

Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6.

---

# **Water Services Regulation Authority**

## **Resource Accounts 2007-08**

**(For the year ended 31 March 2008)**

*Ordered by the House of Commons to be printed 17 July 2008*

---

Presented pursuant to the Government Resources and Accounts Act 2000 c.20, s.6.

---

# **Water Services Regulation Authority**

## **Resource Accounts 2007-08**

**(For the year ended 31 March 2008)**

*Ordered by the House of Commons to be printed 17 July 2008*

---

**© Crown Copyright 2008**

The text in this document (excluding the Royal Arms and other departmental or agency logos) may be reproduced free of charge in any format or medium providing it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU or e-mail: [licensing@opsi.gov.uk](mailto:licensing@opsi.gov.uk)

ISBN 978 0 10 295751 8

**Contents**

Annual Report	2
Foreword	2
Sustainability Report	4
Management Commentary	5
Remuneration Report	10
Statement of Accounting Officer's Responsibilities	16
Statement on Internal Control	17
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	19
Accounting Schedules:	
Statement of Parliamentary Supply	21
Operating Cost Statement	22
Statement of Recognised Gains and Losses	23
Balance Sheet	24
Cash Flow Statement	25
Net Operating Costs by Departmental Aim and Objectives	26
Notes to the Departmental Resource Accounts	27

## Annual Report

### Resource Accounts: Water Services Regulation Authority

#### Foreword

These accounts cover the operation of the Water Services Regulation Authority (Ofwat) for the period 1 April 2007 to 31 March 2008. They have been prepared on an accruals basis in accordance with the Government Financial Reporting Manual (FRM). The report summarises the main objectives and outputs for the year.

#### Ofwat's aims and objectives

The Water Services Regulation Authority is the economic regulator of the water and sewerage companies in England and Wales.

Our duties are laid down in the Water Industry Act 1991 (WIA91) and Water Act 2003 (WA03).

In exercising functions we are required, by section 2 of WIA91 (as amended by Section 39 WA03), to act in a way that we judge will:

- enable water and sewerage companies to carry out their functions properly;
- enable them to finance their functions, in particular by securing a reasonable rate of return on their capital;
- promote effective competition in the interest of consumers;
- have regard to the interests of vulnerable groups;
- promote economy and efficiency on the part of companies; and
- contribute to the achievement of sustainable development.

We also take due account of our general environmental and recreational duties under the Act.

Our main objectives in the period 1 April 2007 to 31 March 2008 were:

- Objective 1 - Protecting consumers: monitoring and enforcement, leakage targets and special investigations;
- Objective 2 - Promoting value: operation of the water supply licence regime, competition policy development and launch of the 2009 price review; and
- Objective 3 - Safeguarding the future: security of supply, environmental and water quality improvement.

**Review of Ofwat's activities**

Our latest annual report was published on 26 June 2008 (HC589). It is available on our website [www.ofwat.gov.uk](http://www.ofwat.gov.uk), or by contacting The Stationery Office on: 0870 600 5522.

Our key outputs for 2007-08, as reported in our annual report, are listed below.

**1. Protecting consumers**

- We completed our investigations into irregularities in the customer service data at Severn Trent Water Ltd, Thames Water Utilities Ltd and Southern Water Ltd. We gave notice of financial penalties for each company and confirmed a fine of £20.27 million on Southern Water Ltd. The investigation into leakage data supplied by Severn Trent Ltd was subject to a Serious Fraud Office prosecution and on 1 July 2008 the company was fined £2 million at the Central Criminal Court;
- We fined United Utilities Water Plc £8.5 million for failing to trade at arm's length with its associate companies;
- Companies made further improvements to control leakage and security of supply. Thames Water Utilities Ltd continues to deliver against the legally binding undertaking to renew 388km of mains imposed in 2006/07;
- We continued to publish comparisons of companies' performance in our four annual industry reports;
- We secured widespread support for our proposals to make our service measures more reflective of consumer experience and expectations; and
- Following consultation, we updated our approach to charging policy to enable companies to bring forward more innovative tariffs, for instance to minimise bad debt and to give customers more incentive to use water efficiently.

**2. Promoting value**

- We launched the 2009 periodic review of the price limits (PR09) with the publication of our consultation on the proposed methodology and approach. We received a Strategic Direction Statement from each company, setting out its long-term aims and goals for its consumers. We issued the draft reporting requirements for the PR09 draft business plans, which will be received in August 2008; and
- We commissioned and published a major report into the options for further market competition in the sector. We issued updated guidance for water supply licences relating to access codes and secondary supplies.

**3. Safeguarding the future**

- We contributed to the key inquiries following the serious summer flooding in Yorkshire, Hull and Gloucestershire;
- We continued to play an active role in the Government-led Water Saving Group;
- We set up a new policy unit to assess the impact of climate change on our regulatory policy, notably linked to PR09;
- We worked with Defra on its new long-term water strategy; and
- We continued to support the implementation of the Water Framework Directive through participation in stakeholder and implementation meetings. We also responded to a consultation on the river basin planning process.

## **Sustainability Report**

### **Taking account of the environment in Ofwat's work**

In April 2008 we published 'Ofwat's strategy – taking a forward look' and one of the seven key strategic priorities is 'taking a long-term view of sustainability'. The strategy indicates the principal aim that social and environmental impacts are included in investment decisions.

During 2007-08 we set up a new team to develop our policy and approach to climate change.

We encourage water and sewerage companies to take responsibility for the wider social and environmental impacts of their activities. Companies must meet today's consumer needs, without prejudicing future generations.

In October 2007 we asked each company to set out its long-term plan for the next 25 years. These Strategic Direction Statements show how the sector is thinking and acting to secure long-term, sustainable water and sewerage services.

We will continue to work on embedding sustainable development and climate change action at the heart of policy, encouraging the industry to take sensible and measured steps that benefit and secure services over the long-term.

We published our first Sustainable Development Action Plan (SDAP) in our 2007-08 forward programme. We aim to reduce our own environmental impact by:

- promotion of a public transport discount scheme for employees;
- recycling of paper and other products;
- reduction in printing documents and increasing reliance on web based publications;
- enabling home/remote working; and
- investment in energy efficient information technology.

From 2008-09 we will carry out a yearly sustainability audit which will enable us to identify strengths and weaknesses in our processes and plans, as well as identifying actions to address these issues. Our revised SDAP will also reflect Ofwat's external policies.

## Management Commentary

### Financial commentary

The financial highlights for Ofwat are summarised below:

#### Operating costs summary

	2007-08 £000	2006-07 £000
<b>Income</b>		
Deferred income prior year	1,841	1,341
Licence fees received	12,578	11,804
Other income	111	168
	<u>14,530</u>	<u>13,313</u>
<b>Expenditure</b>		
Administration costs	(13,237)	(11,511)
	<u>1,293</u>	<u>1,802</u>
Licence Fee income deferred to the following period	(1,319)	(1,841)
Net operating cost	<u>(26)</u>	<u>(39)</u>

Ofwat is funded by fees charged to the regulated companies. Our fee income is subject to the constraints set out in the appointed companies' licence conditions. Our budget is subject to negotiation with HM Treasury. The operating budget set at the start of the year was £13 million. During the year new financial uncertainties emerged relating to external factors, notably competition and enforcement policy. To provide for these, the Board approved a budget increase to £13.64 million in the third quarter. Additional work was required on:

- the options appraisal for the Thames Tideway Scheme;
- enforcement action; and
- appeals at the Competition Appeal Tribunal (CAT).

The budget increase was funded from the accumulated underspend (classified in the accounts as deferred income) and a special fee. In the fourth quarter we expected to incur expenditure for:

- the latest judgement on Albion Water Ltd by the CAT; and
- to commission a major study into the summer 2007 floods in Hull.

These were included in Ofwat's Spring Supplementary Estimate of £14.4m, which received Royal Assent on 20 March 2008. The Board were not required to approve a further increase in the budget because:

- the CAT judgement on Albion Water Ltd has yet to conclude, so this item is classified as a contingent liability, (note 22); and
- we did not need to commission a major study into the floods in Hull.

Fees are recovered annually from appointed companies and licensed suppliers. At the beginning of the financial year we recovered £12.4 million of fees and during the year a further £0.2 million special fee from Thames Water Utilities Ltd. Other income was made up from:

- the draw down of deferred income held by HM Treasury;
- income from the service level agreement with the Consumer Council for Water (CCWater); and
- the sale of publications.

In November 2007, we agreed with Thames Water Utilities Ltd that we would recover our costs (£178.5k) associated with the Thames Tideway scheme through a special fee to be recovered in March 2008.

During the year we collected the £8.5 million fine from United Utilities Water Plc and paid this over to the Consolidated Fund. Although we issued Southern Water Ltd a fine of £20.27 million this is not due for payment

until after 31 March 2008 (note 12a). This sum is due to the Consolidated Fund and is shown as a creditor (note 14a).

Compared with 2006-07 our operating expenditure increased by 15%. This was due to additional costs associated with:

- Competition Appeal Tribunal (CAT) cases;
- enforcement policy and litigation;
- climate change policy;
- competition policy development;
- Thames Tideway Scheme; and
- special investigations (such as that into the 2007 summer floods).

During the year the IT desk-top software and personal computers were replaced at a cost of £205k (capital and revenue). The office accommodation was rationalised closing 7,000 sq ft of floor space in conjunction with a refurbishment scheme costing £294k (capital and revenue).

### Reconciliation of resource expenditure between Estimates, Accounts and Budgets

Ofwat prepares resource accounts under the Government Resources and Accounts Act 2000 and is required in the management commentary to include a reconciliation of resource expenditure between Estimates, Accounts and Budgets. Departments report to Parliament through Resource Accounting and to HM Treasury through the Resource Budget.

The Estimate is a statement of how much money Ofwat expects to need in the coming year and for what purposes, for which parliamentary authority is sought. This may include cash receipts.

The Resource Budget is the means by which the government plan and control the expenditure of resources to meet its objectives. During the financial year Ofwat disposed of tangible fixed assets at a loss of £9k resulting in administration operating costs being incurred outside of the administration budget. This arose because of an unintended consequence of an HM Treasury classification change relating to the disposal of assets in 2006-07.

The Net Operating Cost can differ from the Estimate and the Resource Budget because it may include items that fall outside of the UK Government's remit for example EU transactions.

	2007-08 £000	2006-07 £000
<b>Net Resource Outturn (Estimates)</b>	26	39
Net Operating Cost (Accounts)	26	39
Resource Budget Outturn (Budget) of which:	17	39
Departmental Expenditure Limits (DEL)	(9)	-
Annually Managed Expenditure (AME)	26	39

We observe parliamentary control totals for administration costs which are analysed by objectives. These details are provided in the accounting statement and supporting notes to the accounts (pages 27 to 41).

Authority for us to incur expenditure is provided by Parliament through the public expenditure process.

### International Financial Reporting Standards (IFRS)

Ahead of the first-time adoption of IFRS in 2009-10, we carried out an impact assessment in year. The main change for Ofwat is expected to centre on compliance with International Accounting Standard (IAS)17 'Leases' and IAS19 'Employee Benefits'. Current leases and contracts are to be reviewed to ensure they are correctly classified and work is in progress to assess any liability for accrued employment rights at 31 March 2009.

The format of our accounts and accounting policies will also be reviewed in line with IAS1 'Format of the Accounts' and IAS8 'Accounting Policies'.

### Financial instruments

We do not have borrowings and rely primarily on licence fee income and Contingency Fund repayable advances for our cash requirements. We are not, therefore, exposed to significant liquidity risks. Further details are provided at note 21 to the accounts.

**Going concern**

Our balance sheet at 31 March 2008 shows negative taxpayers' equity of £3.6 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the Consolidated Fund. This is primarily made up of the accumulated underspend and the pension provision for the retired Directors General of Water Services. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the specified year nor retained in excess of that need. All unspent monies, including those derived from Ofwat's income, are surrenderable to the Consolidated Fund.

In common with other government departments, the future financing of our liabilities is met by future grants of supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. We confirm our funding for 2008-09 has been approved. The accounts for 2007-08 have been prepared on a going concern basis.

**Roles and responsibilities**

Ofwat is a non-ministerial government department with its own resource estimate. The chairman of the Ofwat board is Philip Fletcher, the former Director General of Water Services.

The board has a non-executive chairman, five non-executive directors and three executive directors, including the Chief Executive, Regina Finn, who is the Accounting Officer.

**Non-executive directors**

Philip Fletcher CBE (Chairman), 2-3 days a week.

Director General of Water Services 2000-06. Member of the Archbishops' Council for the Church of England and member of the Ofqual Committee (both positions are unpaid).

Penny Boys CB (Member of the Remuneration Committee (until July 2008) and Audit Committee), 2-3 days a month.

Deputy Chairman of the Horserace Betting Levy Board. Former Executive Director of Office of Fair Trading.

Michael Brooker (Member of the Remuneration Committee (from September 2008)), 2-3 days a month.

Non-executive director of the Water Industry Commission for Scotland and the Executive Board of the Natural Environment Research Council. Former Chief Executive of Dŵr Cymru Cyfyngedig (Welsh Water Ltd).

Peter Bucks (Chairman of Audit Committee), 2-3 days a month.

Non-executive board member of the Office of Rail Regulation. Senior Financial Adviser to Ofgem (1997 to 2008). Former Corporate Finance Adviser to Ofwat (2000-05).

Jane May (Chairman of Remuneration Committee), 2-3 days a month.

Non-executive board member of the Office of Rail Regulation and non-executive director of the Public Guardianship Office and SITA Trust Board.

Gillian Owen, 2-3 days a month.

Independent Consultant and Senior Research Fellow at the Centre for Management Under Regulation (Warwick University) and Policy and Regulation Adviser to the Renewable Energy and Energy Efficiency Partnership. Former member of the Competition Commission.

**Non-executive directors' terms of appointment**

Non-executive director appointments are generally for five years. The appointments of Philip Fletcher, Jane May, Peter Bucks, Gillian Owen and Michael Brooker terminate on 31 May 2011 and Penny Boys on 31 March 2010.

**Audit Committee**

Our financial controls and risk management systems and reports are scrutinised by the Audit Committee. Members of the committee in 2007-08 were Peter Bucks (Chairman), Penny Boys and Richard Kennett (Independent member from 1 February 2008). Richard Kennett, who is a chartered accountant with extensive experience in audit, business and risk management, is a Business Services and Audit Director with Tenon and is a member of the Audit Committee of the Health Professions Council.

The NAO, internal audit (KPMG Audit LLP), the Chief Executive and senior finance staff attend the committee. The Audit Committee met three times during the year.

**Equal opportunities policy**

We recruit staff on merit through fair and open competition. This ensures equal opportunity for employment, regardless of:

- race;
- colour;
- nationality or ethnic or national origin;
- sex;
- sexual orientation;
- age;
- marital status;
- disability;
- religion; or
- working pattern.

All recruitment activity is subject to audit by the Civil Service Commissioners to ensure that we comply with the guidance set out in its recruitment code.

During the year we undertook thirty-six separate recruitments, which in some cases sought more than one member of staff. Everyone was recruited through open competition, with the exception of three casual staff and one fixed term appointment.

**Employee involvement**

We attach great importance to managing, developing and training staff. Ofwat is an accredited Investors in People organisation. In November 2007, we held a successful employee event at which board members and colleagues shared ideas on the key issues affecting our work. We have a staff committee, which is consulted on a range of issues including our forward programme. We have a recognition agreement with the trade unions that represent Ofwat staff, namely PCS, Prospect and FDA. During the year, we invested in a programme of work to upgrade our office accommodation and provide a better working environment for staff.

**Payment of suppliers**

We achieved 99.4% against the Government target for paying agreed invoices within 30 days of receipt during 2007-08. We are committed to achieving the 100% target. The corresponding figure for 2006-07 was 99.8%.

**Internal audit**

KPMG Audit LLP (KPMG) provides our internal audit services. The service provides an independent appraisal service for management by measuring and auditing the adequacy, reliability and effectiveness of management and financial controls systems. KPMG make recommendations based on the appraisal of each system reviewed.

During the year no remuneration was paid to KPMG for non-audit work.

**External audit**

Our external auditor is the Comptroller and Audit General (C&AG) who is required to audit the financial statements under the Government Resources and Accounts Act 2000 and HM Treasury direction and report to Parliament on his examination.

The Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that Ofwat's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which Ofwat's auditors are unaware.

The notional cost of this service is £38k, which has been met by a non-cash adjustment to the General Fund.

**The future**

In April 2008 we published 'Ofwat's strategy – taking a forward look'. This document sets out our priorities for guiding how we will develop economic regulation of the water and sewerage sectors in England and Wales over the long-term, and how we will deliver our aim of protecting consumers, promoting value and safeguarding the future. This includes:

- the periodic review of price limits in 2009 (PR09);
- a strategic review of competition in the sector; and
- long-term sustainable development.

*Regina Finn*  
Accounting Officer

10 July 2008

## Remuneration Report

### Management team

The composition of the management team in the reporting period was as follows:

Regina Finn*	Chief Executive
Melinda Acutt (until 3 January 2008)*	Director of Network Regulation
Jonathan Hodgkin (6 March 2007 – 14 March 2008)	Interim Director of Network Regulation
Keith Mason*	Director of Regulatory Finance and Competition
Andrew Dunn	Director of Consumer Protection
Roger Dunshea	Director of Operations
Huw Brooker	Director of Legal Services
Fiona Butcher (18 June 2007 – 8 February 2008)	Interim Director of Legal Services
Fiona Pethick	Director of Corporate Affairs
George Day (from 10 March 2008)	Joint Interim Director of Network Regulation
Paul Hope (from 10 March 2008)	Joint Interim Director of Network Regulation

\* denotes board member.

Members of the management team (with the exception of Jonathan Hodgkin, Fiona Butcher, George Day and Paul Hope) are members of the Senior Civil Service and are appraised and remunerated, including performance pay, in line with the SCS requirements. The contracts of the members of the management team can be terminated by the standard process as set out in the Civil Service Management Code. Details of remuneration are included in the tables below.

George Day and Paul Hope were appointed to share the responsibilities of Director of Network Regulation whilst recruitment for the role took place. They are remunerated in line with other staff.

Senior managers and board members have declared that they have no company directorships or significant interests that might have caused a conflict with their Ofwat responsibilities.

### Interim directors

During the financial year it was necessary to employ the services of two interim directors:

- Jonathan Hodgkin (Interim Director of Network Regulation); and
- Fiona Butcher (Interim Director of Legal Services).

HM Treasury approved a business case for the provision of Jonathan Hodgkin's services through Walker Cox Ltd. This approval was required because there was a possibility of the cost exceeding HM Treasury's £250k threshold.

### Staff remuneration

A performance related pay (PRP) system applies to all staff. The Remuneration Committee approves the annual pay awards.

Salaries are set on the basis of recruiting and retaining high-calibre staff within the framework of controlling public expenditure set by the Government. PRP is determined by the appraisal system and limits set by HM Treasury. During the year, we initiated a review of our pay system.

### Non-executive directors

The chairman and non-executive directors are remunerated in line with the recommendations made by Cabinet Office.

**Remuneration Committee members**

During the year the members of the SCS and Staff Remuneration Committees were:

Jane May (Chair)

Philip Fletcher CBE

Penny Boys CB (until July 2008)

Michael Brooker (from September 2008)

**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 is 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 HM Treasury's instructions and as described on page 15.

A full provision has been made in the accounts for liabilities arising in respect of the by-analogy pension schemes for both the former Directors General as required by HM Treasury (note 15). Claims are made on the Exchequer to cover the pension costs that relate to employment other than with Ofwat.

The roles of the chairman and non-executive directors are non-pensionable.

**Senior managers' remuneration**

The following information was subject to audit.

	Salary £000	2007-08 Benefits in kind (to nearest £100)	Salary £000	2006-07 Benefits in kind (to nearest £100)
<b>Regina Finn</b> Chief Executive	140-145	-	60-65 (full year equivalent 130-135)	-
<b>Roger Dunshea</b> Director of Operations	95-100	-	95-100	-
<b>Melinda Acutt</b> Director of Network Regulation (until 3 January 2008)	55-60 (full year equivalent 90-95)	5,400	85-90	-
<b>Keith Mason</b> Director of Regulatory Finance and Competition	105-110	-	95-100	-
<b>Huw Brooker</b> Director of Legal Services	95-100	-	80-85	-
<b>Fiona Butcher*</b> Interim Director of Legal Services (18 June 2007 – 8 February 2008)	35-40 (full year equivalent 100-105)	5,500	-	-
<b>Andrew Dunn</b> Director of Consumer Protection	80-85	5,300	5-10 (full year equivalent 80-85)	-
<b>Fiona Pethick</b> Director of Corporate Affairs	85-90	-	80-85	-
<b>George Day</b> Joint Interim Director of Network Regulation (from 10 March 2008)	0-5 (full year equivalent 70-75)	-	-	-
<b>Paul Hope</b> Joint Interim Director of Network Regulation (from 10 March 2008)	0-5 (full year equivalent 65-70)	-	-	-
<b>Third party payments</b>				
<b>Provision of interim manager services</b>	<b>2007-08 Payment £000</b>			
<b>Walker Cox Ltd</b> Jonathan Hodgkin* Interim Director of Network Regulation (6 March 2007 – 14 March 2008)	260-265			

\*Civil service pension rights are not applicable to these members of the senior management team.

**Non-executive members of the Authority remuneration**

	Salary £000	2007-08 Benefits in kind (to nearest £100)	Salary £000	2006-07 Benefits in kind (to nearest £100)
<b>Philip Fletcher CBE</b> Chairman	100-105	2,200	45-50* (full year equivalent 100-105)	2,100
<b>Peter Bucks</b> Non-executive Director	15-20	2,400	10-15	2,700
<b>Penny Boys CB</b> Non-executive Director	15-20	3,600	10-15	2,700
<b>Jane May</b> Non-executive Director	15-20	800	10-15	1,000
<b>Michael Brooker</b> Non-executive Director	15-20	1,000	0-5 (full year equivalent 10-15)	-
<b>Gillian Owen</b> Non-executive Director	15-20	600	0-5 (full year equivalent 10-15)	-

\*Philip Fletcher CBE also received a salary in the range £85,000-90,000 as Acting Chief Executive from 1 April to 8 October 2006.

**Independent members of the Authority remuneration**

	Salary £000	2007-08 Benefits in kind (to nearest £100)	Salary £000	2006-07 Benefits in kind (to nearest £100)
<b>Richard Kennett</b> Independent Member (from 1 February 2008)	0-5 (full year equivalent 0-5)	-	-	-

**Salary**

“Salary” covers both pensionable and non-pensionable amounts and 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.

**Benefits in kind**

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HM Revenue and Customs. Items that fell into this category were:

- relocation costs for the:  
Director of Network Regulation; and  
Director of Consumer Protection.
- subsistence and travel arrangements for the:  
non-executive members of the Authority; and  
the Interim Director of Legal Services.

**Senior managers' pension benefits**

	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2007 and related lump sum £000	CETV at 31 March 2008 £000	*CETV at 31 March 2007 £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
<b>Regina Finn</b> Chief Executive	0-2.5: lump sum -	0-5: lump sum -	35	10	19	5,200
<b>Roger Dunshea</b> Director of Operations	0-2.5: lump sum 0-5	30-35: lump sum 90-95	610	518	14	1,400
<b>Melinda Acutt</b> Director of Network Regulation (until 3 January 2008)	0-2.5: lump sum -	0-5: lump sum -	35	19	13	1,700
<b>Keith Mason</b> Director of Regulatory Finance and Competition	0-2.5: lump sum 0-5	15-20: lump sum 50-55	339	273*	23	1,500
<b>Huw Brooker</b> Director of Legal Services	0-2.5: lump sum -	10-15: lump sum -	135	91	24	3,100
<b>Andrew Dunn</b> Director of Consumer Protection	0-2.5: lump sum -	0-5: lump sum -	26	2	21	2,800
<b>Fiona Pethick</b> Director of Corporate Affairs	0-2.5: lump sum 0-5	20-25: lump sum 70-75	451	374	16	1,200
<b>George Day</b> Joint Interim Director of Network Regulation (from 10 March 2008)	0-2.5: lump sum -	10-15: lump sum -	141	139	1	100
<b>Paul Hope</b> Joint Interim Director of Network Regulation (from 10 March 2008)	0-2.5: lump sum 0-5	10-15: lump sum 35-40	160	159	1	100

\* Due to certain factors being incorrect in last years CETV calculator there is a slight difference between the final period CETV for 2006/07 and the start of period CETV for 2007/08.

At the balance sheet date a contribution of £5,000 is due to a partnership pension provider, in respect of the employment of the Interim Director of Legal Services, Fiona Butcher.

### Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

### Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

### Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## **Statement of Accounting Officer's Responsibilities**

Under Section 5 of the Government Resources and Accounts Act 2000, Ofwat is required to prepare resource accounts for each financial year, in conformity with HM 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 applied to the objectives, recognised gains and losses and cash flows for the financial year.

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

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on an ongoing basis.

HM Treasury has appointed Regina Finn, Chief Executive, Accounting Officer of the Department.

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 safeguarding the Department's assets, are set out in *Managing Public Money* issued by HM Treasury.

## Statement on Internal Control

### Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Ofwat's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

Ofwat's duties are laid down by legislation, in particular the Water Industry Act 1991 and the Water Act 2003. Any future changes require an act of Parliament. Currently there is no further legislation under consideration that could affect its longer-term position.

I am accountable to the Chairman and Board for all aspects of Ofwat's work. This includes the management of risk.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide a reasonable, rather than an absolute, assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

The system of internal control has been in place in Ofwat for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance. Each budget holder (directors and team leaders) has signed a statement of internal control covering the period from 1 April 2007 to 31 March 2008.

### Capacity to handle risk

#### The Board and Management Team

The Board recognises the importance of leadership to create an environment where risk management is effective. The Board, Management Team and Audit Committee regularly review the strategic risk register and current priority risks from the operational risk register. In addition the Audit Committee receives presentations on a rolling basis from each director on their management of risk in their division. Risk assessment is embedded into the work of the office. Senior managers, and their staff, are committed to managing risk. To strengthen its oversight we appointed an independent member to our Audit Committee in February 2008.

### The risk and control framework

#### The Board

The Board regularly reviews the key risk topics. Strategic risks are managed by the senior responsible owner. The framework is based on HM Treasury standard guidance in the Orange book. The key elements are as follows:

- risk ownership responsibilities have been clearly allocated from the Accounting Officer and Board to specific members of staff;
- risk appetite is balanced proportionately between threats, opportunities and resources and factors such as desired outcomes and maintenance of reputation;
- potential risk areas have been identified with mitigating actions for areas such as decision taking, failure in quality assurance, inability to recruit the right staff, failure in business continuity, breaches of security, financial procedures and corporate governance;
- annual risk management workshops are held with each division;
- risk registers are updated regularly and reports prepared for Management Team and Audit Committee; and
- actions are followed up from internal audit studies.

A number of key risks were addressed during the year. These are:

- cover for senior posts: During the year two directors had long-term absence due to maternity/sickness. The risks were anticipated and interim directors appointed to ensure leadership and policy development continued;
- price review of price limits in 2009: The price review was initiated in autumn 2007. This is a key risk area. A project team has been set up with associated project risk management procedures; and
- enforcement action: The office embarked on a series of high profile enforcement actions against a number of companies. The key risks related to proper process and decision making.

Our internal audit plan covered the following:

- financial systems;
- corporate governance;
- price review 2009;
- data quality management;
- business continuity;
- enforcement action;
- procurement; and
- information management security.

All reports were satisfactory.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of effectiveness of the system is informed by the work of the internal auditors and the senior managers within Ofwat who have a responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee. A plan to address weaknesses and ensure continuous improvements of the system is in place.

We consult on and publish our forward programme. This sets out our high level objectives for the coming financial year plus a look forward to the following two years. This forward programme drives divisional plans and ultimately each member of staff's objectives. The Management Team review weekly the progress of key projects. There is a quarterly assessment of achievement of the forward programme objectives. We have in place a process of individual performance review for staff. The resource requirements for Ofwat are assessed regularly against the forward programme and developing priorities. The non-executive directors also provide me with an independent view of our performance. On 26 June 2008, Ofwat laid its annual report for 2007-08 before Parliament.

The Board, Management Team and Audit Committee regularly assess and monitor our performance and related systems of internal control. Our internal auditors, KPMG, review and advise on our risk management processes and internal controls and during the year reviewed systems and procedures in respect of finance, human resources and IT systems.

KMPG operate to standards defined in the Government's Internal Audit Standards and submit regular reports, which include an independent opinion by the Head of Internal Audit on the adequacy and effectiveness of our systems of internal control together with recommendations for improvement.

Regina Finn  
Accounting Officer

10 July 2008

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

I certify that I have audited the financial statements of Water Services Regulation Authority (OFWAT) for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Accounting Officer and auditor**

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information given in the Annual Report, Sustainability Report and Management Commentary is consistent with the financial statements. I also report 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most 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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2008, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Annual Report, Sustainability Report and Management Commentary included within the Annual Report is consistent with the financial statements.

## Opinion on Regularity

In my opinion, 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.

## Report

I have no observations to make on these financial statements.

T J Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS

14 July 2008

The maintenance and integrity of the Department's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were presented on the website.

**Statement of Parliamentary Supply**

for the year ended 31 March 2008

**Summary of Resource Outturn 2007-08**

	<u>Estimate</u>			<u>Outturn</u>			2007-08 £000	2006-07 £000	
							<u>Outturn</u>		
<b>Request for Resources</b>		<b>Gross Expenditure</b>	<b>A in A</b>	<b>Net Total</b>	<b>Gross Expenditure</b>	<b>A in A</b>	<b>Net Total</b>	<b>Net Total outturn compared with Estimate: saving/ (excess)</b>	<b>Net Total</b>
1: Regulation of the Water Industry	Note 2	14,363	(14,189)	174	13,237	(13,211)	26	148	39
<b>Total resources</b>		<b>14,363</b>	<b>(14,189)</b>	<b>174</b>	<b>13,237</b>	<b>(13,211)</b>	<b>26</b>	<b>148</b>	<b>39</b>
<b>Non-operating cost A in A</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Net cash requirement 2007-08**

	Note	Estimate	Outturn	2007-08 £000	2006-07 £000
<b>Net cash requirement</b>	4	1,428	1,428	-	292

**Summary of the income payable to the Consolidated Fund**

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

	Note	Income	Forecast 2007-08 Receipts £000	Income	Outturn 2007-08 Receipts £000
<b>Total</b>	5	28,800	8,500	29,268	8,998

Forecast and outturn receipts are less than income because settlement of the £20.27 million fine issued to Southern Water Ltd is not due for payment until April 2008.

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

The notes on pages 27 to 41 form part of these accounts

**Operating Cost Statement**

for the year ended 31 March 2008

Administration costs: Request for resources 1:			2007-08 £000	2006-07 £000
	Note	Staff costs	Other costs	Income
Staff costs	7	8,250	-	-
Other administration costs	8	-	4,987	-
Operating income	9	-	-	(13,211)
<b>Totals</b>		<b>8,250</b>	<b>4,987</b>	<b>(13,211)</b>
<b>Net operating cost</b>	3			<b>26</b>

The notes on pages 27 to 41 form part of these accounts

**Statement of Recognised Gains and Losses**

for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Net operating cost		(26)	(39)
Net gain on revaluation of tangible fixed assets	17	10	1
Experience (loss)/gain	15	(23)	109
Effect of change in mortality assumptions	15	(163)	-
Effect of change in demographic and financial assumption	15	-	(368)
Effect of change in real discount rate	15	202	-
<b>Recognised gains and losses for the financial year</b>		<b>-</b>	<b>(297)</b>

**Balance Sheet**

as at 31 March 2008

	Note	2008 £000	2007 £000
<b>Fixed assets</b>			
Tangible assets	10	663	502
Intangible assets	11	<u>117</u>	<u>97</u>
		780	599
<b>Current assets</b>			
Debtors	12	20,814	387
Cash at bank and in hand	13	<u>498</u>	<u>502</u>
		21,312	889
Creditors (amounts falling due within one year)	14	<u>(23,133)</u>	<u>(3,303)</u>
<b>Net current liabilities</b>		<b><u>(1,821)</u></b>	<b><u>(2,414)</u></b>
<b>Total assets less current liabilities</b>		<b><u>(1,041)</u></b>	<b><u>(1,815)</u></b>
Provision for liabilities and charges	15	<u>-</u>	<u>(10)</u>
<b>Total net liabilities excluding pension liabilities</b>		<b><u>(1,041)</u></b>	<b><u>(1,825)</u></b>
Pension liabilities	15	<u>(2,526)</u>	<u>(2,571)</u>
<b>Total net liabilities including pension liabilities</b>		<b><u>(3,567)</u></b>	<b><u>(4,396)</u></b>
<b>Taxpayer's equity:</b>			
General Fund	16	(3,609)	(4,429)
Revaluation Reserve	17	<u>42</u>	<u>33</u>
		<b><u>(3,567)</u></b>	<b><u>(4,396)</u></b>

Regina Finn  
Accounting Officer

10 July 2008

The notes on pages 27 to 41 form part of these accounts

**Cash Flow Statement****for the year ended 31 March 2008**

	Note	2007-08 £000	2006-07 £000
Net cash (outflow)/inflow from operating activities	18a	(439)	640
Capital expenditure and financial investment	18b	(491)	(430)
Receipts due to the Consolidated Fund which are outside the scope of the Departments activities		-	-
Payments due to the Consolidated Fund	18d	(502)	(1,163)
Financing	18c	1,428	292
<b>Decrease in cash for the period</b>		<b>(4)</b>	<b>(661)</b>

The notes on pages 27 to 41 form part of these accounts

## Net Operating Costs by Departmental Aim and Objectives

for the year ended 31 March 2008

	2007-08			2006-07		
	Gross	Income	Net	Gross	Income	Net
Objective 1	4,368	-		3,987	-	
Objective 2	5,560	-		5,819	-	
Objective 3	3,309	-		1,705	-	
<b>Net operating costs</b>	<b>13,237</b>	<b>(13,211)</b>	<b>26</b>	<b>11,511</b>	<b>(11,472)</b>	<b>39</b>

The department's objectives were as follows:

- Objective 1 - Protecting consumers: monitoring and enforcement, leakage targets and special investigations;
- Objective 2 - Promoting value: operation of the water supply licence regime, competition policy development and launch of the 2009 price review; and
- Objective 3 - Safeguarding the future: security of supply, environmental and water quality improvement.

*Note:*

Income received from licence fees and publications is not specific to one objective but applies to all regulatory objectives.

Direct costs are identified for each objective through the activity costing system. Overheads are apportioned to the objectives on the basis of direct costs.

Ofwat's capital is employed exclusively for administration purposes and supporting our regulatory functions. Its distribution between objectives is therefore not markedly different from the related gross administration cost.

The notes on pages 27 to 41 form part of these accounts

## Notes to the Departmental Resource Accounts

### 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2007-08 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM also requires Ofwat to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Net Operating Cost by Departmental Aim and Objectives and supporting notes analyse Ofwat's income and expenditure by the objectives agreed by the Water Services Regulation Authority.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Ofwat for the purpose of giving a true and fair view has been selected. Ofwat's accounting policies 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 present value to the business by reference to their valuation in existing use.

#### 1.2 Fixed assets

Tangible and intangible assets have been stated at current cost using indices provided by the Valuation Office Agency with the exception of leasehold improvements where no indexation is applied.

An annual verification exercise is completed to ensure that the assets are present and in working condition. Any items of damaged equipment are disposed of.

Tangible fixed assets include furniture and fittings, office machinery and telecommunications equipment, leasehold improvements, website development costs and IT equipment. Intangible fixed assets include purchased software licences.

No depreciation is charged to leasehold improvements under construction.

With the exception of personal computers and office furniture, individual assets must exceed a capitalisation threshold of £1,000 for inclusion as fixed assets. PC and office furniture items falling below the threshold are capitalised as groups. A threshold of £250 exists for individual items to be classified as grouped fixed assets.

#### 1.3 Depreciation and amortisation

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

<b>Asset classification</b>	<b>Asset life</b>
Leasehold improvements	Term remaining on lease
Furniture, fixture and fittings	10 years
IT equipment and website development costs	3-5 years
Office machinery and telecommunications	5 years

Software licences and bespoke software are amortised over the shorter of the term of the licence or the useful economic life from the date the asset is brought into service.

#### 1.4 Leases

Ofwat had no finance leases as at 31 March 2008 (31 March 2007: nil). Rentals due on 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 is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets those criteria specified in SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

Ofwat had no research and development activity in 2007-08 (2006-07:nil)

### 1.6 Operating income

Operating income is income that relates directly to the operating activities. It consists primarily of licence fees charged on a full cost recovery basis. There is also a small amount of operating income recovered from CCWater under the Service Level Agreement we hold with it for providing support services.

Since all costs are recovered through the licence fees and are invoiced in advance based on estimated costs, any income from licence fees that exceeds the level of operating costs is treated as deferred income. This is taken into account when calculating the future levels of licence fees charged to the water and sewerage companies and water only companies under the Water Industry Act 1991.

### 1.7 Administration and programme expenditure

Administration costs are recorded in the operating cost statement. They include the costs of running Ofwat, as determined under the administration cost-control regime. There was no programme expenditure between 1 April 2007 and 31 March 2008 (2006-07: nil).

### 1.8 Capital charge

A charge, reflecting the cost of capital utilised by Ofwat, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for:

- a Cash balances with the Office of the Paymaster General, where the charge is nil; and
- b Consolidation Fund creditors, where the credit is nil.

### 1.9 Pensions

The majority of past and present employees are covered by the provision of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependant's benefits. Ofwat recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from the employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, Ofwat recognises the contribution payable for the year.

The retired Directors General are covered by 'by-analogy pension schemes' that offer similar benefits to the PCSPS. However, unlike the PCSPS a pension liability is included in the accounts as required by FRS17.

### 1.10 Value added tax

Most of our activities are outside the scope of VAT and, in general output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

### 1.11 Provisions

Ofwat provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate or the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flow are discounted using the HM Treasury discount rate.

The discount rate for pension liabilities changed from 1.8% in 2006-07 to 2.5% per annum in 2007-08. A discount rate of 2.2% applies to other provisions.

**1.12 Contingent liabilities**

In addition to contingent liabilities disclosed in accordance with FRS12, Ofwat discloses for parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS12 are stated at the amounts reported to Parliament.

**1.13 Going concern**

Our balance sheet at 31 March 2008 shows negative taxpayers' equity of £3.6 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirements. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the specified year nor retained in excess of that need. All unspent monies, including those derived from the department's income, are surrenderable to the Fund. We confirm our funding for 2008-09 has been approved.

In common with other government departments, the future financing of our liabilities is met by future grants of supply and the application of future income, both are approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming.

The accounts for 2007-08 have been prepared on a going concern basis.

**2 Analysis of net resource outturn by section**

	Outturn					2007-08 £000		2006-07 £000	
	Admin	Other current	Grants	Gross expenditure	A in A	Net Total	Net Total	Estimate Net total compared with Estimate	Prior-year outturn
RFR1: Regulation of the Water Industry									
Section A	13,211	-	-	13,211	(13,211)	-	2	2	-
Section B	-	(89)	115	26	-	26	172	146	39
<b>Total</b>	<b>13,211</b>	<b>(89)</b>	<b>115</b>	<b>13,237</b>	<b>(13,211)</b>	<b>26</b>	<b>174</b>	<b>148</b>	<b>39</b>
<b>Resource Outturn</b>	<b>13,211</b>	<b>(89)</b>	<b>115</b>	<b>13,237</b>	<b>(13,211)</b>	<b>26</b>	<b>174</b>	<b>148</b>	<b>39</b>

Section A - Water Services Regulation Authority.

Section B - Interest on Pension Scheme Liabilities. Annually Managed Expenditure (AME).

The former Directors General are covered by 'by-analogy pension schemes'. Ofwat makes full provision for liabilities arising in respect of these schemes and includes benefits accrued in respect of non-Ofwat employment. The Exchequer makes an annual contribution in relation to this non-Ofwat employment as disclosed in note 15.

In accordance with the requirement of HM Treasury, to ensure parity between those departments who pay into the multi-employer schemes and those that run their own unfunded by-analogy schemes, we are required to record certain transactions within AME (net total £26k).

The provision liability attracts a cost of capital credit (£89k), the rate of which is set at 3.5% real. This is recorded as other current costs.

The accounts record the increase in the liability due to the unwinding of the discount rate (interest on pension scheme liabilities (£115k)) which is recorded as grant expenditure. The discount rate is based on AA corporate bond rates, which is advised separately, and a 2.75% inflation assumption.

There is no income contributable as the by-analogy pension scheme is now closed and the provision is depleting.

*Explanation of the variance between Estimate and outturn (net total resource – section b):*

The underspend against the estimate relates to the uncertainty in the scoring of the pension provision in HM Treasury's COINS system at the time of the finalisation of the 2007-08 Main Estimate.

This estimate was later amended with HM Treasury to a forecast outturn of £26k. However, because of HM Treasury's regulations it is not possible to vote a reduction to AME.

**3 Reconciliation of outturn to net operating cost and against Administration Budget****3(a) Reconciliation of net resource outturn to net operating cost**

	2007-08 £000		2006-07 £000	
	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	26	174	148	39
<b>Net operating cost</b>	<b>26</b>	<b>174</b>	<b>148</b>	<b>39</b>

**3(b) Outturn against final Administration Budget**

	2007-08 £000	2006-07 £000
	<u>Budget</u>	<u>Outturn</u>
Gross Administration Budget	14,191	13,211
Income allowable against the Administration Budget	<u>(14,189)</u>	<u>(13,211)</u>
<b>Net outturn against final Administration Budget</b>	<b><u>2</u></b>	<b><u>-</u></b>

**4 Reconciliation of resources to cash requirement**

	2007-08 £000			
	<u>Estimate</u>	<u>Outturn</u>	<u>Net total outturn compared with estimate: saving (excess)</u>	
Resource Outturn	174	26	148	
Capital				
Acquisition of fixed assets	517	491	26	
Investments				
Non-operating A in A				
Proceeds of fixed assets disposals	-	-	-	
Accruals adjustments				
Non-cash items	(233)	(266)	33	
Changes in working capital other than cash	808	524	284	
Changes in creditors falling due after more than one year	-	-	-	
Use of provision	162	155	7	
Excess cash to be surrendered to the Consolidation Fund	<u>-</u>	<u>498</u>	<u>(498)</u>	
<b>Net cash requirement</b>	<b><u>1,428</u></b>	<b><u>1,428</u></b>	<b><u>-</u></b>	

**5 Analysis of income payable to the Consolidated Fund**

	2007-08 £000			
	<u>Income</u>	<u>Forecast Receipts</u>	<u>Income</u>	<u>Outturn Receipts</u>
Excess cash surrenderable to the Consolidated Fund	-	-	498	498
Other amounts collectable on behalf of the Consolidated Fund *	28,800	8,500	28,770	8,500
<b>Total income payable to the Consolidated Fund</b>	<b><u>28,800</u></b>	<b><u>8,500</u></b>	<b><u>29,268</u></b>	<b><u>8,998</u></b>

\* this includes income in relation to the issue of fines

**6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund**

	2007-08 £000	2006-07 £000
Operating Income	13,211	11,472
Income authorised to be appropriated in aid	<u>(13,211)</u>	<u>(11,472)</u>
<b>Operating Income payable to the Consolidated Fund</b>	<b><u>-</u></b>	<b><u>-</u></b>

**7 Staff numbers and related costs**

Staff costs comprises of:

	2007-08 £000			2006-07 £000	
	Total	Permanently employed staff	Others	Non-exec directors	Total
Wages and salaries	6,548	5,940	419	189	5,698
Social Security costs	432	413	-	19	427
Other pension costs	1,271	1,271	-	-	1,079
<b>Sub Total</b>	<b>8,251</b>	<b>7,624</b>	<b>419</b>	<b>208</b>	<b>7,204</b>
Less recoveries in respect of outward secondments	(1)	(1)	-	-	(13)
<b>Total Net Costs*</b>	<b>8,250</b>	<b>7,623</b>	<b>419</b>	<b>208</b>	<b>7,191</b>

\* of the total no charge has been made to capital

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. Ofwat is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Service Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2007-08 total pension costs of £1,271,393 included employer's contributions of £1,188,651 payable to the PCSPS (2006-07:£1,073,667) at one of four rates in the range 17.1% to 25.5% (2006-07:17.1% to 25.5%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised and the rates will remain the same. (The rates will be changing with effect from April 2009.) The contribution rates are set to meet the cost of benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £8,040 for 2007-08 (2006-07:£4,646) were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. In addition, employer contributions of £1,177, 0.8% (2006-07:£421, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were £5,991 (2006-07:£637). Contributions prepaid at that date were nil (2006-07:nil).

In addition to payments made to the PCSPS 'other pension costs' may include payments made in respect of early retirements and accrued pension contributions.

**Average number of people employed**

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

	2007-08			2006-07	
	Total	Permanently employed staff	Others	Non-exec directors	Total
Objective 1	71.8	68.1	3.3	0.4	69
Objective 2	86.3	81.9	4	0.4	83
Objective 3	39.1	37.1	1.8	0.2	36
<b>Total</b>	<b>197.2</b>	<b>187.1</b>	<b>9.1</b>	<b>1</b>	<b>188</b>

**8 Other Administration Costs**

	2007-08	2006-07
	£000	£000
	<u>Outturn</u>	<u>Outturn</u>
Accommodation	851	844
Office equipment	45	41
	<u>896</u>	<u>885</u>
Depreciation	125	247
Amortisation	73	29
(Profit)/loss on disposal of fixed assets	9	-
Cost of Capital charges	(139)	(143)
Addition/(release) of provision	1	(3)
Other finance costs	115	128
External Auditors' remuneration	38	33
Permanent diminution of fixed assets	44	31
	<u>266</u>	<u>322</u>
Consultancy services	2,019	1,086
Legal costs CAT	-	273
Training	98	117
Travel and subsistence	144	166
Taxation charges	47	6
Rates	175	173
Computer hire and maintenance	150	178
Other hire and maintenance	28	42
Seminars, meetings and conferences	105	88
Minor items and stationery	95	71
Publications	51	108
Books and periodicals	109	125
Postal services and couriers	20	22
Telecommunications	65	43
Recruitment costs	125	85
Office Consumables	58	25
Accommodation expenses	154	119
Accommodation upgrade	178	192
Internal Audit fees	44	36
Other	160	158
	<u>3,825</u>	<u>3,113</u>
	<u>4,987</u>	<u>4,320</u>

Note 22 gives further information about legal costs and the CAT in 2007-08.

## 9 Income

This note analyses the income recorded in the Operating Cost Statement.

	2007-08	2006-07
	£000	£000
	<u>Outturn</u>	<u>Outturn</u>
Licence fees	12,578	11,804
Licence fees received in advance - prior year	1,841	1,341
Licence fees received in advance - current year	(1,319)	(1,841)
Publications sales	3	2
CCWater administration support fees	95	160
Miscellaneous	13	6
<b>Total</b>	<b><u>13,211</u></b>	<b><u>11,472</u></b>

Owat is mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCWater's operating costs. In 2007-08 we collected £5.9 million; £5.3 million was transferred to the Department for Environment, Food and Rural Affairs and £621k to the National Assembly for Wales. In accordance with HM Treasury guidance we do not record these transactions in our financial statements.

Owat provides support services to CCWater under Service Level Agreements (SLAs). These agreements cover service provisions of Library and Information Services, Finance, Facilities Management and Human Resources. An amount of £94,799 plus VAT was received from the provision of service from 1 April 2007 to 31 March 2008.

The Library and Information Services and Finance SLAs were extended from 30 September 2007 to 31 March 2011. The Facilities Management and Human Resources SLAs were extended from 30 September 2007 to 31 March 2008. Subsequently the Human Resources SLA has been further extended until the 30 September 2008 and the Facilities Management SLA has ceased.

This analysis is provided for HM Treasury's fees and charges purposes and not for SSAP25.

	£	£	£
	<u>Amount received</u>	<u>Actual cost of provision of service</u>	<u>Surplus (deficit)</u>
Service provided			
Library and Information Services	2,552	2,313	239
Finance	34,711	34,708	3
Facilities Management	56,005	56,777	(772)
Human Resources	1,531	1,260	271
	<u>94,799</u>	<u>95,058</u>	<u>(259)</u>

A review of the actual cost of services provided to CCWater undertaken at 31 March 2008 identified a minor deficit which is shown above and highlighted the following adjustments effective from 1 April 2008:

- an increase in the charge for the Finance and Human Resources SLAs; and
- a reduction in the charge for the Library and Information Services SLA.

## 10 Tangible fixed assets

Tangible fixed assets consist of furniture and fittings, office machinery and telecommunications, leasehold improvements, website development costs and IT equipment.

	£000	£000	£000	£000	£000	£000
	Furniture fixtures and fittings	Office machinery & Telecomms	Leasehold Improvements	Leasehold Improvements under development	IT equipment & website development costs	Total
<b>Cost or valuation</b>						
At 1 April 07	323	216	66	115	1,720	2,440
Additions	65	19	67	7	159	317
Reclassifications	-	-	122	(122)	-	-
Disposals	(3)	-	-	-	(122)	(125)
Revaluation	12	-	-	-	(34)	(22)
<b>At 31 March 2008</b>	<b>397</b>	<b>235</b>	<b>255</b>	<b>-</b>	<b>1,723</b>	<b>2,610</b>
<b>Depreciation</b>						
At 1 April 07	209	212	4	-	1,513	1,938
Charged in year	25	4	21	-	75	125
Disposals	(2)	-	-	-	(114)	(116)
Revaluation	2	-	-	-	(2)	-
<b>At 31 March 2008</b>	<b>234</b>	<b>216</b>	<b>25</b>	<b>-</b>	<b>1,472</b>	<b>1,947</b>
<b>Net book value at 31 March 2008</b>	<b>163</b>	<b>19</b>	<b>230</b>	<b>-</b>	<b>251</b>	<b>663</b>
<b>Net book value at 31 March 2007</b>	<b>114</b>	<b>4</b>	<b>62</b>	<b>115</b>	<b>207</b>	<b>502</b>
<b>Asset Financing:</b>						
Owned	163	19	230	-	251	663
<b>Net book value at 31 March 2008</b>	<b>163</b>	<b>19</b>	<b>230</b>	<b>-</b>	<b>251</b>	<b>663</b>

## 11 Intangible fixed assets

Intangible fixed assets comprises of purchased software licences.

	£000	£000
	Purchased software licences	Total
<b>Cost or valuation</b>		
At 1 April 07	215	215
Additions	105	105
Disposals	-	-
Revaluation	(13)	(13)
<b>At 31 March 2008</b>	<b>307</b>	<b>307</b>
<b>Amortisation</b>		
At 1 April 07	118	118
Charged in year	73	73
Disposals	-	-
Revaluation	(1)	(1)
<b>At 31 March 2008</b>	<b>190</b>	<b>190</b>
<b>Net book value at 31 March 2008</b>	<b>117</b>	<b>117</b>
<b>Net book value at 31 March 2007</b>	<b>97</b>	<b>97</b>

**12 Debtors****12(a) Analysis by type**

	2007-08 £000	2006-07 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	197	65
Deposits and advances	25	23
Other debtors*	20,270	4
HM Revenue and Customs (VAT)	28	22
Prepayments and accrued income	294	273
<b>Total debtors at 31 March 2008</b>	<b>20,814</b>	<b>387</b>

\*Other debtors for 2007-08 represents the £20.27 million fine due from Southern Water Ltd.

**12(b) Intra-government balances**

	2007-08 £000	2006-07 £000
<b>Amounts falling due within one year:</b>		
Balances with other central government bodies	52	27
Payments due from CCWater	-	62
Balances with local authorities	15	17
Intra-government balances	67	106
Balances with bodies external to government	20,747	281
<b>Total debtors at 31 March 2008</b>	<b>20,814</b>	<b>387</b>

**13 Cash at bank and in hand**

	2007-08 £000	2006-07 £000
Balance at 1 April 2007	502	1,163
Net change in cash balance:	(4)	(661)
<b>Balance at 31 March 2008</b>	<b>498</b>	<b>502</b>
The following balances are held at:		
Office of HM Paymaster General (OPG)	497	501
Commercial banks and cash in hand	1	1
<b>Balance at 31 March 2008</b>	<b>498</b>	<b>502</b>

**14 Creditors****14(a) Analysis by type**

	2007-08 £000	2006-07 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	177	246
Accruals	670	548
Licence Fee deferred income	1,319	1,841
Deferred income	32	-
Other tax and social security	167	166
Consolidated Fund extra receipts due to be paid to the Consolidated Fund - receivable*	20,270	-
Excess cash due to be paid to the Consolidated Fund	498	502
<b>Total creditors at 31 March 2008</b>	<b>23,133</b>	<b>3,303</b>

\*Represents the £20.27 million fine due from Southern Water Ltd.

**14(b) Intra-government balances**

	2007-08 £000	2006-07 £000
<b>Amounts falling due within one year:</b>		
Balances with other central government bodies	21,212	695
Balances with local authorities	4	-
Intra-government balances	21,216	695
Balances with bodies external to government	1,917	2,608
<b>Total creditors at 31 March 2008</b>	<b>23,133</b>	<b>3,303</b>

**15 Provisions for liabilities and charges**

	2007-08 £000	
	Early departure costs	Total
Balance at 1 April 2007	10	10
Provided in year	1	1
Provision utilised in year	(11)	(11)
Unwinding of discount	-	-
Provision not required written back	-	-
<b>Balance at 31 March 2008</b>	<b>-</b>	<b>-</b>

We meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. We provide for this in full when the early retirement programme becomes binding on us by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 2.2% in real terms.

There were no active pensioners on the early retirement programme at 31 March 2008.

**Pension liabilities**

	2007-08 £000	2006-07 £000
Balance at 1 April 2007	2,571	2,542
<b>Analysis of the amount charged to the Operating Cost Statement</b>		
Interest costs	115	128
<b>Benefits paid</b>		
Benefits paid	(144)	(358)
<b>Analysis of the amount recognised in the SRGL</b>		
Experience (gain)/loss	23	(109)
Effect of change in discount rate	(202)	-
Effect of change in mortality assumptions	163	-
Effect of change in demographic and financial assumption	-	368
Actuarial loss	-	-
<b>Balance at 31 March 2008</b>	<b>2,526</b>	<b>2,571</b>

The former Directors General are covered by 'by-analogy pension schemes' that offer similar benefits to the PCSPS. They are unfunded, defined benefit schemes with the benefits being paid when they fall due and are guaranteed by Ofwat. There is no fund and therefore no surplus or deficit.

In accordance with the requirements of HM Treasury, Ofwat makes full provision for liabilities arising in respect of the pension entitlements of the former Directors General. These include benefits accrued in respect of non-Ofwat employment; 63% and 95% respectively of these entitlements relate to non-Ofwat employment and are funded from the Exchequer.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2008.

The demographic assumptions are consistent with those used elsewhere in Central Government for resource accounting purposes and those adopted in previous years. The main demographic assumptions are as follows:

- mortality rates for pensioners are assumed to follow standard mortality tables; and
- all members are married, with wives being three years younger than their husbands.

The main financial assumptions (used to assess liabilities at 31 March 2008) are as follows:

- investment return in excess of price increases of 2.5% a year;
- the gross rate of return is assumed to be 5.3% a year (31 March 2007:4.6%), although this assumption has a minor impact on the value of the liability; and
- in nominal terms, these assumptions imply price inflation of 2.75% a year.

No allowance has been made for savings to the scheme in respect of the increases paid by the State on Guaranteed Minimum Pensions (GMPs). No information is available from the administrators. If any members had GMP, then this would act to reduce the liability calculated.

The opening liability at 1 April 2007 was overstated by £6k because of a correction to the estimated payments provided to GAD. This has resulted in an experience gain over the 2007-08 accounting period.

### Analysis of actuarial loss

	<u>2007-08</u> £000	<u>2006-07</u> £000
Experience (gains)/losses arising on the scheme liabilities	23	(109)
Changes in assumptions underlying the present value of scheme liabilities	<u>163</u>	<u>-</u>
Per statement of Recognised Gains and Losses	<u>186</u>	<u>(109)</u>

### History of experience losses

	<u>2007-08</u>	<u>2006-07</u>	<u>2005-06</u>
Experience (gains)/losses arising on the scheme liabilities Amount (£000)	23	(109)	80
Percentage of the present value of the scheme liabilities	0.9%	(4.2)%	3.1%
Total amount recognised in the statement of recognised gains and losses Amount (£000)	(16)	259	251
Percentage of the present value of the scheme liabilities	(0.6)%	10.1%	9.9%

The real discount rate changed from 1.8% in 2006-07 to 2.5% in 2007-08.

## 16 General Fund

The General Fund represents the total assets less liabilities of Ofwat, to the extent that the total is not represented by other reserves and financing items.

	<u>2007-08</u> £000	<u>2006-07</u> £000
Balance at 1 April 2007	(4,429)	(4,179)
Net Parliamentary Funding		
Drawn Down	1,428	292
Net Transfer from Operating Activities		
Net operating cost	(26)	(39)
Excess cash repayable to Consolidated Fund	(498)	(502)
Non cash charges		
Cost of capital	(139)	(143)
Auditors remuneration	38	33
Actuarial loss	(186)	109
Change in discount rate	202	-
Transfer from Revaluation Reserve	<u>1</u>	<u>-</u>
<b>Balance at 31 March 2008</b>	<b><u>(3,609)</u></b>	<b><u>(4,429)</u></b>

**17 Revaluation Reserve**

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

	2007-08 £000	2006-07 £000
Balance at 1 April 2007	33	32
Arising on revaluation during the year (net)	10	1
Transferred to General Fund of realised element of Revaluation Reserve	(1)	-
<b>Balance at 31 March 2008</b>	<b>42</b>	<b>33</b>

**18 Notes to the Cash Flow Statement****18(a) Reconciliation of operating cost to operating cash flows**

	Note	2007-08 £000	2006-07 £000
Net operating cost	3	26	39
Adjustments for non-cash transactions	8	(266)	(322)
Increase in debtors	12	20,427	74
Increase in creditors		(19,834)	(884)
Less movements in creditors relating to items not passing through the OCS	14	(69)	69
Use of provisions	15	155	384
<b>Net cash outflow/(inflow) from operating activities</b>		<b>439</b>	<b>(640)</b>

**18(b) Analysis of capital expenditure and financial investment**

	2007-08 £000	2006-07 £000
Payments to acquire intangible fixed assets	106	84
Payments to acquire tangible fixed assets	385	346
Proceeds of disposal of fixed assets	-	-
<b>Net cash outflow from investing activities</b>	<b>491</b>	<b>430</b>

**18(c) Analysis of financing**

	Note	2007-08 £000	2006-07 £000
From the Consolidated Fund (Supply) - current year	16	1,428	292
Advance from the Contingencies Fund		2,870	1,500
Repayment to the Contingencies Fund		(2,870)	(1,500)
<b>Net financing</b>		<b>1,428</b>	<b>292</b>

**18(d) Reconciliation of Net Cash Requirement to increase in cash**

	Note	2007-08 £000	2006-07 £000
Net cash requirement		(1,428)	(292)
From the Consolidated Fund (Supply) - current year	16	1,428	292
Amounts due to the Consolidated Fund - received in a prior year and paid over	13	(502)	(1,163)
Excess cash to be surrendered to the Consolidated Fund	14(a)	498	502
<b>Decrease in cash</b>		<b>(4)</b>	<b>(661)</b>

**19 Capital commitments**

At 31 March 2008 there were no capital commitments (31 March 2007:nil).

**20 Commitments under operating leases**

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed to the period in which the lease expires.

	2007-08 £000	2006-07 £000
Buildings:		
Expiry within 1 year	-	72
Expiry within 2 to 5 years	-	-
Expiry thereafter	751	751
	<u>751</u>	<u>823</u>
Other		
Expiry within 1 year	2	1
Expiry within 2 to 5 years	81	2
Expiry thereafter	-	-
	<u>83</u>	<u>3</u>

**21 Financial Instruments**

FRS13, derivatives and other financial instruments, requires disclosure of the role which 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 its activities and the way in which government departments are financed, Ofwat is not exposed to the degree of financial risk faced by commercial 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 FRS13 mainly applies. Ofwat has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the office in undertaking its activities.

*Liquidity risk*

Ofwat has no borrowings and relies primarily on licence fee income and Contingency Fund loans for its cash requirements, and is therefore not exposed to liquidity risks.

*Interest rates and foreign currency risks*

All material deposits are held at the Office of the Paymaster General and all material assets and liabilities are denominated in sterling, so Ofwat is not exposed to interest rate risk or foreign currency risk.

*Fair values*

There is no material difference between the book values and the fair values of Ofwat's financial assets and liabilities at 31 March 2008.

**22 Contingent liabilities**

On occasion Ofwat will be subject to legal challenge and judicial review of decisions made in the normal course of its business.

In the 2006-07 Resource Accounts we reported in the appeal by Albion Water Ltd against Ofwat and Dŵr Cymru Cyfyngedig, Welsh Water, the Competition Appeals Tribunal (CAT) awarded costs against Ofwat totalling £273k. This appeal concerned the supply of water to the Shotton Paper Works. The latest litigation concerns excessive pricing. The CAT has not indicated when it will issue its latest judgement and because the outcome is unknown, uncertainty exists as to the nature and extent of any subsequent liability. Consequently no provision has been included in the accounts.

(Contingent liabilities requiring disclosure 31 March 2007:nil).

**23 Related party transactions**

Ofwat transferred £5.3 million to Department for Environment, Food and Rural Affairs and £621k to National Assembly for Wales in respect of CCWater's operating costs for 2007-08.

Ofwat holds Service Level Agreements with CCWater for providing support services; £94,799 was invoiced and received during the financial year. This figure excludes VAT payable to HM Revenue and Customs.

Ofwat also has a small number of immaterial transactions with other government departments.

There are no other related party transactions between Ofwat and any of its Directors.

**24 Post balance sheet events**

There were no reportable post balance sheet events between the balance sheet date and the 14 July 2008, the date the financial statements were authorised for issue by the Accounting Officer.

The financial statements do not reflect events after this date.



information & publishing solutions

Published by TSO (The Stationery Office) and available from:

**Online**

[www.tsoshop.co.uk](http://www.tsoshop.co.uk)

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline *Lo-call* 0845 7 023474

Fax orders: 0870 600 5533

Email: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone: 0870 240 3701

**TSO Shops**

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square

London SW1A 2JX

**TSO@Blackwell and other Accredited Agents**

ISBN 978-0-10-295751-8



9 780102 957518