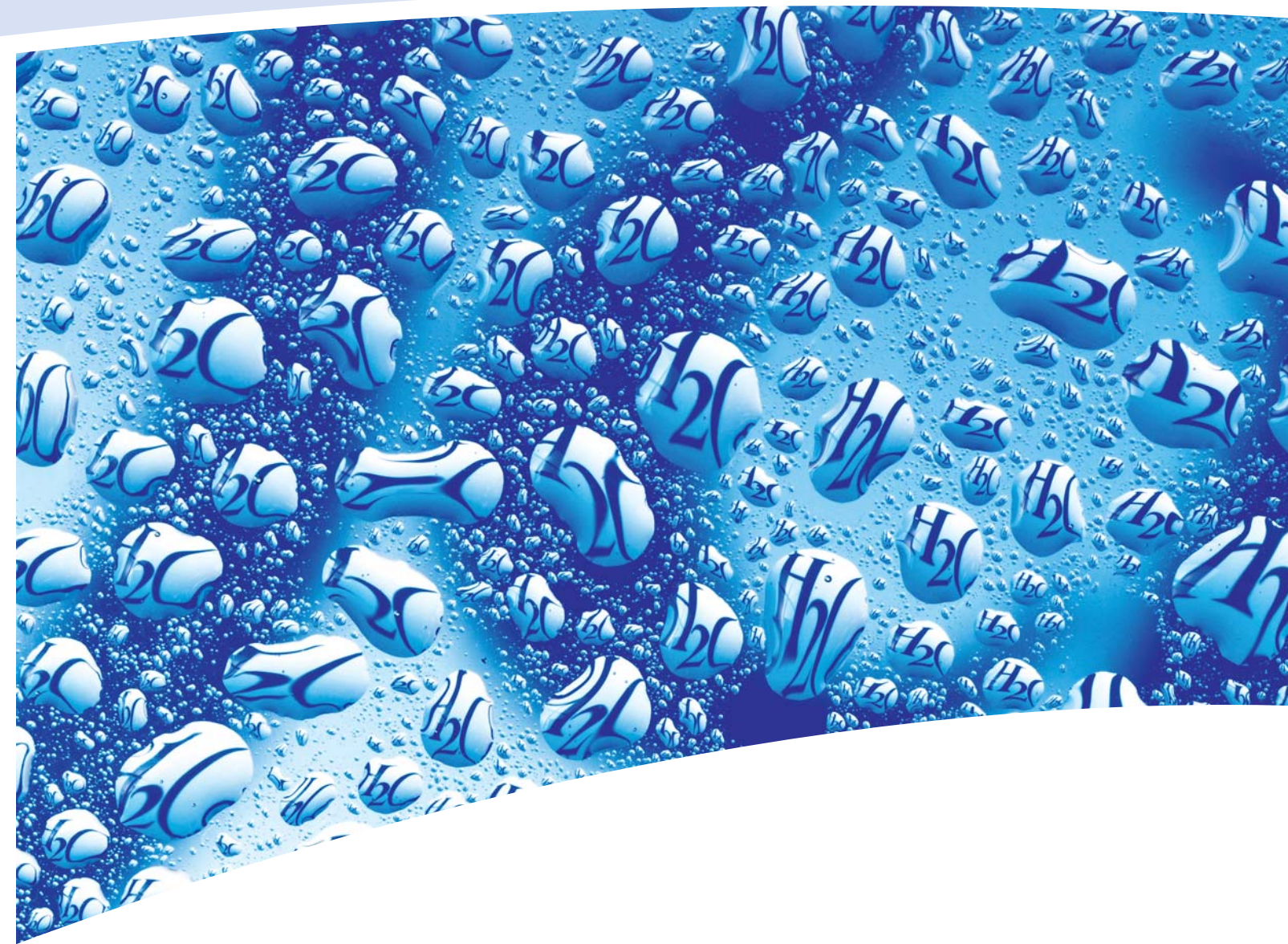


Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide customers with a good quality and efficient service at a fair price.

Annual report 2007-08

Ofwat – Protecting consumers, promoting value and safeguarding the future



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Annual report 2007-08
For the period 1 April 2007 to 31 March 2008

Presented to Parliament in pursuance of section 192B of the Water Industry Act 1991
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About this report

This report summarises what we achieved during 2007-08 to meet our aim of protecting consumers, promoting value and safeguarding the future.

We are the economic regulator of the water and sewerage sectors in England and Wales. We are directly accountable to Parliament and the National Assembly for Wales. Our duties are primarily laid out in the Water Industry Act 1991 (WIA91) as amended.

We are required to prepare an annual report each year by section 192B of the WIA91.

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Chairman's foreword

During 2007-08, Ofwat continued to focus on its duty to protect water consumers, wherever appropriate by promoting effective competition.

Pending the development of contestable markets, it remains the Board's duty to regulate monopoly companies efficiently and effectively. We believe that this can best be achieved through stable and transparent regulatory systems. These provide a clear platform for the water companies to serve customers efficiently, and meet their expectation of high-quality, safe drinking water and the equally safe removal, treatment and discharge of wastewater back to the environment. During 2007-08, we developed and published our strategy setting out our priorities for both the short and long term.

Water and wastewater services require a long-term vision if the implications of climate change are to be anticipated and met sustainably. Ofwat has been developing its approach, particularly the achievement of greater water efficiency, in close consultation with the other bodies responsible.

Companies' systems must be stable and sufficiently flexible to cope with the unexpected. In 2006, the main issue for many consumers resulted from the drought. In 2007, the service to some consumers was even more seriously affected by floods. Like other regulators, public bodies and the companies concerned, Ofwat has been looking to learn and apply lessons from these events.

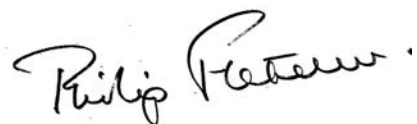
A different kind of storm, the credit crunch, has overtaken the financial markets during the later part of 2007-08. The water industry needs ready access to the markets in order to finance a very large capital programme. In contrast to other sectors, companies have where necessary been able to continue to raise finance and remain financially robust. This protects services to customers.

A significant level of corporate activity – acquisitions and refinancing – occurred in the first half of 2007. Ofwat has taken the opportunity where appropriate to strengthen customer protection through changes to company licences.

We have continued our task of holding companies to account for the delivery of services to customers. For example, leakage control has improved significantly. We expect all companies to meet their targets for 2007-08. Environmental quality has continued to improve. And we are reviewing measures of service in order to better reflect levels of customer satisfaction.

Reliable, accurate and complete data are essential to regulate the companies. A serious blemish on the performance of several companies has been misreporting of information, whether through poor systems, inappropriate corporate cultures, or in two cases deliberate misreporting. As the culmination of several years' work, in 2007-08 Ofwat fined three major companies and proposed significant penalties for a fourth. The prime lesson is that company Boards should take full responsibility for the overall quality of systems and processes that deliver services to customers and underpin the statistical returns made to Ofwat.

Our Board has been helped over the last year by continuity of membership, with one exception. Following maternity leave, Dr Melinda Acutt, Director of Network Regulation, decided to resign. I am very grateful for all that she did for Ofwat, and for the contributions which all Board members have made to our thinking. Serving the interests of water consumers would be impossible without the dedication and expertise of Ofwat's staff, and the Board is very grateful for the support we have received through the year.



Philip Fletcher

Chief Executive's report

This has been a busy and productive year for Ofwat. We have worked with our Board to develop our long-term strategy and effectively tackled many new and unplanned challenges while, at the same time, delivering our committed work programme.

The flooding that occurred during summer 2007, following unprecedented rainfall, highlighted the importance of ensuring that services can stand up to extreme events. We have contributed to the important work that is being carried out by the Pitt Review and the Environment, Food and Rural Affairs Select Committee in identifying lessons that need to be learned. We have also started to develop guidance for companies to assess the robustness of their infrastructure to extreme events so that they can take best account of the challenges of climate change in planning and delivering services to consumers.

We have spent much of the year implementing the first phase of the 2009 price review process, in close partnership with our key stakeholders. During 2007-08 we developed, consulted on and finalised our methodology for setting price limits. This builds upon the strong, clear and transparent methodologies we have used at previous price reviews. It also incorporates fresh thinking and new mechanisms for making sure that each company delivers the high-quality services its consumers expect – particularly in the face of the potential for further extreme events, like droughts or floods, because of climate change.

At the start of the year, we asked each company to prepare and publish a strategic direction statement. These statements set out how and what each company intends to deliver for its consumers over the next 25 years. They focus each company on delivering against the challenges it faces, such as the changing demographics of its customer base, and also provide the long-term context for us in setting prices for 2010-15. New methodologies, like using the shadow price of carbon in making investment decisions, will also encourage companies to consider further long-term challenges (such as mitigating climate change) in the way they deliver services to consumers. And the range of new incentives, including the capital expenditure incentive scheme that will form part of the price limit package for companies, will encourage each company to seek out value and innovation for its customers as it would in a competitive market.

Ultimately, the intervention of a regulator is no substitute for the rigours of competitive markets. This is why, during the year, we started reviewing the potential for competition within the sectors we regulate, looking at where existing mechanisms can be improved and also exploring other ways to unlock long-term value for consumers. This review, which we published in May 2008, will provide us with a direction of travel for developing competition in the water and sewerage sectors in the years to come and we will look to introduce competition progressively wherever it benefits consumers.

We welcomed the Government's announcement this year of its independent review of competition and innovation in the water and sewerage sectors, and look forward to working with Professor Martin Cave and his review team to share the results of our work. However, until competition develops, or where it proves not to be possible, we will continue to regulate effectively to protect the interests of consumers.

Finally, I would like to thank our people, whose continued hard work, professionalism and expertise this year have enabled us to protect consumers, promote value and safeguard the future.



Regina Finn



1. Protecting consumers

We consulted on and published our final methodology for the 2009 price review (PR09), where we will set price limits for all appointed companies in England and Wales for the 2010-15 period. Our approach focuses on achieving best value for consumers and the environment over the long term.

In preparation for PR09, we commissioned research with other stakeholders to explore and understand consumers' expectations and priorities in respect of the water and sewerage services they receive.

We checked and approved the charges of all appointed water and sewerage companies for 2008-09 to make sure each company stays within its price limits, does not discriminate or show preference between different customer groups and that charges broadly reflect the costs of services (see '**Spotlight on: Checking and approving charges**').

By obtaining changes to companies' licences where appropriate, we protected consumers' interests when companies changed their financial structure or were sold to new owners (see '**Spotlight on: Monitoring corporate activity**').

We took action against companies who were failing their consumers by:

- naming and shaming companies in our annual reports on company performance, for example on their progress in delivering improvements to security of supply;
- agreeing action plans with companies to resolve poor performance for particular aspects of their services, such as billing and maintenance of assets;
- following a failure to meet its leakage target, obtaining a legal undertaking from Severn Trent Water to invest its own money in fixing leaks, return money to customers and deliver a lower level of leakage than previously agreed;
- completing our investigations into Southern Water, Severn Trent Water and Thames Water for misreporting regulatory data, making sure that companies returned money owed to customers and confirming fines totalling £20.3 million for Southern Water and fines totalling £9.7 million for Thames Water (we will report on our decision for Severn Trent Water in next year's report); and
- fining United Utilities Water £8.5 million for breaking rules governing trading with its associate companies.

We carried out a review of companies' procedures for complying with the guaranteed standards scheme (GSS) Regulations.



"We're continuing to protect consumers' interests by making sure that each company delivers the services its consumers expect at a fair price. We're also driving improvements to the experience consumers have by pushing companies to get things right first time."

Andrew Dunn
Director of
Consumer Protection

We also looked at how customer service information is reported to identify and rectify any weaknesses in companies' approaches. And we worked with the Department for Environment, Food and Rural Affairs (Defra) to introduce changes to the GSS Regulations to strengthen the protection for consumers who suffer sewer flooding.

To help drive continuing improvement in the levels of services to customers we published our next steps on reviewing the overall performance assessment and developing new consumer experience measures.

To make sure that consumers receive the right signals about the value of water and that their needs continue to be met, we consulted on our future strategy for water and sewerage charges and charging principles. This will inform our work on charges and interrelated issues such as sustainability and supply/demand balance policies, and our contribution to the Government review of charging for water and sewerage services.

We contributed to high-level Government policy development, such as Defra's and the Welsh Assembly Government's consultation on transferring private sewers to company ownership, to make sure that consumers' interests are protected and that they receive good value.

We reset the price limits for Bristol Water and Dee Valley Water – but by less than either company wanted. This followed applications from both companies for increases in their price limits (interim determinations) above that which we had allowed at the 2004 price review.

Spotlight on: Checking and approving charges



“One of the things we do to protect consumers is check and approve the charges that companies can use each year. We make sure that companies comply with their price limits and do not introduce any unfairness between different groups of customers. We also check that the charges customers pay broadly reflect the costs of providing services. To help consumers understand changes in their bills, we produce leaflets, information notes and charges information each year.”

Lynne Currie Head of Customer Charges

Spotlight on: Monitoring corporate activity



“There has been a lot of corporate activity in the water and sewerage sectors in the last year. Where there is a change in the ownership or capital structure of a company, we seek to make sure that customers are not exposed to undue risk. Where necessary, this means changing a company's licence. We recently published a summary of the 2007-08 corporate activity, including what we've done to protect consumers, on our website.”

Emma Cochrane Head of Corporate Finance

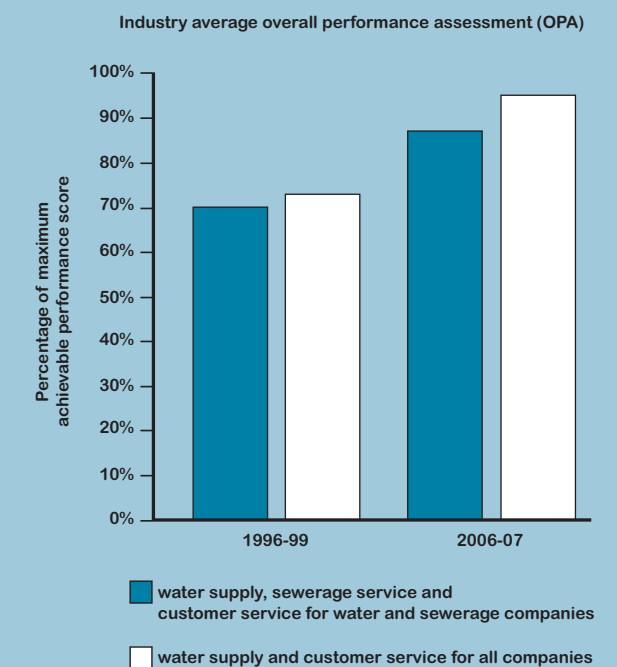
Companies have improved their performance significantly since the mid-1990s

£150

Following recommendations from us to Government, the minimum payment a customer will receive for suffering an incident of sewer flooding inside their property – companies are also investing to mitigate or prevent future incidents from occurring.

£4 million

The amount in rebates and compensation we have obtained for customers following complaints and disputes that we investigated in 2007-08. See appendix 2.



Some further information about our work to protect consumers can be found in the following documents available on our website.

Press notices:

- PN 19/07 – Ofwat confirms £8.5 million fine for United Utilities Water
- PN 26/07 – Ofwat warns water companies against complacency
- PN 02/08 – Ofwat fines Southern Water £20.3 million
- PN 04/08 – Ofwat protects consumers as new bills go up
- PN 09/08 – Increased protection for sewer-flooded customers
- PN 11/08 – Ofwat proposes £35.8 million fine on Severn Trent Water
- PN 12/08 – Ofwat fines Thames Water £9.7 million

Publications:

- Levels of service 2006-07 report
- Security of supply 2006-07 report
- Financial performance and expenditure 2006-07 report

- Water and sewerage charges 2007-08 report
- International comparisons 2007 report
- Water and sewerage services during the summer 2007 floods
- Ofwat statement on the June 2007 flooding in Hull
- Summary of 2007-08 corporate activity
- Setting price limits for 2010-15: Framework and approach
- RD 04/08 – Development of consumer experience measures
- PR 09/09 – Ofwat's review of the OPA and regulation of service to consumers

Ofwat webpages:

- Consumer issues
- Publications
- Media centre
- H₂Ofwat newsletter

Alternatively, contact our public enquiries unit on: enquiries@ofwat.gsi.gov.uk

2. Promoting value

In finalising our approach for PR09 this year, we have sought to protect consumers (see chapter 1) while also allowing efficient companies to finance their functions. We have also allowed for the potential development of competition and introduced new incentives for companies to seek out long-term value for their consumers and the environment now and in the future. Our approach to PR09 includes:

- new incentives for each company to contain costs, optimise its investment plans and performance, and be more accountable for its decisions, as well as providing other benefits (see ‘**Spotlight on: Capital expenditure incentive scheme**’);
- a new approach to correct for any revenue over- and under-recovery, that also removes any disincentive for companies to promote water efficiency; and
- requiring each company to use cost-benefit analysis to support its investment proposals, and to demonstrate links to customer preferences.

We carried out a wide review of competition (see ‘**Spotlight on: Review of competition**’) within the sectors. We published our recommendations for competition in 2008-09 and will report on this next year. We will also feed the results into the Government’s independent review of competition and innovation in the water and sewerage sectors.

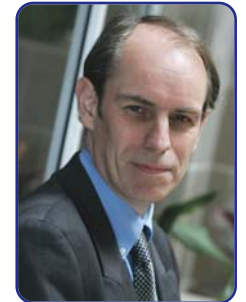
To bring the benefits of effective market competition in the water and sewerage sectors to more customers, we published proposals for changing aspects of the water supply licensing (WSL) regime.

We also approved five applications for inset appointments, where the appointed water or sewerage company is replaced by another for a specific geographical area. This included applications for three inset appointments by two new companies, the first new companies to serve household customers since privatisation. These developments will help drive further benefits for consumers.

We started work that will lead to formal accounting separation of the companies we regulate. This will require each company to provide clear information about separate parts of its business. Greater understanding of costs can bring benefits for customers by highlighting opportunities for competition and innovation.

We published our annual review of each company’s relative efficiency. This review will help us determine the right incentives and challenges to companies within price limits for 2010-15 (PR09).

We contributed to high-level Government policy to make sure that consumers receive good value. This includes work to finance the delivery of the Thames Tideway scheme.



“We want dynamic, innovative and efficient services for consumers – and through things like our incentive package for the 2009 price review and the potential development of competition we aim to help companies deliver that.”

Keith Mason
Director of
Regulatory Finance

Spotlight on: Capital expenditure incentive scheme

“We have taken a fresh look at the incentives for companies this year, particularly in capital investment programming. We published our early thinking before working up more detailed proposals. We also published and ran a workshop for our stakeholders to discuss our plans. We have now decided on our approach – the ‘capital expenditure incentive scheme’ – which will strengthen the incentives for companies to produce challenging and realistic business plans for PR09. We are looking forward to receiving some well-thought-out plans that are genuinely owned by companies, not regulatory ‘bids’, and seeing the benefits to consumers of this new approach.”

George Day Director of Network Regulation Division

Spotlight on: Review of competition

“The year was about looking back and looking forward. We believe effective competition will promote value and benefit consumers more than regulation can do alone, as well as help tackle some of the major challenges facing our industry. We’ve looked to see why the water supply licensing regime was not working and suggested areas for further work. We’ve also kick-started a debate on the widest range of options for reshaping competition – everything from taking the water out of the environment, to returning it once it has been used. We’ll be publishing our conclusions on this work in the coming year, as well as feeding in the results of our work into the Government’s independent review of competition and innovation.”

Phillip Dixon Head of Competition

2,200

1,200,000

Only 2,200 business customers can switch supplier at the moment. Our competition proposals include giving a competitive choice to all 1.2 million business users.

£100

How much lower customers’ bills will be in 2010 than they would otherwise have been as a result of our work to keep prices down, including setting companies tough efficiency challenges.

£4.46 billion

Amount water companies in England and Wales invested in 2006-07 into maintaining existing assets and investing in new facilities.

Some further information about our work to promote value can be found in the following documents available on our website.

Press notices:

- PN 16/07 – New boost for water industry competition
- PN 03/08 – Ofwat grants a second inset appointment to water supplier

Publications:

- RD 21/07 – Relative efficiency assessment 2006-07
- Outcomes of Ofwat’s internal review of competition
- Market competition in the water and sewerage sectors in England and Wales – Part one: Water Supply Licensing
- Setting price limits for 2010-15: Framework and approach

Ofwat webpages:

- Competition
- Publications
- Media centre
- *H₂*Ofwat newsletter

Alternatively, contact our public enquiries unit on: enquiries@ofwat.gsi.gov.uk



3. Safeguarding the future

In approaching PR09 we have protected consumers (see chapter 1) and promoted value (see chapter 2). We also encouraged each company to take a long-term approach to responding to the challenges it faces in providing good, reliable and sustainable services for today's consumers and future generations. This included:

- developing a framework for each company to include the environmental and social costs (such as the shadow price of carbon) of its proposals as part of PR09; and
- requiring each company to prepare and publish 25-year strategic direction statements (see '**Spotlight on: Strategic direction statements**'), showing how it will deliver for its consumers and the environment over the next 25 years.

With our stakeholders, we developed guidance for companies to pilot reporting of carbon and greenhouse gas emissions to help target action for mitigating climate change.

We reviewed how well the companies concerned managed their services to customers following the disruption caused by severe flooding during summer 2007. We highlighted the lessons learned and initiated work to help protect customers from flooding in future. We also contributed to the Government's independent review of the floods (the Pitt Review) and the Environment, Food and Rural Affairs Select Committee inquiry into the flooding.

We analysed and published information on the companies' security of supply, leakage and water efficiency performance during 2006-07 – highlighting good performances, as well as where we were taking action against companies for poor performance.

We sought to improve the approach to the supply and demand for water by:

- introducing voluntary water efficiency targets for each company;
- reviewing alternative approaches to leakage target setting that better reflect environmental and social costs of leakage (see '**Spotlight on: Review of our approach to leakage**'); and
- researching consumers' views and consulting on our future strategy for water and sewerage charges to support companies in efficiently meeting the long-term needs of their consumers.

We contributed to high-level policy development by Government and other key stakeholders to ensure good value for consumers and the environment now and in the future. This includes:

- our work as part of the Defra-led Water Saving Group (WSG);
- working with Government and others to implement the Water Framework Directive (see '**Spotlight on: Water Framework Directive**'); and
- responding to Defra's consultation on its social and environmental guidance to us.



“The companies face some difficult challenges both now and in the longer term, and they will each need to take responsibility for safeguarding the future for their consumers and the environment. The strategic direction statements we asked each company to produce this year were a first step towards more sustainable long-term water and sewerage sectors.”

Fiona Pethick
Director of
Corporate Affairs

Spotlight on: Strategic direction statements



“For me, the strategic direction statements were one of the real successes of the first phase of PR09. We required each company to prepare a long-term plan for its business, looking ahead 25 years or more, in consultation with its key stakeholders – particularly consumers. We met with each company to understand its plans. The statements that each company has now published show that the companies can take a longer-term view of sustainability and reconcile this with what consumers want.”

Mark Hann Head of PR09 Policy Co-ordination and Project Management

Spotlight on: Review of our approach to leakage



“Last year, we launched a review of our approach to setting leakage targets. Our aim was to improve the way companies measure leakage and to improve the way that they calculate their targets. Companies have reduced leakage by a third since its peak in the mid-1990s; we need to make sure our approach continues to deliver the right outcomes for consumers and the environment. This year, we used the findings of our review to provide guidance to companies as part of their business planning process for the price review.”

Paul Hope Head of Water Resource Economics

Spotlight on: Water Framework Directive



“One of the main things we’ve done this year is to work with other Government departments to support implementation of the Water Framework Directive (WFD). The WFD aims to establish an overall framework for the protection of surface waters and groundwater – thereby safeguarding the future sustainable use of water resources. We have co-ordinated the water companies’ contribution to analysis of the potential costs and mechanisms to deliver the environmental objectives of the WFD across all sectors. We are confident that the collaborative approach will deliver benefits to consumers – and the environment.”

Kevin Ridout Interim Head of Quality Enhancement

Companies have reduced leakage by about one-third since 1994-95

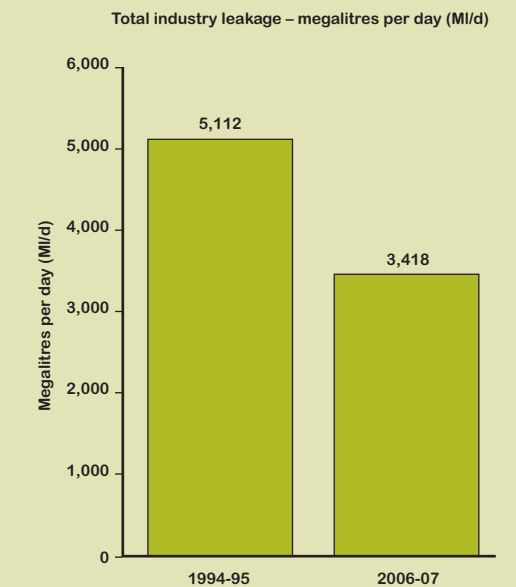
0.22p

Average cost in 2008-09 of a litre of water delivered and the equivalent volume of sewage taken away, treated and returned safely to the environment. This compares with 38p for a pint of milk or about 45p for a daily newspaper.

5,800

22,500,000

Fewer than 5,800 properties in England and Wales were flooded internally from sewers during 2006-07. While a distressing experience, it is rare – the companies supply services to about 22.5 million household properties.



Some further information about our work to safeguard the future can be found in the following documents available on our website.

Press notices:

- PN 35/07 – Water supplies secure as customers and industry save millions of litres a day

Publications:

- RD 15/07 – Water efficiency targets
- RD 02/08 – Leakage methodology review
- Water and sewerage services during the summer 2007 floods
- Setting price limits for 2010-15: Framework and approach
- Ofwat statement on the June 2007 flooding in Hull

Ofwat webpages:

- Price review
- Publications
- Media centre
- H₂Ofwat newsletter

Alternatively, contact our public enquiries unit on: enquiries@ofwat.gsi.gov.uk



4. How we do our job

Our Board developed and published our long-term strategy for developing how we regulate the water and sewerage sectors in England and Wales. The Board met regularly throughout the year and the minutes of these meetings are published on our website.

We worked closely with our key stakeholders, including the Consumer Council for Water (CCWater), on a range of cross-cutting issues. This includes, for example, work to understand the views of consumers affected by the 2007 summer floods and business customers' views on competition.

We continued to embed better regulation principles – transparency, accountability, proportionality, consistency and targeting – in all that we do. This year, we produced two impact assessments (see appendix 1) and committed to producing impact assessments for all relevant policy decisions. We also met our stated levels of service for handling written enquiries (see appendix 2).

We continued with a number of projects that will improve and simplify the way we regulate, including:

- Project Reservoir (see **'Spotlight on: Project Reservoir'**), which has improved the systems we use to do our job, for example by moving to more online data entry for companies; and
- Project Explain (see **'Spotlight on: Project Explain'**), which has improved our publications, including our main company performance reports, making them more accessible to a wider audience.

By investing in new low-energy IT hardware and moving towards less printed and more web-based publications, we improved the sustainability of our operations. We also initiated work to develop an internal sustainable development action plan that will include calculating and reducing our carbon footprint.

Our Board regularly reviews the operational and business risks we face, helped by our Audit Committee. The Committee, chaired by Peter Bucks, has been strengthened during the year with the appointment of a new independent member, Richard Kennett.

New staff were recruited on merit and through open and fair competition (audited by the Civil Service Commissioners) with the exception of three casual staff and one fixed term appointment. Appendix 4 contains further details on resource management. We also developed a new pay system for our staff to provide them with the right incentives to perform, which we will implement over the next year.

Our 2007-08 budget was revised and allocated effectively to meet our committed work programme while also dealing with additional demands made by competition, enforcement, flooding, litigation and the Thames Tideway scheme. Appendix 3 provides further information on our resource allocation.

Our Board concluded that it was necessary to seek a significant budget increase for 2008-09 if we are to deliver our new strategy and meet challenges effectively. We shall continue to focus on carrying out all our functions efficiently.



“We regulate sectors with a combined turnover of about £9 billion every year. It’s a big task and one we continue to deliver effectively. The strategy that our Board has developed this year will make sure we continue to develop our capability, invest in our staff and deliver our aim of protecting consumers, promoting value and safeguarding the future.”

Roger Dunshea
Director of Operations

Spotlight on: Project Reservoir



“One of the main things we’ve been working on this year is Project Reservoir. The purpose of this project is to provide a one-stop shop for all our office information needs and to improve the systems we use when dealing with our stakeholders. Benefits include access to all types of different information in one place, better control and management of that information, and the flexibility for users to customise their own information needs. And because we’re using open source technologies and tools it will mean lower licensing and support costs too.”

Carl Poulton Head of Information Management and Technology

Spotlight on: Project Explain



“Project Explain is part of our overall approach to simplifying what we do. We want to make sure that the information we produce for stakeholders is relevant, timely and focused. This year, we have looked at different ways to present information to different audiences. We’ve already improved the accessibility of our main company performance reports, while also keeping the detail that some stakeholders value. We’ll continue to develop this approach during the coming year, as well as looking at the other information we produce, including information for consumers. And our new website will play a big part in this.”

Ian Hulme Head of Parliamentary and Public Affairs

We managed our resources effectively to deliver our aim

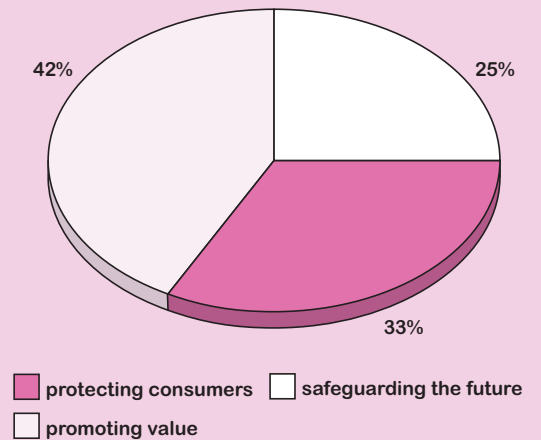
60p

The amount we cost each customer in England and Wales in 2007-08.

96%

The percentage of written enquiries we received this year that we responded to within ten working days – beating our performance target of 95%.

Estimated resource allocation for our main areas of work (%)



Some further information about how we do our job can be found in the following documents available on our website.

Press notices:

- PN 10/08 – Ofwat publishes its new strategy for regulation

Publications:

- Ofwat’s strategy – taking a forward look
- Ofwat forward programme 2007-08 to 2009-10
- 2006-07 resource accounts
- 2007-08 resource accounts
- Understanding Ofwat: A glossary of the most commonly-used Ofwat terms
- Joint equality scheme 2006-09
- Welsh language scheme 2007

Ofwat webpages:

- About Ofwat

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How we performed during 2007-08

In our 'Forward programme 2007-08 to 2009-10' (available on our website) we set out a number of specific actions for the 2007-08 financial year. The tables below show our performance and identify any outputs modified or not delivered.

Forward programme 2007-08 to 2009-10

Section	Outputs fully completed in 2007-08	Outputs continuing in 2008-09	Outputs modified or not applicable	Comments
Security of supply	7 from 7	–	–	
Leakage	2 from 2	–	–	
Harnessing market forces, incentives and innovation	5 from 5	–	–	
Market competition	5 from 6	1	–	Continuing: Our revised guidance on inset appointments will now be published during 2008-09.
Better regulation and simplification	4 from 5	–	1	Modified: We will be developing a framework for simplifying our regulatory regime within the context of the potential development of competition during 2008-09.
Protecting consumers' interests and promoting good service	2 from 5	3	–	Continuing: We started our reviews of the overall performance assessment, consumer experience measures and our future charging strategy during 2007-08. These are continuing as planned in 2008-09.
Setting price limits for 2010-15*	5 from 5	–	–	

*Published outputs for which Ofwat is solely responsible.

Sustainable development action plan

Section	Outputs fully completed in 2007-08	Outputs continuing in 2008-09	Outputs modified or not applicable	Comments
Living within environmental limits	6 from 6	–	–	
Achieving a strong, healthy and just society	6 from 6	–	–	
Achieving a sustainable economy	4 from 4	–	–	
Promoting good governance	4 from 4	–	–	
Using sound science responsibly	6 from 6	–	–	
In dealing with stakeholders, consumers and the public	5 from 6	1	–	Continuing: We have jointly signed Memoranda of Understanding with two of our key stakeholders. We hope that others will be signed during 2008-09.
In contributing to wider policy	3 from 5	1	1	Continuing: We will continue to work with Government on competition in 2008-09. Modified: The DTI project on innovation did not occur but we did contribute to the Commission for Environmental Markets and Economic Performance and the Sainsbury reviews of innovation.
Internal operations	1 from 2	1	–	Continuing: We are continuing to look at reducing our carbon footprint.
As an employer	2 from 2	–	–	

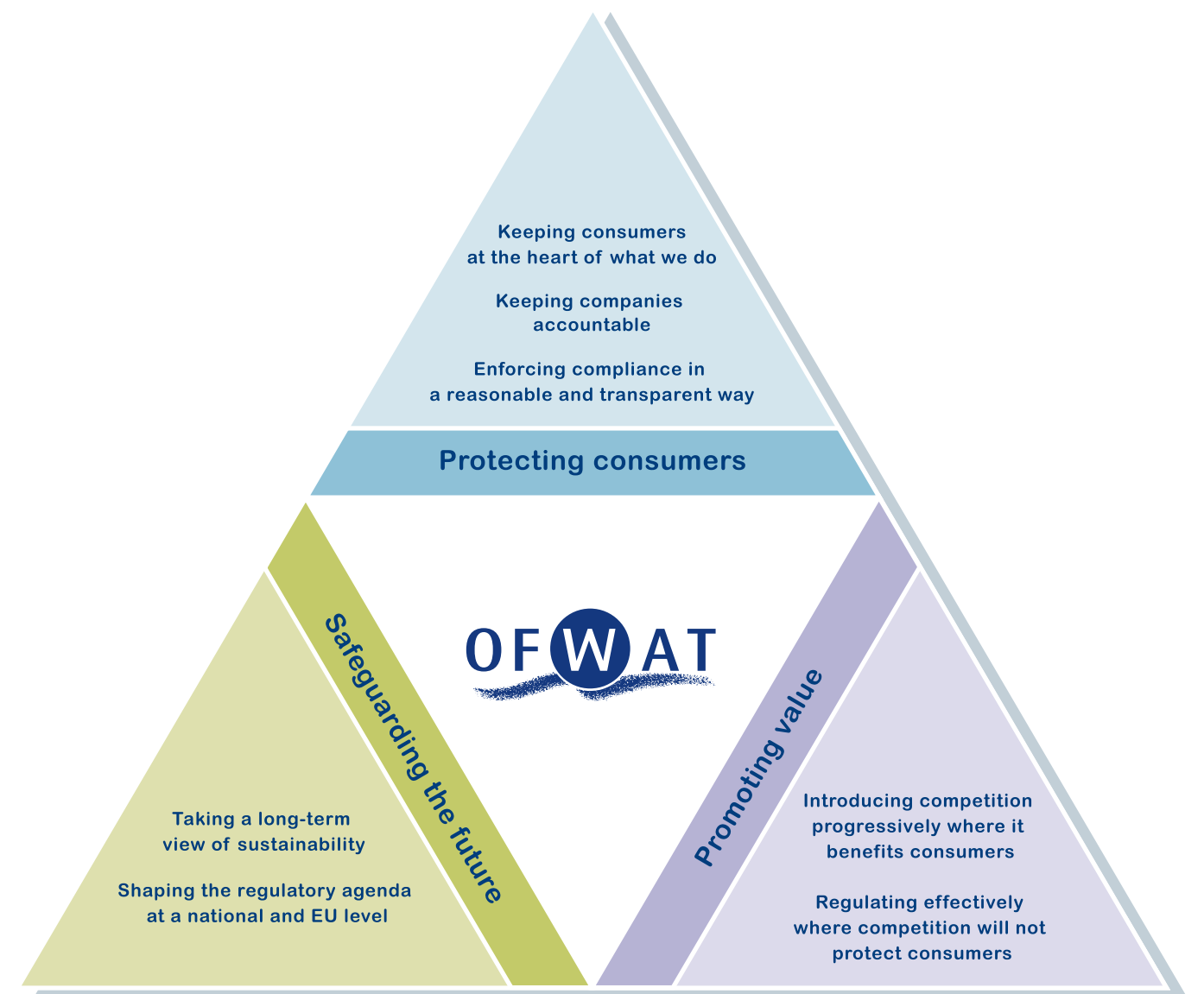
Our strategy – taking a forward look

In April 2008, we published 'Ofwat's strategy – taking a forward look' which set out how we will develop economic regulation of the water and sewerage sectors in England and Wales in the long term. While the publication date is outside the scope of this annual report, our Board worked closely with our senior management team to develop the strategy during 2007-08. We have chosen to highlight what we have done in this year's annual report. We will report on progress in implementing the strategy in our 2008-09 annual report.

Our new strategy sets out:

- our seven long-term priorities;
- what we want to achieve in the medium term; and
- our programme of work for the next three-year period to deliver our aim.

It will have a significant impact on the way we regulate over the coming years.



Water Services Regulation Authority (Ofwat)

Board:



Philip Fletcher
Chairman



Regina Finn
Chief Executive



Penny Boys
Non-executive Director



Michael Brooker
Non-executive Director



Peter Bucks
Non-executive Director



Jane May
Non-executive Director



Gillian Owen
Non-executive Director



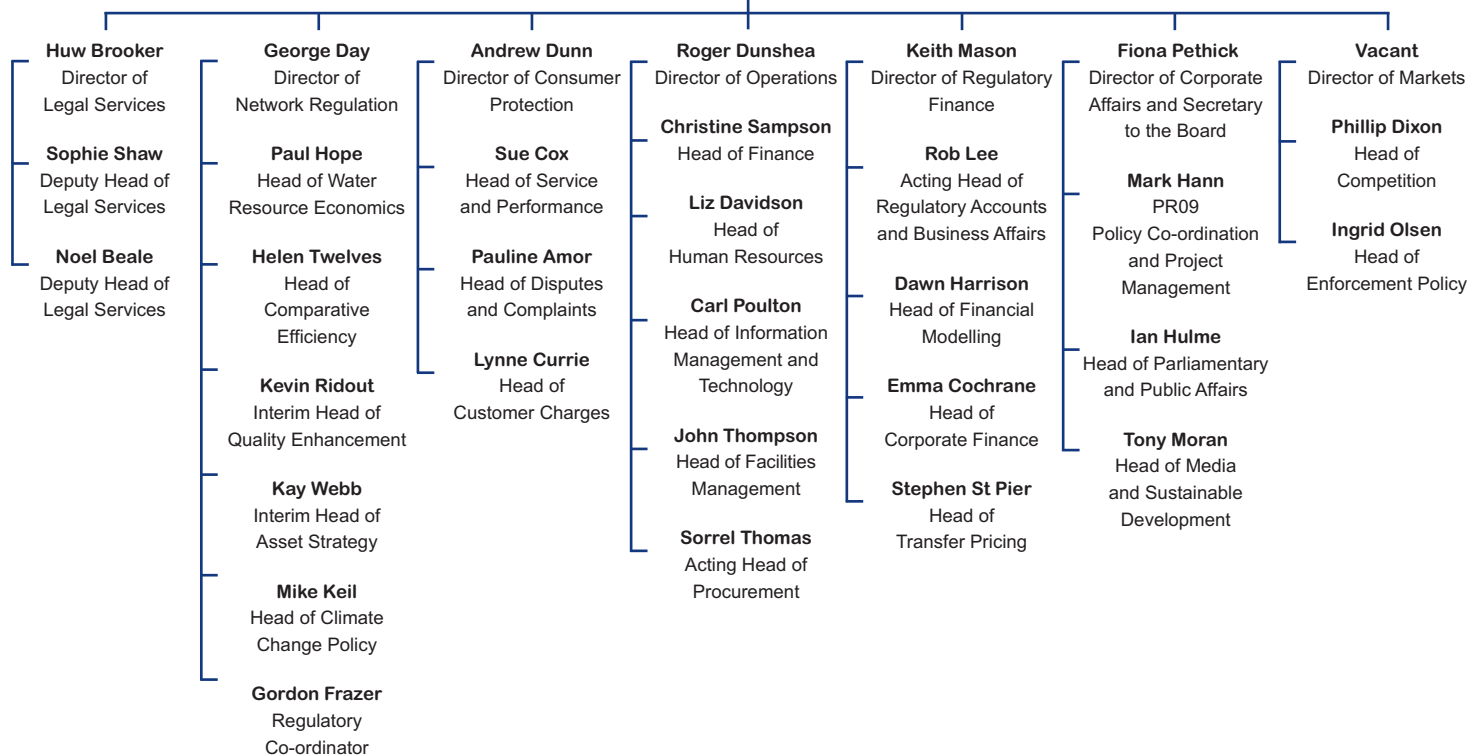
Keith Mason
Director of Regulatory
Finance



Vacant
Director of Markets

Executive:

Regina Finn — **Kulvinder Buray**
Chief Executive — Head of Executive Office



Appendix 1: List of impact assessments carried out during 2007-08

Impact assessments carried out in 2007-08

Date of publication	Document	Stage
31 July 2007	Guidance on secondary supplies: consultation responses and impact assessment	Full
23 January 2008	Ofwat's future strategy for customer charges for water and sewerage services: a consultation	Partial

Appendix 2: Performance against our stated levels of service

General enquiries

In 2007-08, we dealt with 4,130 telephone enquiries and replied to 1,965 written enquiries (6% fewer than in 2006-07).

Performance standard for general enquiries

Standard	Achieved
95% of written enquiries to be dealt with within ten working days	96%

Disputes and complaints

CCWater represents consumers in the water and sewerage sectors. It deals with the majority of complaints from consumers about the service their water or sewerage company provides, which the company itself cannot resolve. We support CCWater's complaint handling role by providing advice on individual cases and by contributing to workshops.

Disputes and complaints (continued)

Disputes and complaints we are responsible for:

- complaints about regulatory policy;
- allegations of breach of duty by a company;
- water supply and sewer connection charges;
- requisitioning of water mains, sewers and lateral drains;
- adoption and financial arrangements in respect of self-laid mains;
- sewer appeals;
- refusals by companies to install an optional meter;
- GSS payments;
- trade effluent appeals; and
- pipe laying in streets and in private land.

We dealt with almost 1,300 disputes and complaints in 2007-08, obtaining rebates or compensation of more than £4 million. We have also succeeded in getting companies to carry out capital works to resolve problems, which exceeded £6.5 million in value. The time taken to resolve complaints depends on the nature and complexity of individual cases, but we aim to deliver our performance standards. Performance against these standards is shown in the table below.

Performance standards for disputes and complaints

Standard	Achieved
80% of non-investigated complaints to be dealt with within ten working days	86%
65% of investigated complaints to be resolved within three months (65 working days)	60%
80% of investigated complaints to be resolved within six months (130 working days)	82%

We also ask consumers about how we handled their complaints about their water or sewerage company. In 2007-08, we issued 464 questionnaires and received 240 responses. From those, we received the following feedback.

Consumers' views

Category	Achieved
Satisfied or very satisfied with outcome of complaint	43%
Considered that we had dealt with complaint as quickly or quicker than expected	75%
Considered our correspondence clear or very clear and easy to understand	89%
Satisfied or very satisfied with the way we handled their complaint	46%

In many cases where consumers expressed dissatisfaction with the outcome of, or the way in which we had handled, their complaint, they were unhappy that the legal position or our policy did not support their individual circumstances. However, we continually review our handling of complaints and performance standards in the light of consumer feedback.

Appendix 3: Summary of our 2007-08 expenditure

The financial information provided in the tables below is the latest available forecast and is subject to external audit by the National Audit Office. Accounts are prepared in accordance with HM Treasury's resource accounting requirements.

Estimated income and expenditure 2007-08

	£000	£000
Income		
Licence fees recovered	12,578	
Other income (including brought forward licence fees)	1,166	
Licence fees unused to carry forward	(533)	
Total income		13,211
Expenditure		
Permanent staff	8,250	
Personnel overheads (eg, recruitment)	474	
Consultancy projects	2,019	
Accommodation	1,179	
Accommodation upgrade	178	
Non-cash items (eg, depreciation)	266	
Other	845	
Total expenditure		13,211

Administration costs (by activity group)

	2007-08 estimated outturn £000
Regulatory monitoring and action	6,255
Corporate affairs and legal services	2,497
Finance, human resources, facilities management, information management and technology	3,136
Accommodation	1,323
Total expenditure	13,211

Our administration costs

	2006-07 outturn £000	2007-08 estimated £000	2008-09 plans £000
Gross administration costs:			
Staff	7,191	8,250	10,296
Other	4,320	4,961	7,604
Total gross administration costs	11,511	13,211	17,900
Related administrative receipts from licence fees and other minor receipts	(11,511)	(13,211)	(17,900)
Total net administration costs	-	-	-

Appendix 4: Resource management 2007-08

Staff recruitment during 2007-08 (by gender and ethnic group)

Level	Number appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Head of team/function	3	0	0
Middle management	11	45	18
Clerical and secretarial	31	51	19
Total	45	46	17

Employed staff information (as at 31 March 2008)

Full-time equivalent staff (as at 31 March 2008)	193
Proportion of women (%)	56
Proportion from ethnic minorities (%)	20
Proportion disabled (%)	1.5
Members of the Senior Civil Service	6
Number of fixed-term and casual contracts	13
Number of staff working part-time	15
Staff turnover (%)	12

Salaries for members of the Senior Civil Service (as at 31 March 2008)

£100,000 – 140,000	2
£90,000 – 99,999	2
£75,000 – 89,999	2

Staff training attendance 2007-08 (by ethnic group)

Ethnic group	Number of training days*	%**
White	425	82
Other ethnic groups	94	18
Total number of training days	519	100

* Number of days has been rounded up. **Percentage has been rounded to the nearest whole number.

Consultancy and professional services expenditure summary 2007-08 (company contracts costing more than £50,000 excluding VAT)

Project	Supplier
Organisational development	Field Enterprise Ltd
Accommodation upgrade	EC Harris
Java analyst	Badenoch & Clark
Interim manager services	Walker Cox Consortium
Competition	Deloitte & Touche LLP
Access pricing and eligibility in the water and sewerage sectors	Europe Economics
Thames Tideway Project*	Mott Macdonald
Thames Tideway Project*	PriceWaterhouse Coopers

*These projects were charged directly to Thames Water.