (see note 14)	(1,190)	
General fund at 1 April (as restated)	(1,454)	(320)
General Fund at 31 March (Schedule 3)	(1,446)	(264)

The negative value of total net assets arises because the funds owed to the industry are correctly shown as a liability. However, under Government Accounting rules Ofwat is required to surrender surpluses to the Consolidated Fund, which are reclaimed under HM Treasury's end of year flexibility arrangements in subsequent years. This allows Ofwat to refund to companies underspends from previous years. This is achieved by reducing the annual fee charged under Condition N of the licence.

14. Prior Period Adjustments

This relates to:

- (i) Re-stating the pension provision, the total liabilities take into account that Ofwat is required to make full provision for the previous Director General's pension. This is an HM Treasury requirement even though 60 per cent of the pension relates to employment prior to Ofwat and will be funded from the Exchequer.
- (ii) The consolidated fund creditor per the appropriation account for 1999–2000 has now been included.

15. Related Party Transactions

Ofwat has had a small number of transactions with other government Departments and other central government bodies. Most of these transactions have been with the Department of Environment, Transport and the Regions in respect of accounting services. None of the senior management team or other related parties has undertaken any material transactions with Ofwat during the year.

16. Capital and Other Commitments

There were no capital or other commitments as at 31 March 2001.

17. Commitments Under Operating Leases

At 31 March 2001 the Department was committed to making the following payments in respect of operating leases expiring:

	Buildings	Other	2000–01 Total	1999–2000 Total
	£000	£000	£000	£000
Within one year	907	63	970	1,020
Between two and five years	2,675	124	2,799	2,329
After five years	3,827	—	3,827	4,856
	7,409	187	7,596	8,205

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

18. Contingent Liabilities

There were no contingent liabilities at 31 March 2001.

19. Post Balance Sheet Events

Since 31 March 2001 Ofwat has entered into a financial commitment of £964,000 with regard to the development of information technology systems.