

Water Services Regulation Authority (Ofwat) Annual report and accounts 2014-15

For the period 1 April 2014 to 31 March 2015



Water Services Regulation Authority (Ofwat)
Annual report and accounts 2014-15

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Report presented to Parliament pursuant to section 192B of the Water Industry Act 1991
(as amended by section 38 of the Water Act 2003)

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About this document

This document sets out our annual report and accounts for the period 1 April 2014 to 31 March 2015.

It includes a description of the work we carried out during the year to deliver our legal duties.

It also includes the accounts for the operation of the Water Services Regulation Authority (Ofwat) under International Financial Reporting Standards (IFRS). They have been prepared on an accruals basis in accordance with the Government Financial Reporting Manual (FRoM).

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

Further information about our work is available on our website at www.ofwat.gov.uk.

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Chairman's foreword

I am pleased to report that 2014-15 was a challenging but successful year for Ofwat.

We regulate a public service which is vital in every sense. The services are largely provided by monopoly suppliers. When I took over as Chairman, I was struck by the absence of trust between the regulator and the regulated, and by the breakdown in dialogue between the parties. I was also worried that public confidence in utilities can be fragile. It was essential to maintain public confidence in the services our sector provides following the years 2010 to 2012, a time of high inflation, falling household incomes and substantial outperformance for shareholders.

At the same time, we were worried that the dialogue with companies was too much about their financial interests, with much less mention of the customers' perspective – even though we must all go the extra mile with customers, who have no choice of provider.

Since then, I am pleased to report that the sector and Ofwat have made real progress. In December 2014, at the end of the 2014 price review process, we were pleased to announce falling bills over the period between 2015 and 2020, with some customers' bills falling in real terms and some in both real and nominal terms. In her report, Cathryn Ross details some of the many positive results from this price review. I would like to highlight just three.

Companies' initiatives to address affordability for less well-off customers have helped reduce the mounting problem of bad debt, which is ultimately paid for by all customers.

We were worried that companies that had taken on more aggressive financial structures were enjoying financial outperformance that could blunt the drive for improvements that customers would like to see. We strengthened the incentives to deliver outstanding outcomes for customers. Companies that really deliver the outcomes they have promised will do very well, with the converse applying too. These tools should be helpful to Boards in forming objectives for their business.

We made a good start on increasing the resilience of water and wastewater systems and services, which we define very broadly to include physical, financial, environmental and social resilience.

Of course, we could not have achieved the decisions we made if the companies and their Boards had not risen to the challenge.

In 2013, we started a discussion with the sector about improving Board leadership and governance so we could have trust, as a regulator, in developing less intrusive regulation. Each company set out its Code in April 2014 and implemented it by April 2015. We have welcomed the new appointments to Boards. We also welcomed our engagement with customers through the customer challenge groups of each company.

During the year, the Water Act 2014 also became law. This legislation includes some of the biggest changes to the water sector since privatisation, including introducing choice for all business and non-household customers in England, and the basis for upstream reform. These changes will further strengthen what we set out to achieve through the price review.

In both England and Wales we work under the policy guidance of Government. Following the General Election, we look forward to working with Ministers as they set out their priorities for the water sector in England. We are also working with the Welsh Government to ensure that we contribute to its strategy. As an independent economic regulator for both England and Wales we will endeavour to give the certainty and confidence on which both customers and capital markets rely.

Under Cathryn Ross' leadership the Executive and Board are taking forward the work we started in 2013 on our approach to regulating the sector. This year, we launched a forward-looking strategy – 'Trust in water'. We welcomed the strong support from many individuals and organisations on placing the trust and confidence of customers, the environment and wider society firmly at the heart of everything the sector does.

Finally, I would like to extend my sincere thanks, on behalf of all members of the Board, to everyone in Ofwat and our partner organisations for their continued efforts of the past year. I look forward to further progress over the coming year in ensuring that the water sector delivers even better outcomes for all those whom the companies serve.

A handwritten signature in black ink, appearing to read 'Jonson Cox', written in a cursive style.

Jonson Cox
Chairman

Chief Executive's report

Our new strategy, which we launched in January 2015, sets out our shared vision for the water sector of trust and confidence in the provision of these vital public services. Delivering this will be a challenge. Water and wastewater services have always been essential for life and for the way we live. Climate change, population growth, and demographic change bring new challenges to resilience of these services. And customer expectations are changing, with people increasingly looking for a more personal service that gives them more control and ultimately better meets their needs both individually and in the community.

We cannot deliver this vision alone. The sector must play a critical role. And others – including customer representatives, government, non-governmental organisations and other regulators – need to work together and play their part. As the economic regulator, our role is to inform, enable and incentivise those involved in the sector to deliver against the expectations of customers, society and the environment – and to do this on the basis of a dialogue that is fair, open, honest and responsive. In particular, we set a framework that aligns the interests of customers and wider society, with the interests of service providers and their investors. Specifically, our framework:

- focuses the sector on the things that matter to customers, the environment and wider society;
- encourages service providers to be open, honest, fair and transparent;
- shines a light on issues and provoke debate;
- gives service providers the freedom to deliver services efficiently and to innovate; and
- enables us to step in, in a timely, proportionate and targeted way, when we are needed to protect customers.

Our 2014 price review, which we completed in December 2014, is an excellent example of our new approach to regulation. We encouraged the companies – and they took on that challenge – to engage in the biggest ever conversation with their customers about the things that really matter to them. At the same time, we gave service providers the space to innovate in products, price and customer service. Where companies stepped up and did the right thing for their customers, we stepped back. And this allowed us to focus our regulatory interventions when and where they added most value for customers.

And it paid off. The price, investment and service packages ('price controls') we set for each monopoly service provider for the five years between 2015 and 2020 will mean that average bills for water and wastewater customers in England and Wales will fall by about 5% before inflation. Customers will benefit from substantial improvements in areas of service that really matter to them. And crucially, service providers and their investors have the incentives to go on delivering more of what their customers want, and to do so more efficiently. This will benefit customers in the next five years and – by revealing new frontiers – over the long term through future price controls.

All of this puts the sector in a good place. But for success that is sustainable over the long term, we must go further. Service providers now face the challenge of delivering on their promises to customers over the next five years, knowing that failure to deliver will risk trust and confidence. The sector also has a significant role in setting up the new market in England that will allow all non-household customers – under the jurisdiction of the UK Government – to choose their water and wastewater retailer and to make sure that this market delivers benefits to those customers. There are lessons that must be learned from experience in other sectors if trust in this nascent market is to be maintained and grow.

At the same time, our regulation needs to be dynamic in responding to changes both within the sector and to what customers and society expect. That is why, alongside our strategy, this year we began to deliver a significant programme of work for the next five years that will, among other things:

- implement the Water Act reforms and prepare for the 2019 price review;
- maintain customer and investor confidence through a period of change; and
- develop our monitoring of sector performance, so that it covers both leading and lagging indicators of risks to trust and confidence.

We have also continued the progress we began last year to transform our organisation to help us deliver our work more effectively and efficiently. By making sure we have the skills, experience, systems, processes and culture that support our ambitious new strategy, we can ensure that we have the drive and capability to deliver it.

Finally, I would like to repeat and add to Jonson's thanks to Ofwat's people and stakeholders for their commitment, passion and achievements during 2014-15. It was a huge year of change and effort. But it was also a massive step along our journey to secure the best possible outcomes for customers, wider society and the environment now and over the long term.



Cathryn Ross
Chief Executive

Who we are

Purpose and activities

Our [shared vision for the water sector in England and Wales](#) is one where customers, the environment and wider society have trust and confidence in water and wastewater services, reflecting the fact that these are vital public services. This means trust in the water that comes out of the tap, the wastewater that is flushed away and the price that customers pay. But it also means much more than that, including:

- the resilience of our water and wastewater services;
- good customer service;
- fair dealing between service providers, customers and other stakeholders;
- the ability of the sector to attract long-term investment;
- value for money and how affordable services are;
- today's decisions treating future generations fairly; and
- an effective and efficient regulatory framework.

To achieve trust and confidence the sector must listen to customers and deliver outcomes that benefit those customers today and in the future. This means strong relationships throughout the supply chain and with investors, and genuine engagement with customers, customer representatives, non-governmental organisations, and with government and regulators. Each of us needs to encourage the delivery of new and efficient solutions for customers.

As the economic regulator of the water sector in England and Wales, Ofwat's role is to help build trust and confidence with customers, the environment and wider society – and to ensure that this trust and confidence is based on solid, sustainable foundations. This means:

- provoking, challenging and where appropriate leading the sector, to ensure it has clarity on what customers and society expect;
- overseeing how the sector is performing;
- seeking assurance that service providers are acting efficiently, on the basis of good information, a good understanding of the responsibilities and relationships they have, and that they are maintaining a mature relationship with Ofwat;
- being ready to step in, if service providers fall short;
- using the right tools from our available toolkit to achieve the best results in a proportionate and targeted way; and
- acting clearly and predictably.

The way that we work, the way we behave and the values we live by are as important as the work that we do. Our vision is to be a trusted and respected regulator, working at the leading edge, and stretching ourselves and others to build trust and confidence in water.

Our Board



Jonson Cox
Chairman



Cathryn Ross
Chief Executive



Sonia Brown
Chief Regulation
Officer



Richard Khaldi
Senior Director
of Customers and
Casework



Keith Mason
Senior Director
of Finance and
Networks



Wendy Barnes
Non-executive
Director



Christopher Burchell
Non-executive
Director



Christine Farnish
Non-executive
Director



Martin Lawrence
Non-executive
Director



Robin Paynter Bryant
Non-executive
Director



Catherine Waddams
Non-executive
Director

Future plans

In 'Ofwat's forward programme for 2015-16', we set out details of our:

- priorities for 2015-16;
- programmes of work to deliver them; and
- budget and licence fees.

We will also publish our strategic business plan for 2015-16 to 2019-20 in summer 2015.

Our year at a glance

Our achievements 2014-15

Protecting customers

The decisions we took during the year as part of the 2014 price review will mean that:

- average water and wastewater bills in England and Wales will fall by about 5% – or £20 – before adjustments for inflation, between 2015 and 2020; and
- by 2020, customers will benefit from substantial improvements in areas of service that really matter to them. This includes:
 - 100% compliance with the target level of quality for drinking water;
 - a reduction in the time lost to supply interruptions (down by 32% on average);
 - a 34% reduction in customers contacting their local company about problems with the colour, taste or smell of their water; and
 - 4,700 fewer properties flooded by sewer water.

All but one company, Bristol Water, accepted our final decisions.

Company accountability

As part of our work to ensure that service providers are accountable to their customers, during 2014-15 we:

- reported that the 18 largest monopoly companies received 27,000 fewer written complaints in 2013-14;
- encouraged Thames Water to commit to pay a package worth £86 million to customers and the communities it serves following an investigation; and
- improved the experience of customers of developer services.

Improving monopolies

Over the period covered by this report, we:

- announced that customers contacting their water company in the previous year (2013-14) received an improved service from them;
- returned £130 million to customers where companies underperformed on customer service; and
- reduced companies' costs for delivering services in each of the five years between 2015 and 2020 by more than £1 billion.

Promoting use of markets

During the year, we:

- granted two appointment variations to supply services to more than 1,500 household customers;
- contributed to preparations to allow all non-household customers in England to choose their supplier for retail water and wastewater services by April 2017; and
- delivered decisions that should help monopoly companies in England prepare for operating in an expanded market for retail services – and help protect non-household customers before and after they are able to choose their own supplier.

Resilience and sustainable development

The decisions we took during 2014-15 will mean:

- that more than 370 million litres of water a day will be saved by tackling leakage and promoting water efficiency between 2015 and 2020 – enough water saved to serve all of the homes in Birmingham, Manchester and Leeds;
- that about a million more people will benefit from financial support with their water and wastewater bills by 2020; and
- a package of effective rewards and penalties that align the interests of company management and investors with the interests of customers.

Better regulation

As part of our commitment to deliver better regulation, during the year we:

- launched a new strategy for regulating the sector that includes our ambition to be a trusted and respected regulator, working at the leading edge, and stretching ourselves and others to build trust and confidence in water;
- made significant progress on transforming Ofwat into a leaner, more focused, efficient and effective organisation that can operate within a much tighter budget for 2015-16 onwards; and
- delivered our decisions on the 2014 price review in a way that meant monopoly companies took full responsibility and accountability for their business – while allowing us to take targeted, proportionate and transparent decisions in the interests of customers.

Financial and sustainability summary 2014-15

| | |
|---|---|
| £ 29.1 million | Ofwat's expenditure in carrying out its work, which it recovers by charging regulated companies licence fees. This compares with £27.9 million in 2013-14. See page 26. |
| £124,000 | The amount we receive from central Government. See page 66. |
| 136 | The number of full-time equivalent staff we had at 31 March 2015. This compares with 191 in 2013-14. See page 122. |
| 95.64% | The percentage of agreed invoices that we paid to suppliers within 30 days of receipt. We achieved 93.92% in 2013-14. Our target is 100%. See page 39. |
| 356.6 tonnes | The greenhouse gas emissions we emitted. This compares with 295.6 tonnes in 2013-14. See page 30. |
| 873 cubic metres (m³) | The volume of water we used in our offices. This compares with 913 m ³ in 2013-14. See page 32. |

Part 1: Our annual report

Protecting customers

One of our primary duties is to protect the interests of consumers, wherever appropriate by promoting competition.

Taking action now

In recent years, many customers across England and Wales have struggled with declining real incomes, and the rising cost of living has stretched many household budgets to the limit.

During 2014-15, [we finalised our decisions on the price, service and investment package](#) ('price controls') that each of the monopoly water and wastewater and water only companies in England and Wales will deliver in the five years from 2015-16 to 2019-20. We challenged their business plans, consulted on our draft decisions in April, May and August, and published our final decisions in December 2014.

Our decisions mean that average water and wastewater bills in England and Wales will fall by about 5% – or £20 – before adjustments for inflation, between 2015 and 2020. This is about 4% lower than they would have been under companies' original plans. At the same time, customers will see improved levels of service. By 2020, they will benefit from substantial improvements in the service areas that really matter to them, including:

- 100% compliance with the target level of quality for drinking water;
- a reduction in the time lost to supply interruptions (down by 32% on average);
- a 34% reduction in customers contacting their local company about problems with the colour, taste or smell of their water; and
- 4,700 fewer properties flooded by sewer water.

Our decisions on companies' price controls gave customers a stronger voice than ever before in the services they receive and bills they pay.

- Companies spoke with and listened to more than 250,000 customers across England and Wales to develop their plans for 2015-20.
- More than 160 unique stakeholder groups were involved in the independent customer challenge groups (CCGs) that each company had to set up to challenge whether they had engaged properly with their customers.
- We used the CCGs' reports – and our own customer advisory panel – to help inform our decisions on the quality of companies' business plans.

[All but one company accepted our decisions](#) on their price controls. Following a request from Bristol Water, [we referred our decision on its price controls](#) to the Competition and Markets Authority (CMA). The CMA will make its final decision on the company's price control during 2015-16. We will report on this in next year's annual report.

Planning for the future

The continued pressure on household budgets means that the legitimacy to customers of their water and wastewater services – and the bills they pay – will be even more important in the future.

Large infrastructure can have a sustained impact on customers' bills. During the year, we continued to review progress of the [Thames Tideway Tunnel](#), which involves building a large sewer tunnel beneath London. Our work included working with the UK Government and Thames Water to set up the practical, legal and [regulatory frameworks](#) that will allow the scheme to be delivered by a separate infrastructure provider. This will help ensure that Thames Water's customers pay no more than necessary for the scheme.

Where customers have problems with the services they receive from their provider, it is important that they can get them resolved. So, over the past year we have supported the sector in setting up an alternative consumer dispute resolution scheme for water customers. Since 1 April 2015 customers in England and Wales have been able to go to an independent adjudicator – the [Water Redress Scheme \(WATRS\)](#) – if their complaint has not been resolved by their water company or after intervention from the Consumer Council for Water (CCWater). The scheme means that customers have a final opportunity to resolve their complaint without having to go to court.

As the economic regulator, we have a big role to play in making sure customers get value for money and the services they want. Following extensive discussions with our stakeholders, in January 2015 we launched our new strategy – '[Trust in water](#)'. Among other things, it will:

- continue to place customers at the centre of our work; and
- help us work with others to drive the sector to innovate and deliver the best outcomes for customers, the environment and wider society now and over the long term.

We developed our strategy by talking with and speaking to a wide range of stakeholders, including companies, customer groups and government.

Company accountability

We expect companies to meet their customers' expectations and their legal obligations – and put things right where they get them wrong. Where companies fall short, we step in to make sure customers get a good deal.

Taking action now

In October 2014, [we reported that the 18 largest monopoly companies received 27,000 fewer written complaints in the previous year \(2013-14\)](#). This was the sixth year in a row that complaints had fallen.

Customers were generally satisfied with the service they received. This does not mean that services were perfect, but where service failures have occurred companies have explained how they have (or will) put things right for their customers.

During the year, [Thames Water committed to paying a package worth £86 million to customers and the communities it serves](#), following our investigation into the company's reporting of sewer flooding data in 2010. We welcomed Thames' recognition of the problem and a commitment to put it right by returning money to customers. And we imposed only a notional fine on the company.

In 2014, we received a number of complaints, queries and determination referrals that suggested there was a general need to improve the experience of customers using monopoly companies' developer services. As a result, we:

- clarified [our expectations to water companies about providing and charging for new connections](#) to their infrastructure;
- worked with the UK Government and other regulators to produce [a guide for developers](#) on what they can expect from utilities companies; and
- encouraged the sector in voluntarily carrying out work to develop [standard customer service targets for developer services](#) – and improve services to customers.

As well as their obligations to customers and the environment, the companies also have other obligations – including under competition law.

During the year, [we accepted binding commitments from Bristol Water](#) to make changes both to its structure and processes to address the specific competition concerns that we identified. This followed our formal investigation into whether the company potentially abused its dominant position in the market of providing new water connections through the price and other terms it offered to independent providers ('self-lay organisations'). The commitments will help ensure an effective and fair market, which will benefit customers and the local economy.

We also continued our investigation into whether Anglian Water potentially abused its dominant position – and infringed the Competition Act 1998 – in relation to pricing for providing water and wastewater services to the Fairfield development site at Milton Keynes, which is in the company’s supply area. In April 2014, we issued the company with a supplementary statement of objections, which formally set out the issues raised against them. We will provide an update on this case in next year’s annual report.

Planning for the future

We want water companies to be accountable to their customers for delivering the services they need and want at a price they can afford. We also want the information they publish about their performance to be trusted. Having information that is easy to understand and navigate provides transparency, and helps everyone build trust and confidence in water. So, in January 2015, we announced:

- a [new regulatory reporting framework](#) that places the onus on individual companies to provide information to their customers and stakeholders that enables them to understand how their company is performing; and
- our proposals for a [monitoring framework](#) that places the onus on individual companies to take ownership for providing customers and stakeholders with assurance that the information they publish can be trusted. Where companies fall short of the high standards that customers and other stakeholders expect, we will step in to make sure that assurance is provided in a proportionate way that can help rebuild trust and confidence.

During the year, we developed a set of principles that represent the minimum expectations for regulated companies in terms of demonstrating to customers:

- how well they plan and deliver services (‘leadership’);
- how open they are about what they do and how they perform (‘transparency’); and
- how well they govern what they do (‘governance’).

By adopting these principles as a minimum, companies help build customers’ trust and confidence in the services they receive by showing they fully understand and meet the responsibilities of providing an essential public service. In 2014-15, we announced that [each regulated company had voluntarily developed its own governance code](#). We said that we expected all companies to fully meet our principles by 1 April 2015. We also [published principles for the owners of regulated companies \(‘holding companies’\)](#). We will report on the outcome of this work in next year’s annual report.

Improving monopoly services

Most people receive their water and wastewater services from a monopoly supplier. In the absence of customer choice, we challenge these companies to deliver improved services, innovation and value for money.

Taking action now

In October 2014, we announced that customers contacting their water company in the previous year (2013-14) received an improved service from them.

We asked 15,000 customers to give us their view on how well their water company did on a scale of 1 to 5 (where '5' indicates they were very satisfied). The average result for all companies in 2013-14 was 4.48. This is the third consecutive year that companies' performance on this measure has improved.

We introduced the level of customer satisfaction in April 2010 as a way of getting companies to improve how they treat customers. It forms part of our service incentive mechanism (SIM), a regulatory tool that focuses on customer experience.

We took account of companies' SIM scores for 2012-13 to 2014-15 in setting their price controls for 2015-20. Overall, we returned £130 million to customers where companies underperformed.

As part of our decisions, we encouraged companies – including using rewards and penalties – to challenge themselves, and learn from the challenges of others, to deliver the best package of services and price to their customers. We also tested the costs that companies said they will need to incur to deliver services. If we thought that a company could do this at a more efficient cost, we reduced their allowed expenditure. Overall, the companies put forward £45.7 billion of expenditure they said was necessary. We challenged where companies' costs were not efficient and well justified, and allowed only £44.3 billion. This included returning £150 million to customers where companies failed to deliver investment in 2010-15 that customers had already paid for.

As well as challenging on price, we also made sure companies are stretching themselves on service. This includes requiring them to make:

- larger reductions in supply interruptions and pollution incidents; and
- further improvements to drinking water quality.

Planning for the future

The way we reached our final decisions on companies' price controls will have longer-term benefits for customers, the environment and wider society.

Companies will be encouraged to deliver even more of what customers want over the next five years. This is because we asked them to engage in the biggest-ever conversation with customers about the outcomes they want now and in the future in terms of the:

- service they receive; and
- benefits that will be delivered for the environment and wider society.

Companies used this feedback to develop a set of outcomes that their customers said they want and are willing to pay for. Each company then developed a set of commitments that they will achieve to deliver those outcomes ('performance commitments'). We made sure that companies consulted customers about how performance against their 522 individual commitment levels should be rewarded or penalised. This means that:

- companies can earn a reward for doing better than their commitments (where customers said they were willing to pay more);
- companies will be penalised financially if they fall short; and
- customers are protected no matter what happens.

Overall, the rewards are worth about £800 million to the sector while the penalties are worth about £2 billion.

Another approach to price setting that we used to improve monopoly services, was to set up to four different price controls for each part of the companies' business. We separated the costs associated with different parts of the companies' business into:

- water and wastewater wholesale costs, which are the costs associated with maintaining and developing the network and other assets that deliver water and wastewater services to customers; and
- household and non-household retail costs, which are the costs associated with customer services such as billing, payment handling, debt management and meter reading.

Overall, these changes to the way in which companies look at costs will encourage efficiency and innovation by allowing them – and others – to consider the services for which customers are paying.

Promoting use of markets

We make sure that where markets for water and wastewater services exist, they operate efficiently and effectively, and deliver for customers. We also look at where there may be opportunities for more extensive use of markets to deliver better outcomes for customers and society.

Taking action now

While most water and wastewater services are supplied to customers by regional monopolies, companies can be appointed to supply water, wastewater or water and wastewater services to a specific area in place of the previous supplier. These new appointments and variations (NAVs) can deliver benefits to customers and developers in the form of innovations that mean better, cheaper services. When we assess applications, we make sure customers will be no worse off than if the former service provider was still supplying them.

We granted two appointment variations during 2014-15. More than 1,500 household customers will be supplied at the sites we approved. At one of the sites, the developer chose the company it preferred to supply the site. We received a further seven NAV applications in the past year, which we are currently processing.

Water supply licensing is another means by which the largest non-household customers can choose their supplier. During the year, we granted four water supply licences (WSLs).

Planning for the future

In June 2014, we welcomed the [Water Act 2014](#) receiving its formal UK Parliament approval. The Act will:

- allow all non-household customers in England to choose their supplier for retail water and wastewater services by April 2017; and
- introduce competition in England into wholesale (or 'upstream') water and wastewater services after 2019.

Establishing an effective retail market is a complex task that takes a lot of planning. So in 2012, the UK Government set up a group of key stakeholders, including us (the 'High Level Group'), to help prepare for a new retail market and other market reforms. The High Level Group (HLG) established the 'Open Water' programme to deliver this work. And in 2013, the water sector set up a company limited by guarantee – Open Water Market Limited (OWML) – funded by licensed monopoly companies to help deliver Open Water's work. OWML is designated as part of the public sector. Further details of OWML's accounts for 2014-15 are available from the [Open Water](#) website.

In 2014-15, we contributed to the work of the HLG and Open Water. For example, we provided input to Open Water's draft market blueprint, which sets out high-level designs of the retail market arrangements.

We were also supportive to the water sector in setting up a private company – Market Operator Services Limited (MOSL) – which will [take on some of the responsibilities of OWML from May 2015](#), including the procurement of the central IT system for the new market.

We also continued the groundwork in those areas that will be our responsibility in setting up the market. This included carrying out [a consultation on our proposals for amending the water supply licensing guidance](#) for customers eligible to choose their retail water and wastewater supplier. This is so the guidance is compatible with the opening up of the market for non-household customers in England.

The way that we set price controls for 2015-20 should also help monopoly companies in England prepare for operating in an expanded market for retail services. For example, we set [a separate price control for companies for the services they deliver to non-household customers](#), which has required them to consider in more detail the price and services that different non-household customers want. The way that we set it – using standard or ‘default’ tariffs – will also help protect non-household customers before and after they are able to choose their own supplier from April 2017.

Customers can benefit from competition even where they are not able to choose their supplier. The Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013 allows the UK Government or Ofwat to decide whether or not certain infrastructure projects need to be procured by competitive tender rather than delivered by the existing monopoly company. In 2014-15, we published [guidance that we will use to make decisions on specified infrastructure projects](#) in future.

We recognise that the Welsh Government is not currently minded to introduce further competition in Wales. We have tailored our regulation accordingly, and will retain specific protections for Welsh customers in the absence of competition. For example, as part of their price controls for 2015-20, Dŵr Cymru and Dee Valley Water will be encouraged to improve the services they deliver to non-household customers by receiving financial rewards or penalties (the SIM) depending on how they perform compared with companies in England. In this way, Welsh non-household customers may also indirectly benefit from greater competition in England. To help companies, we published [guidance to companies on collecting information for the SIM](#) during the year.

At the end of the year we launched our Water2020 programme of work. We began to look at how the provision of water and wastewater services may evolve over time to continue to deliver for customers and society in the face of the challenges facing the sector. We will be looking at where they may be scope for more extensive use of markets to enable a wider range of choices in how services are provided at every step of water and wastewater service delivery. We will also look at how we might need to adapt the way that we regulate to enable and support the development of these markets where appropriate.

Resilience and sustainable development

We have a duty to secure the long-term resilience of water supply and wastewater systems. We also have a duty to contribute to the achievement of sustainable development.

Taking action now

We all rely on water and wastewater services every day – in our homes, our businesses and our environment. Changing weather patterns and a growing population will make the delivery of safe, reliable, efficient and resilient water and wastewater services, among other things, both more challenging and more important.

Our price controls for 2015-20 will mean:

- that more than 370 million litres of water a day will be saved by tackling leakage and promoting water efficiency – enough water saved to serve all of the homes in Birmingham, Manchester and Leeds;
- that by 2020, companies are committed to no serious pollution incidents – and a fall of around a quarter in other less serious incidents;
- an increase in the number of water meters in household properties – from 48% to 61%; and
- cleaner water at more than 50 beaches.

Making sure that companies provide a safe and reliable service – and deliver the outcomes customers want – is crucial. But it is also important to make sure that those services are at a cost that customers are willing and able to pay. So our price controls will mean that by 2020 about a more million people will benefit from help paying their water and wastewater bills. This includes more than 850,000 people benefiting from having a cap on their water and wastewater bill where they are struggling to pay. At the moment, only about 60,000 people benefit from this help.

While we need to make sure services are delivered and are affordable, we also need to make sure the costs are shared fairly between current and future generations. The way that companies do this is to borrow money they need for investment from financial markets, which is paid back through customers' bills – like a mortgage – over time. This means we also have a role in making sure that investors of efficient companies can earn a reasonable return on their investment that reflects the risk they are taking (what we call the 'cost of capital').

We carried out an unprecedented level of engagement with investors in reaching our decisions. We had more than 200 meetings during 2014-15 – and more than 400 in total throughout the price review process – with analysts and investors. By assessing the balance of risk and reward and taking the latest market evidence into account, we were able to put in place a package of effective rewards and penalties that align the interests of company management and investors with the interests of customers. For example, setting a cost of capital of 3.74%, based on a forward-looking view of the cost of finance over the next five years:

- allows customers to benefit from lower bills as a result of falls in the costs of finance;
- offers shareholders of efficient companies a reasonable return on their investment, taking into account the risk they bear; and
- takes account of the rewards and penalties that companies may experience through the incentives we have put in place around their performance commitments.

Planning for the future

The way we reached our final decisions on companies' price controls will have longer-term benefits for customers, the environment and wider society.

In previous price reviews, we split companies' expenditure allowance into:

- capital expenditure (long-term investment); and
- operational expenditure (day-to-day running costs).

We asked them to provide a breakdown of all their costs, including for specific projects (such as building a new water treatment works), and we measured their performance against delivery of those projects. This approach rewarded capital expenditure to a greater extent than operational expenditure, which helped bring much-needed investment into the sector. But it did not always encourage companies to find the most efficient solution overall.

For the 2014 price review, we allowed companies a single pot of total expenditure (what we call 'totex'). This means they can choose the best solutions to deliver the outcomes to which they have committed. Focusing on outcomes over the next five years rather than on specific schemes means companies can choose to spend the money we allow them to recover from customers on:

- investing in new infrastructure;
- maintaining existing infrastructure; or
- adopting other solutions.

This gives them opportunities and incentives to develop innovative solutions, which should lead to a better deal for customers and the environment now and over the long term. And the evidence suggests that it is already working.

The Environment Agency estimates that in its latest 25-year plans for balancing the supply and demand for water ('water resources management plans'), about 50% of the schemes that water companies proposed were to reduce demand for water ('demand-side solutions'), such as water efficiency and reducing leakage. In the past, about 90% of the schemes that water companies proposed were to increase supplies ('supply-side solutions'), such as building new reservoirs or boreholes, or taking more water from rivers.

Better regulation

Delivering better regulation means targeting our efforts on the biggest risks to customers, and taking consistent and proportionate action where necessary. It also means being transparent and accountable for the decisions we take, and delivering better regulation in practice.

Taking action now

The sector must evolve to meet new challenges, which means our regulation framework also needs to evolve to stay one step ahead. As part of our new strategy, our vision for Ofwat is to be a trusted and respected regulator, working at the leading edge, and stretching ourselves and others to build trust and confidence in water. To help deliver this, in 2014-15 we continued our programme of work to improve our:

- people, skills, learning and development, leadership and culture;
- infrastructure and ways of working;
- financial management;
- programme management; and
- our wider governance, including risk management.

For example, during the year we:

- carried out a significant reorganisation to move to programme-based working and reduce our staff costs;
- improved the way we identify and manage risks and opportunities to our work and organisation;
- developed and implemented a new approach for reaching more efficient and effective decisions (our 'governance framework');
- developed and implemented new financial and time recording systems to improve our budget planning and forecasting processes – as well as our accountability for the money we spend; and
- implemented a new appraisal system – 'Delivery and development conversations' – to support the long-term development of our staff.

Among other things, this has helped us deliver significant efficiencies and cost reductions so that we can operate within a much tighter budget for 2015-16 onwards. We are now subject to a settlement imposed by HM Treasury through the Comprehensive Spending Review.

A key part of our new strategy, and how we fulfil our role in future, will be greater partnership working and collaboration with the sector, customer representatives and other regulators to improve outcomes for customers.

That is why during 2014-15, we worked with key stakeholders to develop a framework (see page 16) that will provide a common understanding of the sector's progress towards the vision of trust and confidence in water.

We also contributed to the work of the [UK Regulators Network \(UKRN\)](#). UKRN was set up by us and eight other regulators to improve co-ordination across regulated sectors to enhance investment and efficiency for the benefit of consumers.

Planning for the future

A key aim of our 2014 price review and the price controls we set for 2015-20 was to deliver better regulation. In particular, we wanted companies to take full responsibility and accountability for their business. So we adopted a risk-based approach to assessing their business plans and any interventions that followed. We focused our attention on the issues that could have the biggest impact on customers. This meant we were able to target our regulation and intervene in a proportionate way.

For example, we decided that South West Water and Affinity Water were ‘enhanced’ companies because their plans required very few changes. These companies have benefited from a ‘do no harm’ policy in that they were insulated from the changes that applied to the other ‘non-enhanced’ companies, which would have made them worse off. They also received direct financial and reputational benefits. This approach provides longer-term incentives for companies to improve the standard of the plans they deliver and shifts the frontier for what the sector can deliver for customers.

Overall during the price review, we saw a significant change within the sector, with companies responding to our challenge. Where companies stepped up, we were able to allow more of their plans through. Where they did not, we intervened consistently and transparently. For example, we engaged extensively with customer representatives, companies, investors and other stakeholders at every stage of the price setting process. This included publishing more than 1,250 documents between July 2013 and 31 March 2015 to explain, among other things:

- where we were intervening in companies’ business plans;
- why we intervened;
- what we did;
- how we did it; and
- what people told us.

This is particularly important for maintaining the confidence of investors – and supporting long-term investment in the sector.

Part 2: Our accounts

Management commentary

Strategic Report

Ofwat's annual report (pages 12 to 24) and associated appendices (pages 96 to 126) form part of the Strategic Report and contain information on:

- Ofwat's key activities and performance during 2014-15;
- Ofwat's employees; and
- social community and human rights issues.

Ofwat's strategy

During 2014-15, Ofwat developed a new strategy, 'Trust in water', which was launched in January 2015.

More information on the strategy is available on our website.

Financial commentary

These accounts are shown on a fully consolidated group basis, which involves the consolidation of the core Department (Ofwat) and Open Water Market Limited (OWML), a company limited by guarantee. OWML's accounts are available from [Open Water's website](#).

OWML falls within the Departmental Boundary as a result of its inclusion in the January 2015 Designation Order, which reflects its re-classification as a public body by the Office of National Statistics in September 2014. 2013-14 comparators disclosed in these accounts relate to Ofwat expenditure only, as OWML did not start trading until April 2015.

The financial highlights for the group are summarised below.

Operating costs summary

| | | | | | 2014-15 £000 | 2013-14 £000 |
|---------------------------|--------------------|-------------------------|------------------------------|--------------------------|-----------------------|--------------------|
| | Core Regulation | Open Water Programme | Thames Tideway Project | Total Core Department | Departmental Group | Core Department |
| Income | | | | | | |
| Licence fees received | 27,542 | 211 | 1,779 | 29,532 | 33,577 | 23,848 |
| Other income | 144 | - | - | 144 | 804 | 193 |
| | 27,686 | 211 | 1,779 | 29,676 | 34,381 | 24,041 |
| Expenditure | | | | | | |
| Administration Costs | (27,144) | (211) | (1,779) | (29,134) | (33,889) | (27,939) |
| | (27,144) | (211) | (1,779) | (29,134) | (33,889) | (27,939) |
| Net operating cost | 542 | - | - | 542 | 492 | (3,898) |

Core regulation budget

Ofwat is funded by fees charged to the regulated companies. Fees are recovered annually from appointed companies and licensed suppliers. Our fee income is subject to the constraints set out in the appointed companies' licence conditions. While our revenue funding comes directly from water companies, our budget settlement is subject to negotiation with HM Treasury through the spending review process. The core regulation operating budget set at the start of the year and included within our Main Estimate was £29.9 million. This was funded in full by the recovery of general licence fees under licence condition N.

The underspend against the core regulation budget at 31 March 2015 was 9.0%. This underspend related to a combination of underspend of the ring-fenced 2014 price review programme budget, that was not required, and staff costs savings created by a temporary delay in recruitment during the 2014-15 restructuring process. £2.4 million of licence fees were returned to the companies by credit note in March 2015, reducing the total income we recovered.

The increase in Ofwat's income of £5.6 million (18%) relates to the specific work packages associated with delivering the 2014 price review, and the initiation of the second phase of Ofwat's Business Transformation programme. Further information on Ofwat's Business Transformation programme can be found in '[Ofwat's forward programme 2015-16](#)' and within the Governance Statement.

Ofwat will operate within the Comprehensive Spending Review settlement from 1 April 2015 and our core budget for 2015-16 has been confirmed at £21.3 million.

Open Water Programme

In addition, a temporary licence condition governs our work to support the opening of the retail market for non-household customers in England. Condition R1 of relevant companies' licences governs this work, and allows Ofwat to raise fees to cover work on this programme.

In 2014-15, the majority of Open Water work was carried out by OWML, a company limited by guarantee established to progress preparations for market opening, which is a public body to be consolidated into Ofwat's accounts. Ofwat collected £1.624 million of the licence fees, of which £1.153 million was used to fund OWML's work directly.

The remainder of the income was utilised to fund work completed internally by Ofwat on the Open Water programme to prevent any cross-subsidisation with condition N licence payers. At the end of the year we returned £0.26 million to the companies paying the licence fee for work on this programme by credit note, reducing total income received.

Thames Tideway project

The regulation of the Thames Tideway project is funded under a separate licence. Its budget for 2014-15 was estimated at £2.0 million. The project had a final outturn of £1.8 million, with the variance between outturn and budget relating to re-phasing of activity between financial years. £1.8 million was collected from Thames Water Utilities under two special licence fee charges.

Capital expenditure

Capital expenditure is funded by budget cover, which has been agreed with HM Treasury, recorded within Ofwat's Main and Supplementary Estimate. The underspend against capital budget is £159 thousand (41%), which relates to a delay in the planned expenditure of fit out works for our new Birmingham office lease. Further information in respect to the new property operating lease is disclosed under lease exit costs below, in note 16 of these accounts.

We have £254 thousand held in capital commitments at 31 March 2015 (31 March 2014: nil).

Provisions

Delivery Partner incentive payments

In July 2013, Ofwat entered into a contract with PwC as its Delivery Partner for the 2014 Price Review. The contract included two incentive payments intended to ensure satisfactory performance from the Delivery Partner contract. The incentive payments represented only a downside risk for the Delivery Partner by making an element of the contractual rate subject to satisfactory delivery at two points during the Delivery Partner contract.

Robust, externally assured processes governed the determination of payments under the incentive mechanism. This involved monthly reporting by Accountable Leads for each work stream of the price review, monthly feedback at contract management meetings and internal audit assurance about the recommended level of each payment, to inform the final decision of the Ofwat Board.

The operation of the Delivery Partner contract will be reviewed as part of a lessons learned exercise on the price review.

As a result of these incentive mechanisms a provision of £700 thousand, which represented the maximum possible incentive payment due on satisfactory completion of the risk-based review, was created in 2013-14. Following completion of an assurance exercise, Ofwat's Board approved a payment which was lower than the maximum incentive payment as a result of which £87 thousand was written back in 2014-15. A second incentive payment was made in 2014-15 which did not require a provision as it related only to work begun and completed by the Delivery Partner during 2014-15.

Lease exit costs

In early April 2015, Ofwat completed the exchange on a new property operating lease which sought to re-gear two of the four floors occupied at our existing premises in Birmingham. As a result, an £808 thousand contractual lease exit charge will be payable to our landlords in June 2015.

The new lease will halve Ofwat's current accommodation footprint in Birmingham and has the potential to contribute a net overall saving of £3.5 million to Ofwat's accommodation budget over its seven-year term.

This has been accounted for as an adjusting post-balance sheet event and is disclosed in note 16 of these accounts.

Compensation payments and premature departure

A provision of £385 thousand was held to cover the costs of compensation payments due in 2014-15 under Ofwat's Business Transformation programme. £319 thousand of this provision was utilised during the year, with a further increase to the provision of £251 thousand to cover exits in 2015-16.

We continued to draw on provisions made in 2009-10 to cover redundancy and early retirement costs. In 2014-15, we have written back £5 thousand of provision following reassessment of future pension payments due in line with an amended CPI estimate of 2.2%.

Details of our movements in provisions are detailed in note 13 to the accounts.

Employee involvement

We attach great importance to managing, developing and training staff. During the year, we have invested in a broad range of development activities to support the achievement of our strategy. We hold regular staff briefings and seminars. We have a staff committee, which is consulted on a range of issues. We have a recognition agreement with the trade unions that represent Ofwat staff, namely PCS, Prospect and FDA.

Equal opportunities policy

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

- race;
- sex;
- sexual orientation;
- age;
- marital status;
- disability;
- religion and belief;
- gender reassignment;
- pregnancy and maternity; 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 carried out 25 separate recruitments, which in some cases sought more than one member of staff. Everyone was recruited through open competition.

Sustainability Report

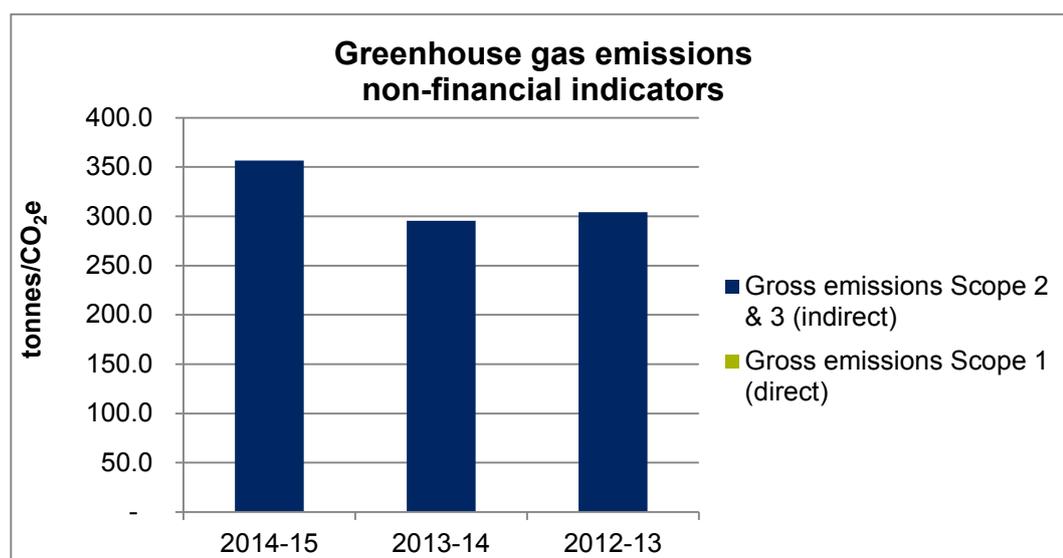
As a small department (<250 staff) Ofwat is not mandated to produce a Sustainability Report. However, because of its role in a regulated sector with a major environmental impact, Ofwat has voluntarily undertaken to provide a report. The report below follows the guidance issued by HM Treasury.

Offices

Ofwat occupies two offices – in Birmingham and London, respectively. We hold the direct lease for four floors in a multi-tenanted building in Birmingham, and lease our London office space under a Memorandum of Terms of Occupation (MOTO) from Sport England. Ofwat owns no property.

We moved into our London office during March 2014, so comparators for 2012-13 and 2013-14 are for our Birmingham office only. The electricity consumption of our London office is not available as the landlord receives payment from Ofwat through the total service charge. Therefore, electricity usage has been estimated on an industry benchmark of 95kWh/m²/year of occupied space.

| Greenhouse gas emissions | | 2014-15 | 2013-14 | 2012-13 |
|--|--|---------|---------|---------|
| | Total gross emissions | 356.6 | 295.6 | 304.2 |
| Non-Financial indicators | Total net emissions | 356.6 | 295.6 | 304.2 |
| | Gross emissions Scope 1 (direct) | - | - | - |
| (tCO ₂ e) | Gross emissions Scope 2 & 3 (indirect) | 356.6 | 295.6 | 304.2 |
| | Electricity: Non-Renewable | 0.467 | 0.427 | 0.476 |
| Related Energy Consumption (million KWh) | Electricity: Renewable | - | - | - |
| | Gas | - | - | - |
| | LPG | - | - | - |
| | Other | - | - | - |
| | Expenditure on Energy | 69.8 | 53.0 | 57.8 |
| Financial indicators | CRC Licence Expenditure | 1.3 | 1.0 | 1.3 |
| (£k) | Expenditure on accredited offsets (eg. GCOF) | 1.3 | 1.6 | 2.0 |
| | Expenditure on official business travel. | 439.0 | 336.6 | 299.0 |



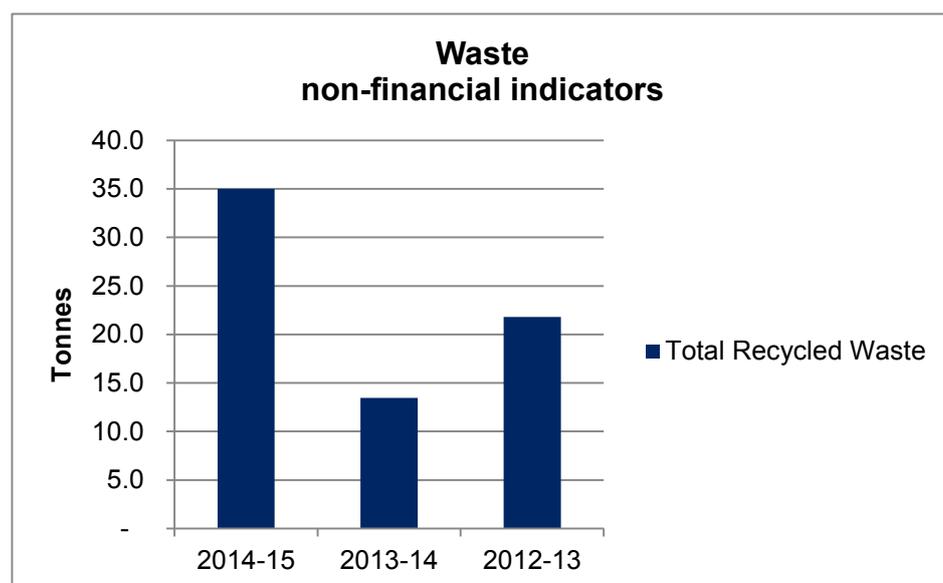
Performance commentary (including measures)

The analysis shows that Ofwat’s carbon emissions for the period amounted to 356.6 tonnes of CO₂e. The largest source of emissions is electricity consumption, which accounts for 231.0 tonnes of CO₂e, or 65% of the total emissions. Business travel contributes 17% of the total emissions, or 59.3 tCO₂e. There are no Scope 1 Emissions.

Controllable impacts commentary

The use of trains is already the principal means of Ofwat’s business transport and we are continuing to invest in new technology as part of the refurbishment work works being completed at the Birmingham office in early 2015-16 to attempt to reduce the overall business travel requirement between the two offices.

| Waste | | | 2014-15 | 2013-14 | 2012-13 |
|-------------------------------------|---------------------|-------------------------------------|---------|---------|---------|
| Non-Financial indicators (tonnes) | Total waste | | 35.0 | 13.5 | 21.8 |
| | Hazardous waste | Total | - | - | - |
| | | Landfill | - | - | - |
| | | Reused/Recycled | 35.0 | 13.5 | 21.8 |
| | Non-hazardous waste | Composted | - | - | - |
| | | Incinerated with energy recovery | - | - | - |
| Incinerated without energy recovery | | - | - | - | |
| Financial indicators (£000) | Total disposal cost | | 10.4 | 4.1 | 5.8 |
| | Hazardous waste | Landfill | - | - | - |
| | | Reused/Recycled | 10.4 | 4.1 | 5.8 |
| | | Composed | - | - | - |
| | Non hazardous waste | Incinerated with energy recovery | - | - | - |
| | | Incinerated without energy recovery | - | - | - |



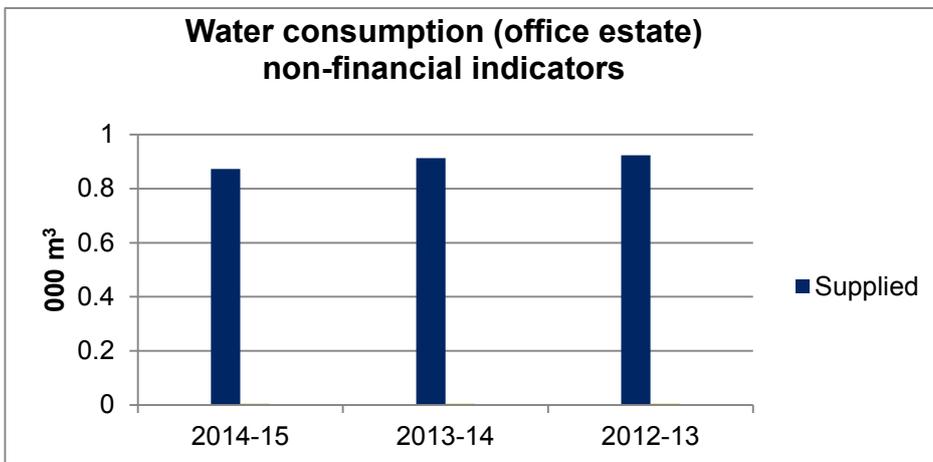
Performance commentary (including measures)

All general waste is segregated for recycling or landfill disposal. We are unable to measure this type of waste as it is disposed of through a central collection point in multi-tenanted buildings. Our paper waste is recycled, accounting for 35 tonnes (£10.4 thousand). The increase in waste production in 2014-15 is due to the refurbishment work carried out in the Birmingham office.

Controllable impacts commentary

Recycling is promoted throughout our offices with central collection points on each floor. Plastics, glass and card are recycled through centralised waste disposal facilities provided by our landlords. Landfill waste is also collected in this manner

| Finite resource consumption | | | 2014-15 | 2013-14 | 2012-13 |
|-------------------------------------|---------------------------------------|---|---------|---------|---------|
| Non Financial Indicators (000m3) | Water Consumption (office Estate) | Supplied | 0.873 | 0.913 | 0.923 |
| | | Abstracted | - | - | - |
| | | Per FTE | 0.00451 | 0.00475 | 0.00518 |
| Financial Indicators (£K) | Water Supply Costs (Office Estate) | Supplied | - | - | - |
| | | Abstracted | - | - | - |
| | | Water Supply Costs (Non-Office Estate) | 0.2 | 0.2 | 0.2 |
| | | | - | - | - |



Performance commentary (including measures)

Meeting usage for the 2014-15 period indicated an average consumption of 4.51m³ per FTE.

Controllable impacts commentary

Our water use is for essential welfare services only – for example, toilet and washroom facilities and drinking water.

Overview of influenced impacts

Ofwat occupies a multi-tenanted building in both Birmingham and London, and water suppliers are provided by the landlords. We encourage the installation of efficient and sustainable fittings in landlord areas where possible.

Future plans

We will continue to investigate ways in which we can further improve our energy and water efficiency and wherever possible adhere to Government Guidelines.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

Ofwat prepares resource accounts under section 5 of the Government Resources and Accounts Act 2000 and authority for us to incur expenditure is provided by Parliament through the public expenditure process. We are required to include a reconciliation of resource expenditure between Estimates, Budgets and Accounts.

| | 2014-15 £000 | 2013-14 £000 |
|---|-----------------|-----------------|
| Net Resource Outturn (Estimates) | 125 | 3,975 |
| Total Resource Outturn (Budgets) of which: | (542) | 3,898 |
| Departmental Expenditure Limits (DEL) | (542) | 3,898 |
| Adjustments include: | | |
| Actuarial Loss | 161 | 204 |
| Net operating cost (Accounts) | (381) | 4,102 |

Going concern

The statement of financial position at 31 March 2015 shows negative taxpayers' equity of £9.9 million (2013-14: £6.7 million). In common with other government departments, the future financing of Ofwat's liabilities are accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. There is no reason to think that future approvals will not be forthcoming. Accordingly, it has been considered appropriate to adopt a going concerns basis for the preparation of these financial statements.

Under the Government Resource and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained excess of that need. All unspent monies, including those derived from our income, are to be surrendered to the Fund.

Cathryn Ross
Accounting Officer

7 July 2015

Director's Report

Roles and responsibilities

Ofwat is a non-ministerial government department with its own resource estimate. The chairman of the Ofwat Board is Jonson Cox.

The Board has a Non-executive Chairman, and during 2014-15 membership was six Non-executive Directors and five Executive Directors, including the Chief Executive who is the Accounting Officer.

Chief Executive

Cathryn Ross

Other current appointments include: Director of Oxford Economic Consulting Ltd.

Former appointments include: Executive Director of Markets and Economics at the Office of Rail Regulation (until October 2013), and Director of Markets and Economics at Ofwat (2008 to 2011).

Chairman

Jonson Cox (from 1 November 2012)

Board Chairman, Chairman of the Nominations and Governance Committee from 16 July 2013, Chairman of the PR14 Project Board, member of the Remuneration and People Committee from 16 July 2013, Chairman of the Thames Tideway Committee from 30 March 2015, and Casework Committee from 17 November 2014.

Other current appointments include: Chairman of Harworth Group Plc (from 24 March 2015, previously Coalfield Resources plc and Harworth Estates Ltd).

Former appointments include: Chairman of UK Coal plc; Group Chief Executive Officer of Anglian Water Group Plc; Non-executive Director at Wincanton Plc; Chairman of Morrison plc; Chief Executive Officer of Valpak; Chief Operating Officer of Railtrack; Managing Director of Yorkshire Water and Kelda Group.

Non-executive Directors

Robin Paynter Bryant (from 24 January 2012)

Member of the Audit and Risk Assurance Committee from 16 July 2013, Member of the Thames Tideway Committee from 30 March 2015, and Member of the Remuneration Committee until 15 July 2013.

Other current appointments include: Partner of The Trinity Column Partners LLP, a firm authorised and regulated by the Financial Conduct Authority, and Non-executive Director of Go Modern Ltd.

Former appointments include: Non-executive Director of Prime International Investments Group Plc, listed on London PLUS-SX; and Director of The Trinity Column Ltd.

Wendy Barnes (from 7 February 2012)

Chair of the Audit and Risk Assurance Committee from 1 July 2013, Chair of the Remuneration Committee until 1 July 2013, and Member of the Audit and Risk Assurance Committee until 1 July 2013.

Other current appointments include: Non-executive Director with the Information Systems and Services Department of the Ministry of Defence (since January 2015); Independent Director on the Board of Scottish Power Energy Networks (since January 2015); Non-Executive of Chester Cathedral Enterprises LTD (since June 2013); Non-executive Director with the Met Office (including as a member of the Audit and Risk Committee and Chair of the Remuneration Committee, since May 2013); Non-executive member of BMT Group (including as a member of Audit Committee and Chair of Remuneration Committee, since July 2013); External advisor to Templar Executives (since October 2013); and Shareholder and Employee in Practiq Consulting Ltd (since 2009).

Former appointments include as a Director with United Utilities, then North West Water (1989-2003).

Christopher Burchell (from 1 May 2013)

Member of the Remuneration and People Committee from 16 July 2013, Member of the Nominations and Governance Committee from 16 July 2013, Member of the PR14 Programme Board from 16 July 2013, and Member of the Thames Tideway Committee from 30 March 2014.

Other current appointments include: Managing Director of UK Trains for Arriva (from 1 September 2014); Managing Director, Southern Railway (until 31 August 2014); Fellow of the Chartered Institute of Logistics and Transport and Fellow of the Institution of Railway Operators.

Martin Lawrence (from 1 May 2013)

Chairman of the Remuneration and People Committee from 16 July 2013, Member of the Nominations and Governance Committee from 16 July 2013, Member of the Casework Committee from 17 November 2014, and Member of Open Water Committee until 19 June 2014.

Other current appointments include: Council Member of Energy Institute (since 2010).

Former appointments include: Chairman of Association of Electricity Producers (2009 to 2012); Board member of Energy UK; Director at EDF Trading and Managing Director at EDF Energy.

Catherine Waddams (from 1 May 2013)

Chair of the Casework Committee (from 17 November 2014), Member of the Casework Committee (from 16 July 2013 to November 2014), and Member of the PR14 Programme Board from 16 July 2013.

Other current appointments include: Advisor to the UK Regulators Network; Professor in Norwich Business School; Member of the ESRC Centre for Competition at the University of East Anglia; Joint Academic Director of the Centre on Regulation in Europe; Member of the Consumer Expert Panel of the Office of Rail Regulation.

Former appointments include: part-time reporting member of the UK Competition Commission (2001 to 2009).

Christine Farnish (from 1 January 2014)

Member of the Audit and Risk Assurance Committee from 18 June 2014.

Other current appointments include: Non-executive Director at ABTA; Non-executive Director at Brighton and Sussex University Hospitals; Chair of the Peer to Peer Finance Association; Civil Service Commissioner.

Former appointments include: Non-executive Director at Aggregate Industries (until 31 March 2014); Chair of Consumer Futures (until March 2014); leading an independent review of the Money Advisory Service for Treasury (2014); Managing Director at Barclays; Chief Executive Officer at the National Association of Pension Funds; Former Consumer Director at the FSA and OFTEL.

Non-executive Directors' terms of appointment

The terms of appointment for Ofwat's Non-executive Directors are as follows. A transition plan has been put in place which addresses the appointments that end during 2015-16.

| | Appointment date | Appointment end date |
|------------------------|------------------|----------------------|
| Jonson Cox Chairman | 1 November 2012 | 31 October 2015 |
| Robin Paynter Bryant | 24 January 2012 | 23 January 2016 |
| Wendy Barnes | 7 February 2012 | 6 February 2016 |
| Christopher Burchell | 1 May 2013 | 30 April 2016 |
| Martin Lawrence | 1 May 2013 | 30 April 2016 |
| Catherine Waddams | 1 May 2013 | 30 April 2016 |
| Christine Farnish | 1 January 2014 | 31 December 2016 |

Non-executive Director appointments have no entitlement to performance related pay or pension entitlements. Compensation in the event of early termination is at the discretion of the Secretary of State.

Independent members

To strengthen the knowledge and skills mix of committee membership Ofwat has independent members who sit on our Audit and Risk Assurance and Casework Committees.

John Swift QC

Independent member on Casework Committee from November 2014.

Vanessa Howlison (from 1 January 2015)

(Independent member of Audit and Risk Assurance Committee).

Other appointments include: Finance Director of Department for Transport.

Richard Kennett, Chartered Accountant (Until 31 December 2014)

(Independent member of the Audit and Risk Assurance Committee)

Independent member of the Audit and Risk Assurance Committee of Hanover Housing Group; Council Member of the Health and Care Professions Council, where he is the Chairman of the Audit Committee; Non-executive Director of a West End theatre group; Financial Reporting Council – Professional Discipline Tribunals member until 31 December 2014; and Chartered Institute for Securities and Investment – Disciplinary Panel member.

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.

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 IAS19. Further details are provided at note 1.14 of the accounts and within the remuneration report on page 46.

Off-payroll engagements

Following the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, Ofwat is required to publish information on our highly paid and/or senior off-payroll engagements.

Table 1: For all off-payroll engagements as of 31 March 2015, for more than £220 per day and that last for longer than six months

| | Core Department Number of arrangements | Departmental Group Number of arrangements |
|---|---|--|
| Existing at 31 March 2015 | 3 | 5 |
| existed for less than one year at the time of reporting | 2 | 4 |
| existed for between one and two year at the time of reporting | 1 | 1 |

All five existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months

| | Core Department | Departmental Group |
|---|-------------------------------|-------------------------------|
| | 1 April 2014 to 31 March 2015 | 1 April 2014 to 31 March 2015 |
| Number of new engagements for more than £220 per day and that last longer than 6 months | 9 | 11 |
| Number of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations | 9 | 9 |
| The number for whom assurance has been requested | 9 | 11 |
| The number for whom assurance has been requested and received | 9 | 11 |
| The number for who assurance has been requested and not received | - | - |
| The number that have been terminated as a result of assurance not being received | - | - |

In our 2013-14 annual reports and accounts we disclosed that we had a single case for which assurance had not been received. Ofwat subsequently received this assurance in June 2014.

In respect of the two contracts entered into by issued by Open Water Market Limited (OWML), these were in place at the time of reclassification of the entity as a public body. Contractual clauses in respect of giving the entity the right to request assurance in relation to Income Tax and National Insurance obligations were not included as this is not a requirement of a private company.

Table 3: For any off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015

| | Core Department | Departmental Group |
|---|------------------------|------------------------|
| | Number of arrangements | Number of arrangements |
| No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year. | - | 2 |
| Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both on payroll and off-payroll engagements. | 12 | 12 |

Details relating to the 12 arrangements for the core Department are disclosed within the remuneration report of these accounts.

The interim Chair of OWML was off-payroll as his role was expected to be short-term and OWML was originally expected to be classified as a private sector body. Its classification as a public body led to the role lasting longer than anticipated, and the Accounting Officer for OWML approved the off-payroll appointment until completion of its transition into Ofwat.

The initial appointee to the role of Chief Operating Officer of OWML was also resourced off-payroll and the contract completed in March 2015.

Sickness absence

Our policy is to reduce employee absence and we rely on early intervention by our people managers conducting a return to work interview after each period of absence. People managers are supported by systems which help to identify when trigger points have been reached to allow them to consider whether further support or action is required.

- Three periods of absence in a rolling period of six months.
- Four periods of absence in a rolling period of twelve months.

CiC provides Ofwat with an Employee Assistance Programme that offers a voluntary and confidential support, information and counselling service to help employees and their immediate family members to resolve personal problems and concerns.

Sickness absence data is presented to the Board on a quarterly basis.

| | 2014-15 | | | 2013-14 | | |
|-------------------------|------------|-----------|-------|------------|-----------|-------|
| | Short term | Long term | Total | Short term | Long term | Total |
| Days lost | 350 | 528 | 878 | 618 | 620 | 1,231 |
| Average days per person | | | 5.6 | | | 6.5 |

A long-term absence is any absence running over a consecutive period of 21 working days or more. Ofwat's sickness absence figures are below the Civil Service average of 7.6 days per year.

Supplier payment performance

Following our continued commitment to improve performance in supplier payments in 2014-15, we achieved 95.64% against our target for paying 100% of agreed invoices within 30 days of receipt. The corresponding figure for 2013-14 was 93.92%.

Protected personal data related incidents

We have an Information Risk Policy (IRP) and related procedures in place to manage the risk of protected personal data related incidents. There were no incidents during the year (2013-14: nil).

Company membership

OWML is a company limited by guarantee of which Ofwat is a member. Where Ofwat exercises powers as a regulatory member these are limited to our existing legislative powers as denoted in OWML's Articles of Association. Ofwat holds a £1 liability that would become payable should the company become insolvent.

In September 2014, HM Treasury designated OWML as a public body. In January 2015, a Statutory Instrument instructed that OWML be consolidated into Ofwat's Estimate and annual accounts from the 2014-15 financial year.

Sonia Brown, Chief Regulation Officer, is a Non-executive Director of OWML.

Financial instruments

We do not have borrowings and rely primarily on licence fee income, claims on the reserve and Contingency Fund repayable advances for our cash requirements. We are not, therefore, exposed to significant liquidity risks. Further details are provided at note 11 and 12 to the accounts.

Internal audit

Grant Thornton provide Ofwat's internal audit service. The internal audit service provides an independent appraisal service for management by measuring and auditing the adequacy, reliability and effectiveness of management, risk management, and financial control systems. The internal auditors make recommendations based on the appraisal of each system reviewed.

External audit

Our external auditor is the Comptroller and Auditor General (C&AG), who is required to audit the financial statements under the Government Resources and Accounts Act 2000, and report to Parliament on this 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 our auditors are aware of that information. So far as she is aware, there is no relevant audit information of which our auditors are unaware.

The notional cost of this service is £45 thousand (2013-14: £41 thousand).

Cathryn Ross
Accounting Officer

7 July 2015

Remuneration Report

Senior Leadership Team

The composition of the Senior Leadership Team in the reporting period was as follows.

| | |
|---|---|
| Cathryn Ross* [*] | Chief Executive |
| Keith Mason* [*] | Senior Director, Finance and Networks |
| Sonia Brown* [*] | Chief Regulation Officer |
| Claire Forbes | Senior Director, Corporate Communications |
| Richard Khaldi* [*] | Senior Director, Customers and Casework |
| Beverley Messinger | Senior Director, Operations |
| Elizabeth Hillman* [*] (from 1 May 2014) | General Counsel |

* Denotes Board member

^{*} Denotes member of the Senior Civil Service

Service contracts

Remuneration of members of the Senior Leadership Team (with the exception of non-Senior Civil Servants) are set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body.

These contracts can be terminated by the standard process as set out in the Civil Service Management Code. The arrangements for early termination of members of the Senior Leadership Team are made in accordance with the service contract of the relevant individual. Each contract provides for a payment in lieu of notice on early termination based on the provisions of the Civil Service Compensation Scheme.

The notice period for all members of the Senior Leadership Team does not exceed six months.

Each permanent member of the Senior Leadership Team (with the exception of non-Senior Civil Servants) participates in a bonus scheme, which is in line with the Senior Salaries Review Body recommendations. The bonus is paid on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

Each permanent member of the Senior Leadership Team, who is not part of the Senior Civil Service, is remunerated in line with Ofwat's staff remuneration policy.

Sonia Brown has been a Non-executive Director of Open Water Market Limited (OWML) since 11 February 2014. She received no remuneration for this role. Other 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.

Staff remuneration policy

The Remuneration and People Committee approves 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.

A non-consolidated bonus may be awarded to staff or teams whose performance is exceptional. Bonus nominations received are considered first by a panel of appointed senior staff who examine the applications for consistency and fairness before making a recommendation to the Senior Leadership Team. The Senior Leadership Team then meets to review and agree all bonus allocations. The annual bonus budget is agreed by the Remuneration and People Committee.

Non-executive Directors' remuneration policy

The Chairman and Non-executive Directors are remunerated in line with Cabinet Office guidance.

Senior managers' remuneration

The following information was subject to audit.

| Single total figure of remuneration | Restated Salary (£000) | | Bonus payments (£000) | | Benefits in kind (to nearest £100) | | Pensions benefits (to nearest £1,000) | | Total (£000) | |
|---|---|---|-----------------------|---------|------------------------------------|---------|---------------------------------------|---------|--------------|---------|
| | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 |
| Cathryn Ross * Chief Executive | 155-160 | 70-75 (full year equivalent 150-155) | - | - | 6,100 | 2,100 | 44,000 | 14,000 | 205-210 | 85-90 |
| Sonia Brown Chief Regulation Officer | 130-135 | 130-135 | 15-20 | 10-15 | 1,800 | 4,000 | 29,000 | 66,000 | 180-185 | 215-220 |
| Keith Mason Senior Director of Finance and Networks | 115-120 | 115-120 | - | - | - | - | 20,000 | 32,000 | 135-140 | 145-150 |
| Claire Forbes * Senior Director of Corporate Communications | 95-100 | 35-40 (full year equivalent 90-95) | 0-5 | - | 6,500 | 600 | 37,000 | 15,000 | 140-145 | 55-60 |
| Richard Khaldi Senior Director of Customers and Casework | 110-115 | 25-30 (full year equivalent 105-110) | - | - | 8,700 | 1,400 | 41,000 | 10,000 | 155-160 | 35-40 |
| Beverley Messinger Senior Director of Operations | 120-125 | 35-40 (full year equivalent 115-120) | 0-5 | - | 1,600 | - | 45,000 | 15,000 | 165-170 | 50-55 |
| Elizabeth Hillman General Counsel (from 1 May 2015) | 105-110 (full year equivalent 115-120) | - | - | - | - | - | - | - | 105-110 | - |
| Stuart Crawford Senior Director of Corporate Services and Programme Management (until 31 December 2013) Voluntary Redundancy Compensation | - | 90-95 (full year equivalent 120-125) 71 | - | - | - | 13,800 | - | 32,000 | - | 135-140 |
| Regina Finn Chief Executive (until 8 November 2013) | - | 90-95 (full year equivalent 145-150) | - | - | - | 4,700 | - | 15,000 | - | 110-115 |

* The pension benefits for 2013-14 have been restated due to an error in the MyCSP pension calculation last financial year.

Third party payments*

The following information was subject to audit.

| | 2014-15 Payment £000 | 2013-14 Payment £000 |
|--|----------------------------|-------------------------------------|
| Capita Resourcing Ltd T/A Veredus Robert Beasley, Interim Senior Director of Corporate Affairs (6 months until 29 October 2013) | - | 115-120 (contract value 125-130) |

*Civil Service Pension rights are not applicable to members of the Senior Leadership Team while contracted through a third party.

Non-executive members of the Authority remuneration

The following information was subject to audit.

| | Salary (£000) | | Benefits in kind (to nearest £100) | | Total (£000) | |
|--|------------------|---|---|---------|-----------------|---|
| | 2014-15 | 2013-14 | 2014-15 | 2013-14 | 2014-15 | 2013-14 |
| Jonson Cox Chairman | 115-120 | 95-100 | 3,800 | 12,100 | 120-125 | 110-115 |
| Robin Paynter Bryant Non-executive Director | 10-15 | 10-15 | 600 | 100 | 10-15 | 10-15 |
| Wendy Barnes Non-executive Director | 15-20 | 15-20 | 4,400 | 2,400 | 20-25 | 15-20 |
| Christopher Burchell Non-executive Director | 15-20 | 15-20 (full year equivalent 15-20) | 300 | - | 15-20 | 15-20 (full year equivalent 15-20) |
| Martin Lawrence Non-executive Director | 15-20 | 15-20 (full year equivalent 15-20) | 500 | 600 | 15-20 | 15-20 (full year equivalent 15-20) |
| Catherine Waddams Non-executive Director | 15-20 | 15-20 (full year equivalent 15-20) | 1,100 | 500 | 20-25 | 15-20 (full year equivalent 15-20) |
| Christine Farnish Non-executive Director | 15-20 | 0-5 (full year equivalent 15-20) | 100 | - | 15-20 | 0-5 (full year equivalent 15-20) |
| Penny Boys Non-executive Director (until 31 March 2014) | - | 15-20 | 100 | 1,400 | 0-5 | 15-20 |

Expenses paid to Penny Boys in 2014-15 relate to March 2014 expenditure, which was not settled until April 2014.

Independent members

The following information was subject to audit.

| | 2014-15 | | 2013-14 | |
|--|-----------------------------------|------------------------------------|---------|------------------------------------|
| | Salary | Benefits in kind (to nearest £100) | Salary | Benefits in kind (to nearest £100) |
| Richard Kennett Independent Member (Until 31 December 2014) | 0-5 (full year equivalent 0-5) | 100 | 5-10 | 200 |
| John Swift* Independent Member (From 1 September 2014) | 0-5 | - | - | - |
| Philip Marsden* Casework Committee Member (Until 30 March 2014) | 0-5 | - | 0-5 | - |

* Philip Marsden and John Swift are remunerated per attendance at committee meetings rather than provided an annual salary.

Salary

'Salary' includes gross salary, overtime, and any allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by Ofwat and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by Ofwat 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 subsistence and travel arrangements for the Authority.

Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2014-15 relate to performance in 2014-15 and the comparative bonuses reported for 2013-14 relate to performance in 2013-14.

Pay multiples

Ofwat is required to disclose the relationship between the remuneration of the highest paid director in the organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid director in Ofwat in the financial year 2014-15 was £165 thousand to £170 thousand (2013-14: £155 thousand to £160 thousand). This was 4.0 times (2013-14: 4.2 times) the median remuneration of the workforce which was £42,274 (2013-14: £37,741).

The decrease in the pay multiple reflects the impact of the 2014-15 voluntary exit scheme.

Total remuneration includes salary, non-consolidated performance related pay and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Senior managers' pension benefits

The following information was subject to audit.

| | Accrued pension at age 65 at 31 March 2015 and related lump sum £000 | Real increase in pension and related lump sum at age 65 £000 | CETV at 31 March 2015 £000 | CETV at 31 March 2014 £000 | Real increase in CETV £000 |
|---|---|---|-------------------------------|-------------------------------|-------------------------------|
| Cathryn Ross Chief Executive | 25-30 lump sum: 80-85 | 0-2.5 lump sum: 5-7.5 | 370 | 324 | 22 |
| Sonia Brown Chief Regulation Officer | 25-30 lump sum: 80-85 | 0-2.5 lump sum: 2.5-5 | 350 | 316 | 12 |
| Keith Mason Senior Director Finance and Networks | 30-35 lump sum: 90-95 | 0-2.5 lump sum: 2.5-5 | 665 | 613 | 18 |
| Claire Forbes* Senior Director Corporate Communications | 0-5 lump sum: - | 0-2.5 lump sum: - | 32 | 9 | 14 |
| Richard Khaldi Senior Director Customers and Casework | 0-5 lump sum: - | 2.5-5 lump sum: - | 28 | 5 | 13 |
| Beverley Messinger * Senior Director Operations | 0-5 lump sum: - | 2.5-5 lump sum: - | 44 | 10 | 22 |

* The 2013-14 figures have been restated due to an error in the MyCSP pension calculation last financial year.

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 47.

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 13.2). 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.

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 Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% 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 initial 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 for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on their 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 Pensions Increase legislation. In all cases, members may opt to give up (commute) pension for a 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 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 www.civilservicepensionscheme.org.uk.

New Career Average pension arrangements will be introduced from 1st April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme. Further details of this new scheme are available at <http://www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/>.

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 that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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 taken.

Real increase in CETV

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

Compensation for loss of office

Voluntary exits

A voluntary exit scheme, for which Ofwat received approval from Cabinet Office, ran during 2014-15 and 51 people were approved to leave under Voluntary Exit terms. They received a compensation payment of between £4 thousand and £113 thousand.

Of the 51 voluntary exits, five took early retirement. The cost to Ofwat of buying out the actuarial reduction of their pension was £2 thousand to £58 thousand. They did not receive any additional compensation.

The total cost associated with exits under the voluntary exit scheme have been provided for in 2014-15, as detailed in note 13.1.

Four exit compensation packages were in excess of £100 thousand, for which Cabinet Office approval was obtained.

Cathryn Ross
Accounting Officer

7 July 2015

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000 (the GRAA), HM Treasury has directed Ofwat to prepare, for each financial year, consolidated resource accounts detailing the resources acquired, held or disposed of, and the use of resources, during the year by the department and its sponsored public body, Open Water Market Limited (OWML), designated by order made under the GRAA by Statutory Instrument 2014 no 3314 (together known as the 'Departmental Group', consisting of the department and OWML).

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the department and the Departmental Group and of the net resource outturn, application of resources, changes in taxpayers' equity and cash flows of the Departmental Group for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by sponsored public bodies;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed Cathryn Ross, Chief Executive, as Accounting Officer of Ofwat.

The Accounting Officer of the department has also appointed an Accounting Officer within OWML by seconding on a part-time basis Keith Mason, Ofwat's Senior Director of Finance and Networks. The Accounting Officer of the department is responsible for making sure that appropriate systems and controls are in place to ensure that any income collected on behalf of and passed to OWML, are applied for the purposes intended, and that such expenditure and the other income and expenditure of OWML is properly accounted for, for the purposes of consolidation within the resource accounts.

Under their terms of appointment, the Accounting Officer of OWML is accountable for the use, including the regularity and propriety, of the income received from the department and the other income and expenditure of that entity.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Ofwat's assets, are set out in 'Managing Public Money' published by the HM Treasury.

The Governance statement

Scope of responsibility

The Accounting Officer and Ofwat Board are responsible for maintaining corporate governance that supports the achievement of Ofwat's strategy, while safeguarding public funds and departmental assets. This is in accordance with the responsibilities set out in 'Managing Public Money'. The Accounting Officer is accountable to the Chairman and Board for all aspects of Ofwat's work. This includes the management of risk and opportunity.

As a non-ministerial government department, Ofwat's duties are laid down by legislation – in particular, the Water Industry Act 1991, Water Act 2003 and Water Act 2014, which gives Ofwat a new statutory duty to secure resilience.

The purpose of the governance framework

Ofwat adheres closely to the principles set out in the UK Corporate Governance Code 2010, 2012 and 2014 (the 'Code') and HM Treasury guidance. The aim is to give assurance that Ofwat carries out its duties in a manner that meets the highest standards of internal control and risk management, based on processes designed to identify, prioritise and manage the opportunities and risks to the delivery of Ofwat's strategy.

Key elements of the governance framework

The Board

The Board recognises the importance of leadership to create an environment where performance and risk management are effective. In line with the principles of the Code, Ofwat's Board has a majority of independent non-executives with a Non-executive Chairman, six Non-executive Directors and four Executive Directors, including the Chief Executive. The Board's rules of procedure are updated periodically and published on the Ofwat website. The Board regularly reviews its effectiveness, most recently discussing a Board evaluation report in October 2014. The Board membership provides the necessary balance of experience and expertise covering Ofwat's duties and strategy. A General Counsel, Elizabeth Hillman, joined Ofwat on 1 May 2014, attends the Board and is accountable to the Board for the provision of independent legal advice.

There were no examples of company appointments or consultancy arrangements, or other significant interests, held by Board members giving rise to a potential conflict with their responsibilities as members of the Board.

The Chairman and non-executives have played a full part in Board business through their attendance and contributions at Board meetings and meetings of committees of the Board as indicated below. The Board met in Wales in May 2014, using the occasion to meet informally with the Welsh Government Minister for Natural Resources and Food and officials of the Welsh Government. Minutes of the Board's meetings are published on the Ofwat website.

Non-executive Directors' attendance at the Board meetings and three sub-committee meetings from April 2014 to March 2015

| Board members | Board Meetings /Conference calls | Audit and Risk Assurance Committee Meetings | Remuneration and People Committee Meetings | PR14 Programme Board Committee Meetings | Casework Committee Meetings | Nominations Committee Meetings | Thames Tideway Committee Meetings |
|---|----------------------------------|---|--|---|-----------------------------|--------------------------------|-----------------------------------|
| | (12 – 1*) | (5) | (3) | (7) | (2) | (1) | (1) |
| Jonson Cox | | | | | | | |
| Chairman | 12/12 – 1/1 | --- | 3/3 | 6/7 | --- | 1/1 | 1/1 |
| Term started | Term ends | | | | | | |
| 01 November 2012 | 31 October 2015 | | | | | | |
| Wendy Barnes | | | | | | | |
| Non-Executive Director | 10/12 – 1/1 | 5/5 | --- | 4* | --- | --- | --- |
| Term started | Term ends | | | | | | |
| 07 February 2012 | 06 February 2016 | | | | | | |
| Robin Paynter Bryant | | | | | | | |
| Non-Executive Director | 9/12 – 1/1 | 4/5 | --- | 3* | --- | --- | 1/1 |
| Term started | Term ends | | | | | | |
| 24 January 2012 | 23 January 2016 | | | | | | |
| Martin Lawrence | | | | | | | |
| Non-Executive Director | 11/12 – 1/1 | --- | 3/3 | 2* | 2/2 | 1/1 | --- |
| Term started | Term ends | | | | | | |
| 01 May 2013 | 30 April 2016 | | | | | | |
| Chris Burchell | | | | | | | |
| Non-Executive Director | 11/12 – 0/1 | --- | 3/3 | 7/7 | --- | 1/1 | 1/1 |
| Term started | Term ends | | | | | | |
| 01 May 2013 | 30 April 2016 | | | | | | |
| Catherine Waddams | | | | | | | |
| Non-Executive Director | 12/12 – 1/1 | --- | --- | 7/7 | 2/2 | --- | --- |
| Term started | Term ends | | | | | | |
| 01 May 2013 | 30 April 2016 | | | | | | |
| Christine Farnish | | | | | | | |
| Non-Executive Director | 11/12 – 1/1 | 4/5 (Joined Committee in June 2014) | --- | 3* | --- | --- | --- |
| Term started | Term ends | | | | | | |
| 01 January 2014 | 31 December 2016 | | | | | | |
| Cathryn Ross | | | | | | | |
| Chief Executive | 12/12 – 1/1 | 5/5 | 3/3 | 7/7 | 2/2 | 1/1 | 1/1 |
| Term started | Term ends | | | | | | |
| 14 October 2013 | 13 October 2016 | | | | | | |
| Keith Mason | | | | | | | |
| Senior Director of Finance and Network | 12/12 – 1/1 | --- | --- | 7/7 | --- | --- | 1/1 |
| Term started | Term ends | | | | | | |
| 01 April 2006 | 31 March 2017 | | | | | | |
| Sonia Brown | | | | | | | |
| Chief Regulation Officer | 11/12 – 1/1 | --- | --- | 7/7 | --- | --- | --- |
| Term started | Term ends | | | | | | |
| 01 March 2012 | 28 February 2018 | | | | | | |
| Richard Khaldi | | | | | | | |
| Senior Director of Customers and Casework | 11/12 – 1/1 | --- | --- | 7/7 | 2/2 | --- | --- |
| Term started | Term ends | | | | | | |
| 06 January 2014 | 05 January 2017 | | | | | | |

*Attendee invites for these meetings were extended to the whole Ofwat Board to increase understanding of PR14. Attendance was optional for non-Committee members.

Committees of the Board

The Board has six standing committees, each of which is chaired by a Non-executive Director. The Chairman of each committee reports to the Board after each meeting.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee's role is to support the Board in its responsibilities for issues of risk, internal control, governance and associated assurance. This is done by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs, reviewing the reliability and integrity of these assurances, and providing an opinion on how well the Board and Accounting Officer are supported in decision making and discharging their accountability obligations. The Committee met five times during 2014-15. In July 2015, the Committee submitted its annual report to the Board along with its recommendation to approve the annual accounts.

Matters discussed by the Committee in 2014-15 included:

- a final report on lessons learned from budget planning and forecasting;
- development and improvement of risk management in Ofwat;
- Ofwat's new governance framework;
- the Open Water programme and the consolidation of OWML's accounts into Ofwat's and the transition of the programme into Ofwat; and
- risk management reviews on the Casework programme, Business Transformation programme and Open Water.

Reports on strategic risks and opportunities are prepared quarterly for Board and Audit and Risk Assurance Committee.

The internal audit plan for 2014-15 was agreed by the Audit and Risk Assurance Committee at its 14 May 2014 meeting. All of the scheduled internal audit reviews were completed, subject to the Committee's approval. The 2014-15 internal audit findings were satisfactory – four audits provided substantial assurance, one substantial/moderation assurance, one moderate and the phase one Information Asset Review provided limited assurance.

The Audit and Risk Assurance Committee asked the National Audit Office to facilitate a self-assessment review of the Committee's effectiveness, which reported in March 2015. The review was positive and identified only a few, minor areas for improvement.

Remuneration and People Committee

The Committee was chaired by Martin Lawrence, who was appointed as Chair on 16 July 2013. The other non-executive members who served during the year were Jonson Cox and Chris Burchell. The Committee's role is to consider matters relating to the pay and conditions of employment of Ofwat's staff. Issues discussed during the year included:

- consideration of SCS pay, bonus arrangements and Senior Leadership Team objectives;
- scrutiny of people survey outcomes;
- people strategy update and initial consideration of people work stream of the Business Transformation programme; and
- pay progression and consideration of the pay award for Ofwat's staff.

During 2015-16, the Committee will focus on:

- the people work stream of the Business Transformation programme;
- scrutiny of people survey outcomes;
- pay progression; and
- talent acquisition and management.

PR14 Programme Board Committee

In July 2013, the Board established an advisory committee called the PR14 Programme Board to provide challenge, support and advice to the programme's Senior Responsible Owner, and monitor delivery of key elements of the programme. The Committee met seven times during the year. The final meeting was in December 2014.

Open Water Committee

In July 2013, the Board established an advisory committee called the Open Water Committee.

The Committee's role was to:

- provide challenge, support and advice to the Choice and Trading Arrangements programme and any relevant successor programme or project, which includes work directly linked to the Open Water Programme; and
- monitor whether key elements of the Choice and Trading Arrangements programme are being efficiently delivered.

The Open Water Committee did not meet in 2014-15 and was disbanded in June 2014; the Choice and Trading Arrangements Programme Board continued to oversee Ofwat's contribution to the Open Water programme until it was disbanded in December 2014 after which the Ofwat Board oversaw the programme.

Casework Committee

In July 2013, the Board established the Casework Committee to make certain final decisions in strategic cases. John Swift QC is an independent member of the Committee. During the year, the Committee made two decisions relating to strategic cases.

Nominations and Governance Committee

In July 2013, the Board established a Nominations and Governance Committee. The Committee was chaired by Jonson Cox. The Board Chairman shall not chair the Nominations and Governance Committee when it is dealing with matters relating to the chairmanship of the Board. The Chief Executive and other senior staff attend the Committee by invitation. The Committee's role is to:

- review, and make recommendations on, the structure, size, and composition of the Board (including identifying and nominating for approval candidates to fill certain Board vacancies);
- review succession planning for the Board, the members of the Senior Leadership Team and other senior roles;
- be engaged in the appointment of any member of the Senior Leadership Team; and
- monitor and make recommendations to the Board on Board governance issues.

Where independent members are appointed to Board committees, any remuneration for these roles is set by the Chief Executive in consultation with the Chairman. The appointments of Non-executive Directors of the Board are recommended by the Chairman, with the Department for Environment, Food and Rural Affairs (Defra) Minister responsible for Ofwat having a power of veto over the appointment of Non-executive Directors. The Nominations and Governance Committee met in March 2015 to discuss succession planning across the organisation.

Senior Leadership Team

The Senior Leadership Team comprises the executive members of the Board and the senior directors and the General Counsel. It meets frequently and advises the Chief Executive on key decisions relating to the management of the organisation and its resources, subject to the overall direction, reserved powers and control of the Board.

Its focus is strategic across Ofwat's portfolio, including horizon scanning and scrutiny of operational, risk and opportunity and people issues. It plays a key leadership role in the organisation, particularly in terms of overseeing and exemplifying our values, behaviours and culture. Progress is fed back to each Board meeting in the Chief Executive's report.

During 2014-15, SLT has focused heavily on long-term strategy and also on business transformation to enable Ofwat to deliver its new strategy through:

- implementing a new target operating model, working exclusively through programmes with staff belonging to one of six resource pools, to improve the agility and flexibility of the organisation and provide staff with more varied learning and development opportunities;
- carrying out a substantial people restructuring exercise to deliver this operating model and reduce payroll costs in line with the restrictions placed on us under our 2015-16 spending review settlement, and also to improve Ofwat's capability to deliver the new strategy;
- designing Ofwat's portfolio to maximise strategic benefit for the resources available; and
- leadership, culture, values and behaviours, supporting the launch of a new competency framework, staff development system and new corporate governance framework.

Audit arrangements

The Comptroller and Auditor General, who has been appointed under statute and reports to Parliament, has audited the Resource Accounts. The notional cost of providing audit services in respect of the Resource Accounts was £45 thousand. There was no auditor remuneration (actual or notional) for non-audit work.

Our internal audit service provides an independent appraisal service for management by measuring and evaluating the adequacy, reliability and effectiveness of management and financial control systems. Internal audit makes recommendations based on the appraisal of each system reviewed. An annual assurance report is provided to the Accounting Officer and the Audit and Risk Assurance Committee. We have chosen to outsource the provision of the internal audit service to ensure the delivery of wholly independent assurance and fully professional analysis and recommendations.

Grant Thornton worked as our internal auditor between October 2013 and April 2014, reflecting Ofwat's intention to participate in the joint regulators' group procurement for the provision of internal audit services. At the conclusion of that process, Grant Thornton won the joint regulators' contract and was appointed as Ofwat's internal audit supplier under that contract from 1 April 2014.

The 2014-15 internal audit was performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

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

Risk management

In line with the principles of the Code, the Board, Audit and Risk Assurance Committee and Senior Leadership Team regularly review the strategic risk and opportunities register. In addition, the Audit and Risk Assurance Committee receives risk review presentations from the owners of strategic risk and opportunities, programme Senior Responsible Owners, and senior director overviews on a rolling basis. Risk and opportunity management is embedded into all of Ofwat's programmes and their component projects. Senior Responsible Owners, and their programme teams, are committed to proactive and dynamic risk and opportunity management. To strengthen oversight, we continue to benefit from an independent member of our Audit and Risk Assurance Committee from outside Ofwat who is not a Board member.

Our risk management framework is based on HM Treasury standard guidance in the Orange Book. In July 2014, the Board approved a new risk and opportunities strategy to support delivery of our new strategy. It emphasises a more dynamic and engaged approach to risk and opportunity management. Significant work took place during 2014-15 to develop a new set of strategic risks and opportunities, which Board discussed in October 2014 and approved in January 2015. The ten new strategic risks and opportunities are more strategically aligned and reflect risk and opportunities associated with our vision for the sector and vision for Ofwat. Risk ownership responsibilities have been clearly allocated from the Accounting Officer and Board to specific members of staff, with a senior director owning each of our ten strategic risks and opportunities.

The work we have carried out during the year, has resulted in an increase in our maturity level against the Treasury's Risk Management Assessment Framework from Level 2 to Level 3, and this was validated by internal audit.

Open Water Market Limited

OWML is a company limited by guarantee established for the specific purpose of progressing preparatory work for the opening of the non-household retail market in England, which is a key Water Act reform. The market is due to open in April 2017.

We had expected OWML to be classified as a private body, in line with similar organisations in other sectors, and to evolve into the eventual market operator, which will act as a 'clearing house' ensuring that transactions between customers and retailers and between retailers and the different wholesalers are managed as effectively and efficiently as possible. However, OWML was classified as a public body after it had been set up and started operations. Following classification, Cabinet Office exempted OWML from its spending controls. Public sector classification created two major risks – one around the creation of the enduring market operator; the other related to accountability risks.

Public sector classification of OWML brought risk into the procurement of the central IT systems needed to set up the market operator because of restrictions on Ofwat's ability to raise capital income, and also made it difficult for OWML to evolve into the market operator, which ideally needs to be a private entity if it is to be effective. To procure the market operator system, the sector has established Market Operator Services Ltd (MOSL), a private company, to take forward the procurement of the central IT systems (on the basis of a specification produced by OWML) from April 2015.

The public sector classification of OWML has created risks that relate to the fact that it was independently delivering a programme and using public funds for which Ofwat was accountable. The classification also required consolidation of OWML's accounts into Ofwat's. In managing these risks, we have focused primarily on mechanisms to ensure the programme could continue to deliver to an extremely challenging timetable. In pursuing this objective, we have sought to support and assist OWML as a small, new organisation being asked to progress a challenging programme while establishing its own governance and operational processes as a public body. We have been concerned to support OWML in minimising risks arising from public sector classification, particularly the risk of losing momentum in OWML's delivery of critical preparatory work for market opening.

Specific controls to manage the governance and financial management issues have been set up under a Memorandum of Understanding between Ofwat and OWML, agreed in October 2014, setting out how the inter-organisational governance and financial management arrangements would operate. In the absence of a suitable candidate within OWML able to discharge the Accounting Officer role, Ofwat's Accounting Officer seconded Keith Mason, Senior Director, Finance and Networks, to OWML on a part-time basis and appointed him as Accounting Officer for OWML. The Memorandum of Understanding and Accounting Officer role are the primary sources of assurance, alongside consistent internal and external audit provision across both organisations.

At the same time as we operated these additional controls, with the full support of the OWML Board and the High Level Group which oversees the programme, we concluded that we should bring the Open Water programme into Ofwat because of the challenges of delivering through a public sector OWML. In August 2014, we confirmed our intention to bring the Open Water programme into Ofwat as a ring-fenced programme. This change was intended to be more efficient and effective, with clearer and more streamlined governance arrangements and accountability than were possible with OWML classified as a public body. We experienced challenges in managing the transition, resulting in some delay, linked also to the need to determine the form and function of the enduring market operator and how the procurement of the market operator system would proceed.

Transition into Ofwat is now expected in July 2015, which will be supported by the first of a series of independent reviews to be commissioned at key milestones to provide assurance that effective programme management arrangements are in place.

Budget management

The Senior Leadership Team devoted significant attention to learning lessons from the need, mid-way through the 2013-14 financial year, to increase Ofwat's 2013-14 and 2014-15 budgets to address an under-estimate of the delivery costs of the 2014 Price Review. We published a [report](#) on this in January 2014. The introduction of a new governance framework and corporate notices to communicate our corporate requirements in a formal manner, and training for budget holders, are helping create and support a culture of financial accountability.

The Audit and Risk Assurance Committee continued to monitor progress in implementing the report's recommendations, and considered a final report on the implementation of all of the recommendations in September 2014. The Board has been fully engaged in the process of setting the 2015-16 budget, which was set on the basis of programme budgets, and receives bi-monthly budget reports which underpin our new ways of working and are supported by significant changes we have made to our financial systems.

Ofwat's effectiveness

Achievements in 2014-15

This has been a year of immense risk and opportunity. The successful conclusion of the 2014 price review delivered price determinations for water companies that we estimate will result in a 5% average drop in water bills in real terms over the next five years while securing £44 billion of investment to improve services over the period 2015-20. And of greater significance over the long term are the changes we made to our regulatory approach in the 2014 price review:

- focusing on the outcomes that matter to customers and society;
- those outcomes being driven by the biggest programme of customer of engagement the sector has ever seen;
- a rebalancing of risk and reward to better align the interests of companies and their investors with those of customers; greater flexibility for companies to manage their businesses efficiently over the long term; and
- an unprecedented level of transparency both of the review itself and companies' performance in the coming control period.

The success of this ambitious review was even more notable given the challenges we had faced in delivery and earlier delays in the process.

Building on the principles embedded at the 2014 price review, we also launched our new strategy in January 2015, and have developed the regulatory model that we will use to play our part in delivering our vision for the sector of trust and confidence in water and wastewater services. This model sets us on a direction of travel away from ex ante, prescriptive, administrative, 'one-size fits all' approaches that focus companies on the regulator, towards more ex post, principles-based, pro-market, proportionate and targeted approaches that focus companies on their customers. It also envisages an important role for Ofwat and other stakeholders in being informed about the position of the sector, understanding risks to trust and confidence, so that we can step in as needed.

We made further significant strides elsewhere in our portfolio. Retail Market Opening is a complex multi-stakeholder programme on a tight timescale and we put considerable effort in during the year to build, maintain and manage our relationships with the other key players. We also set in motion preparation for the transfer of the management of the programme from OWML to Ofwat, following OWML's designation as a public body, including the recruitment of a new programme Senior Responsible Owner. We worked with the UK Government and Thames Water to set up the practical, legal and [regulatory frameworks](#) that will allow the Thames Tideway Tunnel scheme to be delivered by a separate infrastructure provider. Our work is helping keep bills down for customers while making sure an efficient financing model will ensure the investment needed to deliver this major infrastructure project. And we made great progress in our Casework programme, developing our approach to casework, taking forward our strategic cases, and embedding a case management system.

We have successfully maintained a focus on delivery at the same time as progressing a major transformation of the organisation.

We have successfully completed a significant restructuring, designed both to support our new strategy and ways of working, and also to enable us to reduce staff numbers to comply with a 29% cut to our core budget as we became subject to the Comprehensive Spending Review in 2015-16. The restructuring complemented and supported the introduction of an operating model based entirely on programme and project working, with programme and project teams drawn from resource pools that reflect the primary skill sets within our organisation. This is supported by the introduction of our new governance framework, which clarifies accountabilities and expectations, and enables people across Ofwat to be more empowered. Reflecting the different mix of skills and experience that we need given our programmes and new ways of working, we have begun a targeted recruitment campaign, and are developing our learning and development strategy. We have also delivered significant improvements in our physical and virtual working environment to support more efficient and flexible working. These include re-gearing the lease on our Birmingham accommodation, which will both reduce our future annual costs and support more agile and collaborative ways of working.

During this year, we worked effectively with HM Treasury to secure a Comprehensive Spending Review settlement for 2015-16 that better reflected the requirements on us for work resulting from the Water Act 2014 and the Thames Tideway Tunnel scheme. HM Treasury approval of our business case for an addition £1.659 million significantly mitigated risk to future delivery.

We have retained our focus on compliance – in particular, in the light of the issues raised in our 2013-14 governance statement. We now have a Compliance and Assurance programme to improve understanding of compliance requirements and embed our compliance culture. The internal audit of procurement gave substantial assurance for the operational delivery of procurement, highlighting very good progress implementing the previous audit's recommendations and making more limited and appropriate use of non-competitive actions, and 'moderate assurance' in terms of the need to progress development of a new target operating model for procurement.

The forward-looking risk and opportunities environment

We have an ambitious strategy on behalf of water customers and have an important role in helping to manage risk and opportunity stemming from the reforms provided for by the Water Act 2014, as well as the new Welsh Water Strategy and the new Strategic Policy Statement we expect to receive from the UK Government. The major risk in relation to our delivery is one of organisational capability. In particular:

- getting the right skills and experience: we need to take advantage of the period between the conclusion of the 2014 price review and the 2019 price review to provide opportunities for our people to learn and develop in line with our organisational needs. We need to retain and attract talented people, some with skill sets (such as regulatory and market economics, corporate finance, regulatory and competition law) that are in great demand across the public and private sectors;
- planning, budgeting and programme management: with ever-tighter resource constraints we need to improve our capability and discipline in programme management, especially in relation to forward planning and budgeting. We need constantly to review our priorities across our portfolio, ensuring that we have the right management information to do this and a culture that supports an agile response to it;
- values, behaviours and culture: we must ensure that we have a culture that enables and supports every one of our people to make the very best contribution they can to delivering our strategy and the benefits it will bring for customers and society. We must also ensure that our values and behaviours are not compromised as we work to deliver under pressure. We are working hard to embed a positive, respectful and learning culture across the office and are monitoring our progress, including through quarterly surveys; and
- ongoing organisational change: our transformation programme is not yet complete, and we will undergo further change in the coming year, as we roll out more of the programme and project ways of working, move into our smaller, more flexible Birmingham office and consider whether a further rebalancing of skills and experience is required. In 2015-16, we will develop plans to further reduce our footprint in our London office, and promote more agile working by investing in our infrastructure to reduce costs, our reliance on office space and travel. This will need to be managed carefully so as to complement rather than disrupt delivery. We need to make sure we focus on those changes that will deliver the biggest business improvement, monitor what is working and what is not, and learn as we go.

We will need to manage these risks against a backdrop of uncertain funding as we enter the next Comprehensive Spending Review. This could limit the scope of what we can deliver by restricting our total budget below the levels allowed in companies' licences, or compromising the flexibility built into licences to smooth our resources across the peaks of demand associated with a cyclical regulatory model. We also face operational constraints from other central controls that do not always fit well with the specialist nature of our organisation and carry high compliance and opportunity costs for us as a small organisation.

Reviewing Ofwat's effectiveness

The Accounting Officer and Board have responsibility for reviewing the effectiveness of the system of performance management and internal control, informed by the work of internal and external audit and operation of the internal control framework. The Accounting Officer has been advised on the implications of the result of her review of the effectiveness of the system of internal control by the Board and Audit and Risk Assurance Committee.

The vision of our strategy provide the basis of our annual priorities, which are set out in and consulted on, in the forward programme each year. This forward programme drives programme and project plans and ultimately each member of staff's objectives. Directors and project managers regularly review progress on programme and project plans. The Senior Leadership Team and Board review progress across our portfolio of programmes each quarter.

Resource requirements for Ofwat are assessed regularly in the context of our rolling Strategic Business Plan and annual operational plan. The Non-executive Directors also provide the Accounting Officer with an independent view of our performance.

Our internal auditors review and advise on our risk management processes and internal controls, and during the year reviewed systems and procedures in respect of:

- finance systems;
- information assets;
- business transformation programme;
- procurement;
- HR data quality; and
- staff departures.

The Head of Internal Audit provided a 'moderate' assurance opinion in respect of corporate governance, risk management and internal controls, except for information assets where the Senior Leadership Team has developed an appropriate action plan to address known significant development needs.

An investigation by the Parliamentary and Health Services Ombudsman in June 2014 found that Ofwat had taken too long to investigate a complaint and then handled complaint about the delay poorly. We paid the complainant compensation and issued an apology. We have significantly tightened our controls and systems for handling internal reviews. We have also seen an improvement in our response time performance for Freedom of Information requests, enquiries and correspondence.

This has been a year of improvement for Ofwat, during which our internal controls have been strengthened. Significant transformation of the organisation has left Ofwat in a much stronger position to deliver the new strategy, building on the successful conclusion of the 2014 price review.

Information security statement

Ofwat holds a range of information, most of which is policy and commercial with a small number of personal information assets. We have an Information Risk Policy (IRP) and related procedures in place.

Progress has been made in a number of areas, including a review and update of the corporate security risk register. We have continued to complete security checks on our third party providers as part of the procurement process and use data sharing agreements to control access to Ofwat's data. We also have robust security on all of our devices and carry out bi-annual network checks as part of the Public Sector Network accreditation.

However, information security has been identified as a significant risk. The first phase of an internal audit review of information assets, focusing on the 2014 price review, provided only limited assurance. The audit highlighted specific issues associated with the management of information assets and will inform urgent improvements in 2015-16 through the Business Transformation programme. We have a new Senior Information Risk Owner and Departmental Security Officer, who will ensure satisfactory completion of this work.

There has also been a failure to address fully concerns raised in last year's Governance Statement about the frequency of Security and Information Assurance Group meetings. This group provides governance of security, information risk and information assurance and follows up actions on behalf of the Senior Information Risk Owner. The Group has not met during 2014-15 as intended, largely because of changes in key personnel and pressures associated with delivering the 2014 price review.

During 2014-15, we implemented an interim update to our business continuity policy to reflect the opening of a permanent new London office. Following re-gearing of our Birmingham lease to reduce our footprint and costs, in 2015-16 we will develop and agree a comprehensive business continuity policy and procedures covering both sites.

Our annual security return for 2014-15 was signed by the Senior Information Risk Owner, Bev Messinger, Senior Director of Operations, and submitted to the Cabinet Office on 8 June 2015.

There are no information risk incidents in 2014-15 that require reporting to the Information Commissioner. There were three security incidents involving the loss of laptops outside the office which, following protocol, we reported to the Comsec Incident Notification, Reporting and Alerting Scheme. In all cases, the risk of data loss was low as a result of our information security arrangements. Staff have been reminded of our policies and a broader review of policies and information security will take place in early 2015-16.

Cathryn Ross
Accounting Officer

7 July 2015

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 the Water Services Regulation Authority (Ofwat) and of its Departmental Group for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The Department consists of the core Department. The Departmental Group consists of the Department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2014. The financial statements comprise:

- the Department's and Departmental Group's Statements of Comprehensive Net Expenditure;
- Financial Position;
- Cash Flows;
- Changes in Taxpayers' Equity; and
- the related notes.

I have also audited the Statement of Parliamentary Supply 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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Department's and the Departmental Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Accounting Officer; and
- the overall presentation of the financial statements.

In addition, I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2015 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's and the Departmental Group's affairs as at 31 March 2015 and of the Department's net operating cost and Departmental Group's net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Strategic and Director's Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS

8 July 2015

Statement of Parliamentary Supply

for the year ended 31 March 2015

Summary of Resource and Capital Outturn 2014-15

Explanations of variances between Resource Estimate and outturn are given the Financial Commentary on page 26.

| £000 | 2014-15 | | | | | | | 2013-14 | |
|---------------------------------------|----------|------------|-----------|------------|--------------|-----------|--------------|--|--------------|
| | Estimate | | | | Outturn | | | Voted outturn compared with Estimate: saving/ (excess) | Total |
| | Note | Voted | Non-voted | Total | Voted | Non-voted | Total | | |
| Departmental Expenditure Limit | SOSP3 | | | | | | | | |
| - Resource | | 125 | - | 125 | (542) | - | (542) | 667 | 3,898 |
| - Capital | | 385 | - | 385 | 226 | - | 226 | 159 | 825 |
| Annually Managed Expenditure | | | | | | | | | |
| - Resource | | - | - | - | - | - | - | - | - |
| - Capital | | - | - | - | - | - | - | - | - |
| Total Budget | | 510 | - | 510 | (316) | - | (316) | 826 | 4,723 |
| Total Resource | | 125 | - | 125 | (542) | - | (542) | 667 | 3,898 |
| Total Capital | | 385 | - | 385 | 226 | - | 226 | 159 | 825 |
| Total | | 510 | - | 510 | (316) | - | (316) | 826 | 4,723 |

Net cash requirement 2014-15

| £000 | 2014-15 | | | | 2013-14 |
|------|---------|----------|---------|--|---------|
| | Note | Estimate | Outturn | Outturn compared with Estimate: saving/ (excess) | Outturn |
| | | | | | |
| | SOSP4 | 2,491 | (3,642) | 6,133 | 1,722 |

The variance between outturn Net Cash Requirement and Estimated Net Cash Requirement is £6.1 million, reflecting larger than forecast working capital balance at 31 March 2015. This variance includes:

- £2.4 million of unrequired company licence fees, for which credit notes were issued on 31 March 2015;
- undrawn supply from HM Treasury; and
- an increase in provisions relating to the new Birmingham property lease.

Administration costs 2014-15

| £000 | 2014-15 | 2014-15 | 2013-14 |
|------|----------|---------|---------|
| | Estimate | Outturn | Outturn |
| | 125 | (542) | 3,898 |

Of our £125 thousand voted administration costs, £124 thousand represents Parliamentary Supply provided to Ofwat in relation to the elements of expenditure of the retired Directors General pension scheme for which we cannot charge the sector. The variance between outturn and estimate relates to income received in excess of expenditure during the period.

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

The notes on pages 76 to 95 form part of these accounts.

Notes to the Departmental Resource Accounts (Statement of Parliamentary Supply)

SOPS1 Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with HM Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system, and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high-quality public services that offer value for money to the taxpayer.

The Government's objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and
- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Provisions

As per requirements specified in the 2014-15 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual for regulators that are wholly or substantially funded from income, Ofwat's provisions score exceptionally within Departure Expenditure Limits (DEL).

The notes on pages 76 to 95 form part of these accounts.

SOPS2 Net Outturn

for the year ended 31 March 2015

SOPS2.1 Analysis of net resource outturn by section

| | Administration | | | Programme | | | Total | Net total | Net total compared to Estimate | Net total compared to Estimate, adjusted for virements | Total |
|---|----------------|-----------------|--------------|-----------|----------|----------|--------------|------------|--------------------------------|--|--------------|
| | Gross | Income | Net | Gross | Income | Net | | | | | |
| Spending in Departmental Expenditure Limit Voted: | | | | | | | | | | | |
| A | 29,134 | (29,676) | (542) | - | - | - | (542) | 124 | 666 | - | 3,898 |
| B | 4,705 | (4,705) | - | - | - | - | - | 1 | 1 | 1 | - |
| Total | 33,839 | (34,381) | (542) | - | - | - | (542) | 125 | 667 | 1 | 3,898 |

Section A - Water Services Regulation Authority.
Section B - Open Water Market Limited

SOPS2.2. Analysis of capital outturn by section

| £000 | 2014-15 | | | | | | 2013-14 | |
|---|----------------|------------|----------|--------------------------------|--|------------|------------|-------|
| | Outturn | | | Net total | Estimate | | | Total |
| | Administration | | | | Net total compared to Estimate, adjusted for virements | | | |
| | Gross | Income | Net | Net total compared to Estimate | | | | |
| Spending in Departmental Expenditure Limit Voted: | | | | | | | | |
| A | | 226 | - | 226 | 385 | 159 | 825 | |
| B | | - | - | - | - | - | - | |
| Total | | 226 | - | 226 | 385 | 159 | 825 | |

The notes on pages 76 to 95 form part of these accounts.

SOPS3 Reconciliation of outturn to net operating cost against Administration Budget

for the year ended 31 March 2015

SOPS3.1 Reconciliation of net resource outturn to net operating cost

| | | 2014-15 £000 | 2013-14 £000 |
|---|---------|-----------------|--------------------|
| | Note | Outturn | Supply Estimate |
| Total resource outturn in Statement of Parliamentary Supply | SOSP2.1 | (542) | 125 |
| | | | 667 |
| Net operating costs in Consolidated Statement of Comprehensive Net Expenditure | | (542) | 125 |
| | | | 667 |
| | | | 3,898 |

SOPS3.2 Outturn against final Administration Budget

| | 2014-15 £000 | 2013-14 £000 |
|---|-----------------|-----------------|
| | Outturn | Outturn |
| Estimate - Administration costs limit | 125 | 3,975 |
| Outturn - Gross Administration costs | 33,839 | 27,939 |
| Outturn - Gross income relating to administration costs | (34,381) | (24,041) |
| Outturn - Net administration costs | (542) | 3,898 |

The notes on pages 76 to 95 form part of these accounts

SOPS4 Reconciliation of Net Resource Outturn to Net Cash Requirement

for the year ended 31 March 2015

| | Note | Estimate | Outturn | Net total outturn compared with estimate; saving (excess) |
|--|------------|--------------|----------------|---|
| Resource Outturn | SOPS2.1 | 125 | (542) | 667 |
| Capital Outturn | SOPS2.2 | 385 | 226 | 159 |
| Accruals to cash adjustments: | | 1,981 | (3,326) | 5,307 |
| of which: | | | | |
| Adjustments to remove non-cash items: | | | | |
| Depreciation | 4 | (330) | (307) | (23) |
| New provisions and adjustments to previous provisions | 4 | (123) | (971) | 848 |
| Other non-cash items | 4 | (45) | (288) | 243 |
| Adjustment for NDPBs: | | | | |
| Remove voted resource and capital | | (1) | - | (1) |
| Adjustments to reflect movements in working balances: | | | | |
| Increase/(decrease) in receivables | 11 | - | 111 | (111) |
| (Increase)/decrease in payables | 12 | 1,968 | (2,983) | 4,951 |
| Use of provisions | 13.1, 13.2 | 512 | 1,112 | (600) |
| Net cash requirement | | 2,491 | (3,642) | 6,133 |

The notes on pages 76 to 95 form part of these accounts

SOPS5 Income payable to the Consolidated Fund

for the year ended 31 March 2015

| | Note | 2014-15 | | | |
|--|------|----------|----------|--------------|--------------|
| | | Forecast | | Outturn | |
| | | Income | Receipts | Income | Receipts |
| Excess cash surrenderable to the Consolidated Fund | 10 | - | - | 3,778 | 3,778 |
| Other amounts collectable on behalf of the Consolidated Fund | | - | - | 3,778 | 3,778 |
| Total income payable to the Consolidated Fund | | - | - | 3,778 | 3,778 |

The notes on pages 76 to 95 form part of these accounts

Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2015

| | Note | 2014-15 £000 | | 2013-14 £000 |
|---|------|--------------------|-----------------------|--------------------|
| | | Core Department | Departmental Group | Core Department |
| Administration costs | | | | |
| Staff costs | 3 | 13,361 | 13,361 | 12,164 |
| Other costs | 4 | 15,773 | 20,478 | 15,775 |
| Income | 5 | (29,676) | (34,381) | (24,041) |
| Net operating costs for the 12 months ended 31 March 2015 | | (542) | (542) | 3,898 |
| Total expenditure | | 29,134 | 33,839 | 27,939 |
| Total income | | (29,676) | (34,381) | (24,041) |
| Net operating costs for the 12 months ended 31 March 2015 | | (542) | (542) | 3,898 |
| Other comprehensive Net Expenditure | | | | |
| Items that will not be reclassified to net operating costs: | | | | |
| Non-cash charges - actuarial (gain)/loss | | 161 | 161 | 204 |
| Total comprehensive expenditure/(income) for the 12 months ended 31 March 2015 | | (381) | (381) | 4,102 |

The notes on pages 76 to 95 form part of these accounts

Consolidated Statement of Financial Position

as at 31 March 2015

| | Note | 31 March 2015 £000 | | Restated 31 March 2014 £000 |
|---|------|-----------------------|-----------------------|-----------------------------------|
| | | Core Department | Departmental Group | Core Department |
| Non-current assets: | | | | |
| Property, plant and equipment | 6 | 853 | 853 | 1,047 |
| Intangible assets | 7 | 202 | 202 | 215 |
| Trade & other receivables | 11 | 2 | 2 | 3 |
| Total non-current assets | | 1,057 | 1,057 | 1,265 |
| Current assets: | | | | |
| Trade & other receivables | 11 | 716 | 694 | 604 |
| Cash and cash equivalents | 10 | 3,778 | 4,993 | 898 |
| Total current assets | | 4,494 | 5,687 | 1,502 |
| Total assets | | 5,551 | 6,744 | 2,767 |
| Current liabilities: | | | | |
| Trade and other payables | 12 | (11,314) | (12,467) | (5,448) |
| Provisions | 13 | (1,185) | (1,225) | (1,117) |
| Total current liabilities | | (12,499) | (13,692) | (6,565) |
| Non-current assets less net current assets/liabilities | | (6,948) | (6,948) | (3,798) |
| Non-current liabilities: | | | | |
| Provisions | 13 | (37) | (37) | (67) |
| Pension liabilities | 13 | (2,884) | (2,884) | (2,785) |
| Other payables | 12 | (2) | (2) | (5) |
| Total non-current liabilities | | (2,923) | (2,923) | (2,857) |
| Assets less liabilities | | (9,871) | (9,871) | (6,655) |
| Taxpayers' equity: | | | | |
| General Fund | | (9,873) | (9,873) | (6,657) |
| Revaluation Reserve | | 2 | 2 | 2 |
| Total equity | | (9,871) | (9,871) | (6,655) |

2013-14 figures have been restated to split current and non-current provisions analysis.

Cathryn Ross
Accounting Officer

7 July 2015

The notes on pages 76 to 95 form part of these accounts

Consolidated Statement of Cash Flows

for the year ended 31 March 2015

| | Note | 2014-15 £000 | | 2013-14 £000 |
|--|-------|--------------------|-----------------------|--------------------|
| | | Core Department | Departmental Group | Core Department |
| Cash flows from operating activities | | | | |
| Net operating cost/(income) | SOSP3 | 542 | 542 | (3,898) |
| Adjustments for non-cash transactions | 4 | 1,566 | 1,606 | 1,606 |
| Increase(decrease) in trade and other receivables | | (111) | (89) | (160) |
| Less movements in receivables relating to items not passing through the Comprehensive Statement of Net Expenditure | | - | - | - |
| (Increase)decrease in trade payables | | 5,863 | 7,016 | 1,210 |
| Less movements in payables relating to items not passing through the Comprehensive Statement of Net Expenditure | | (2,874) | (2,874) | 858 |
| Use of provisions | 13 | (1,112) | (1,112) | (469) |
| Net cash (inflow)/outflow from operating activities | | 3,874 | 5,089 | - 853 |
| Cash flows from investing activities | | | | |
| Purchase of property, plant and equipment | | (170) | (170) | (719) |
| Purchase of intangible assets | | (56) | (56) | (106) |
| Proceeds of disposal of property, plant and equipment | | - | - | - |
| Net movement in capital receivables (payables) | | (9) | (9) | (48) |
| Net cash outflow/(inflow) from investing activities | | (235) | (235) | (873) |
| Cash flows from financing activities | | | | |
| From the Consolidated Fund (Supply) - current year | | 136 | 136 | 2,620 |
| Advance from the Contingencies Fund | | 6,920 | 6,920 | 5,500 |
| Repayment to the Contingencies Fund | | (6,920) | (6,920) | (5,500) |
| Capital element of payments in respect of finance leases | | 3 | 3 | 4 |
| Net financing | | 139 | 139 | 2,624 |
| Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund | | | | |
| | | 3,778 | 4,993 | 898 |
| Receipts due to the Consolidated Fund which are outside the scope of the Departments activities | | - | - | - |
| Payment of amounts due to the Consolidated Fund | | (898) | (898) | (1,712) |
| Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund | | 2,880 | 4,095 | (814) |
| Cash and cash equivalents at the beginning of the period | 10 | 898 | 898 | 1,712 |
| Cash and cash equivalents at the end of the period | 10 | 3,778 | 4,993 | 898 |

The notes on pages 76 to 95 form part of these accounts

Consolidated Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2014

| | Note | Core | Core | Core | Departmental | Departmental | Departmental |
|---|------|---------------------------------------|--|---|---|---|---|
| | | Department General Fund £000 | Department Revaluation Reserve £000 | Department Total Reserves £000 | Departmental Group General Fund £000 | Group Revaluation Reserve £000 | Departmental Group Total Reserves £000 |
| Balance at 1 April 2013 | | (4,354) | 38 | (4,316) | (4,354) | 38 | (4,316) |
| Changes in taxpayers' equity for 2013-14 | | | | | | | |
| Total comprehensive Net Expenditure for the year | | (4,066) | (36) | (4,102) | (4,066) | (36) | (4,102) |
| Non-cash charges - auditors remuneration | 4 | 41 | - | 41 | 41 | - | 41 |
| Net Parliamentary Funding - drawn down | | 2,620 | - | 2,620 | 2,620 | - | 2,620 |
| Amounts issued from consolidated fund but not spent at year end | 10 | (898) | - | (898) | (898) | - | (898) |
| Balance at 31 March 2014 | | (6,657) | 2 | (6,655) | (6,657) | 2 | (6,655) |
| Changes in taxpayers' equity for 2014-15 | | | | | | | |
| Total comprehensive Net Expenditure/(income) for the year | | 381 | - | 381 | 381 | - | 381 |
| Non-cash charges - auditors remuneration | 4 | 45 | - | 45 | 45 | - | 45 |
| Net Parliamentary Funding - drawn down | | 136 | - | 136 | 136 | - | 136 |
| Amounts issued from consolidated fund but not spent at year end | 10 | (3,778) | - | (3,778) | (3,778) | - | (3,778) |
| Balance at 31 March 2015 | | (9,873) | 2 | (9,871) | (9,873) | 2 | (9,871) |

The notes on pages 76 to 95 form part of these accounts

Notes to the Departmental Accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Ofwat for the purpose of giving a true and fair view has been selected. The particular policies adopted by Ofwat are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FReM also requires Ofwat to prepare one additional primary statement. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets at fair value to the business by reference to their valuation in existing use.

1.2 Basis of consolidation

These accounts comprise a consolidation of the core Department and those entities which fall within the departmental boundary as defined in the FReM, being those entities listed in the Designation and Amendment Orders presented to Parliament. The entities within the Departmental boundary are:

- the core Department, Ofwat; and
- Open Water Market Limited (OWML).

The Department and all entities included in the consolidation are domiciled in the UK. Transactions and balances between entities included in the consolidation are eliminated on consolidation.

1.3 Property, plant and equipment

Items of property, plant and equipment have been stated at fair value and are subject to an annual impairment review. 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.

Items include:

- furniture and fittings;
- office machinery and telecommunications equipment;
- leasehold improvements; and
- IT equipment.

All individual items must exceed a capitalisation threshold of £2,500 for inclusion as property, plant and equipment.

Depreciation is provided at rates calculated to provide for the impairment of an item of property, plant and equipment by equal instalments over their estimated useful life. Property, plant and equipment lives are normally in the following ranges.

| Asset classification | Asset life |
|---|-------------------------|
| Leasehold improvements | Term remaining on lease |
| Furniture, fixture and fittings | Ten years |
| IT equipment | Three to five years |
| Office machinery and telecommunications | Five years |

Assets under development are not depreciated until the asset is in operational use.

1.4 Intangible assets

Intangible assets include separable software licences such as those for the finance system. They are separable in that the IT equipment will operate without them.

Operating software is included with the cost of the tangible asset it supports.

1.5 Amortisation

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.

Assets under development are not depreciated until the asset is in operational use.

1.6 Financial instruments

The Departmental Group does not hold any complex financial instruments. Financial instruments included within these accounts are receivables and payables (notes 11 and 12). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when an amount is uncollectable with the agreed terms.

1.7 Financing

The Departmental Group is primarily resourced by licence fees. Licence fees are charged to companies that Ofwat regulates in the water and wastewater sector. The licence fees levied for Ofwat's core work are subject to a ceiling governed by condition N of the Water Industry Act 1991. Additional licence fees exist and are paid by relevant companies for specific work on the Thames Tideway Tunnel and for the Open Water programme, each of which has its own ceiling.

1.8 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.

Core Department

Since all costs are recovered through the licence fees and are invoiced in advance based on estimated costs, any income from licence fees by Ofwat, which exceeds the level of operating costs is to be surrendered to the Consolidated Fund.

OWML

Between 1 April 2014 and 7 September 2014, OWML was resourced through voluntary donations from the OWML Funding Members. Since 8 September 2014, OWML has been resourced by licence fees, invoiced in advance based on estimated cost. Any income raised in excess of operating costs is refundable to the funding companies.

Income from both voluntary contribution and licence fees are recognised on the basis of invoices raised.

1.9 Cash

Cash is primarily generated through licence fees and the activities outlined in 1.7.

Core Department

At the end of a financial year any cash remaining in Ofwat's bank account (Government Banking Service) is paid over to the Consolidated Fund (SOPS5). As Ofwat does not receive the income from companies at the start of the financial year a sum is borrowed from the Contingencies Fund and repaid later.

OWML

At the end of a financial year any cash remaining in OWML's bank account is refundable to the funding companies.

1.10 Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when evidence supports that it will not be able to collect all amounts due in accordance with the original terms of the receivables.

1.11 Fines and penalty income

Core Department

Income recovered from fines and penalties is not recorded as income in the Statement of Comprehensive Net Expenditure. It is recognised as a payment due to the Consolidated Fund at the date the legal notice is served.

The income is collected by Ofwat and surrendered to the Consolidated Fund within 30 days of receipt.

1.12 Administration and programme expenditure

Administration costs are recorded in the Statement of Comprehensive Net Expenditure. They include the costs of running of the Departmental Group, as determined under the administration cost-control regime. Ofwat is designated a fully administration body by HM Treasury and therefore there was no programme expenditure between 1 April 2014 and 31 March 2015 (2013-14: nil).

1.13 Leases

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.

Equipment purchased under a finance lease is charged to the Statement of Comprehensive Net Expenditure through depreciation on a straight-line basis over the minimum term of the lease. An annual interest charge is calculated at either the rate explicit in the lease or the Bank of England base rate as at the contractual date if no rate is explicit in the lease.

1.14 Pensions

Core Department

Most past and present employees are covered by the provisions 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 IAS19.

1.15 Value Added Tax

Core Department

Most of Ofwat's 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 assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

OWML

OWML's activities are outside the scope of VAT, and output tax does not apply and input taxes on purchases are not recoverable. Irrecoverable VAT is charged to the relevant expenditure category.

1.16 Provisions

Legal or constructive obligations which are of uncertain timing or amount at the date of the Statement of Financial Position are provided for on the basis of the best estimate of the expenditure required to settle the obligation.

Core Department

Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate. The discount rate for pension liabilities changed from to 1.8% a year to 1.3% a year with effect from 31 March 2015.

1.17 Contingent liabilities

Core Department

In addition to contingent liabilities disclosed in accordance with IAS37, 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 IAS37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS37 are stated at the amounts reported to Parliament.

1.18 Going concern

The Statement of Financial Position at 31 March 2015 shows negative taxpayers' equity of £9.9 million. In common with other government departments, the future financing of liabilities are accordingly to be met by future grants of Supply and the application of future income, both to be approved annually by Parliament. There is no reason to think that future approvals will not be forthcoming. Accordingly, it has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Under the Government Resource and Accounts Act 2000, no money may be drawn from the Fund other than required for the service of the specified year or retained excess of the need. All unspent monies, including those derived from our income, are to be surrendered to the Fund.

1.19 Staff costs

Under IAS19 Employee Benefits, all staff costs must be recorded as an expense as soon as an organisation is obliged to pay them. This includes the cost of any untaken leave at the end of the financial year.

1.20 Accounting Estimates

No material accounting estimates or judgements were made by Ofwat in preparing these accounts.

1.21 Operating Costs

Ofwat operates a time recording system capturing staff hours against programmes and projects. The percentage of staff time per programme or project is apportioned against all administration costs excluding consultancy services. Consultancy contracts are allocated individually to the appropriate strategy programme or project.

Ofwat's new strategy was launched in January 2015, which has resulted in us moving to working exclusively through out eight programmes. For the purposes of the 2014-15 financial statements we have reported against our previous strategy at notes 2.1 and 3.1.

We will report against our new strategic priorities in 2015-16.

2. Operating Costs

2.1 Statement of Operating costs by Strategy Strand

| | 2014-15 | 2013-14 |
|---|-----------------|-----------------|
| | £000 | £000 |
| Description of strands: | Departmental | Departmental |
| | Group | Group |
| Ensuring a fair deal for consumers | 4,846 | 4,475 |
| Keeping companies accountable | 4,379 | 4,651 |
| Making monopolies improve | 3,572 | 3,801 |
| Harnessing market forces | 4,872 | 4,695 |
| Contributing to sustainable development | 3,317 | 3,671 |
| Delivering better regulation | 6,368 | 5,377 |
| Thames Tideway Project Regulation | 1,780 | 1,269 |
| Open Water Market Limited | 4,705 | - |
| Total Expenditure | 33,839 | 27,939 |
| Total Income | (34,381) | (24,041) |
| Net Expenditure | (542) | 3,898 |

3. Staff costs

3.1 Staff numbers and related costs

OWML does not have any on-payroll staff. These notes to the accounts relates to the core Department only.

| | 2014-15 £000 Core Department | | | | 2013-14 £000 Core Department |
|---|---------------------------------------|----------------------------------|------------|-----------------------|---------------------------------------|
| | Total | Permanently employed staff | Others | Non-exec directors | Total |
| Wages and salaries | 8,902 | 8,464 | 200 | 238 | 9,303 |
| Social Security costs | 802 | 778 | - | 24 | 842 |
| Other pension costs | 1,697 | 1,697 | - | - | 1,800 |
| Other staff costs | 1,960 | 1,960 | - | - | 219 |
| Sub Total | 13,361 | 12,899 | 200 | 262 | 12,164 |
| Less recoveries in respect of outward secondments | - | - | - | - | (27) |
| Total Net Costs* | 13,361 | 12,899 | 200 | 262 | 12,137 |

* 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 but Ofwat is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the Cabinet Office's [resource accounts](#).

For 2014-15, employers' contributions of £1,669,828 were payable to the PCSPS (2013-14: £1,758,171) at one of four rates in the range 16.7% to 24.3% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 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 £48,253 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £3,154, 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 or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £3,344. Contributions prepaid at that date were £nil.

3.2 Average number of persons employed

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

| | 2014-15 | | | 2013-14 | |
|---|---------------|----------------------------|-------------|-----------------|-----------------|
| | Total | Permanently employed staff | Others | Core Department | Core Department |
| Ensuring a fair deal for consumers | 29.00 | 28.83 | | 0.17 | 34.04 |
| Keeping companies accountable | 26.22 | 26.06 | | 0.16 | 35.89 |
| Making monopolies improve | 21.42 | 21.26 | | 0.16 | 27.09 |
| Harnessing market forces | 29.17 | 29.00 | | 0.17 | 33.33 |
| Contributing to sustainable development | 20.90 | 19.74 | 1.00 | 0.16 | 28.42 |
| Delivering better regulation | 39.57 | 37.90 | 1.50 | 0.17 | 26.30 |
| Thames Tideway Project Regulation | 3.16 | 3.00 | | 0.16 | 3.15 |
| Total | 169.44 | 165.79 | 2.50 | 1.15 | 188.22 |

3.3 Reporting of Civil Service and other compensation schemes – exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in the year that obligation has arisen. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. All packages awarded in excess of £100 thousand have received Cabinet Office approval.

| Cost band | 2014-15 | | 2013-14 | |
|--------------------------------------|-----------------------------------|-----------------------------------|---|---|
| | Number of compulsory redundancies | Number of other departures agreed | Total number of exit packages by cost band (total cost) | Total number of exit packages by cost band (total cost) |
| <£10,000 | - | 5 | 5 | 1 |
| £10,000- £25,000 | 1 | 12 | 13 | 4 |
| £25,001- £50,000 | - | 19 | 19 | 5 |
| £50,001 - £100,000 | - | 10 | 10 | 4 |
| £100,001 - £150,000 | - | 2 | 2 | 1 |
| £150,001 - £200,000 | - | 2 | 2 | - |
| Total number of exit packages | 1 | 50 | 51 | 15 |
| Total resource cost (£000) | 15 | 2,152 | 2,167 | 717 |

4. Other Administration Costs

| | 2014-15 | | 2013-14 |
|-------------------------------------|-------------------------------|----------------------------------|-------------------------------|
| | Core Department Outturn | Departmental Group Outturn | Core Department Outturn |
| Rentals under operating leases: | | | |
| Accommodation | 1,543 | 1,565 | 1,489 |
| Office equipment | 13 | 13 | 37 |
| | 1,556 | 1,578 | 1,526 |
| Non cash items: | | | |
| Depreciation | 238 | 238 | 291 |
| Amortisation | 69 | 69 | 83 |
| Loss on disposal of assets | 50 | 50 | - |
| Addition/(release) of provision | (89) | (89) | - |
| Restructuring provisions | 251 | 291 | 385 |
| Lease exit costs provision | 809 | 809 | - |
| Incentive payment provisions | - | - | 701 |
| Other finance costs | 117 | 117 | 105 |
| External Auditors' remuneration | 45 | 45 | 41 |
| Permanent diminution of assets | 76 | 76 | - |
| | 1,566 | 1,606 | 1,606 |
| Other expenditure: | | | |
| Consultancy services | 6,824 | 10,417 | 7,425 |
| Contingent labour | 3,067 | 3,976 | 2,643 |
| Training | 108 | 108 | 77 |
| Travel and subsistence | 439 | 439 | 521 |
| Taxation charges | 40 | 40 | 43 |
| Rates | 406 | 406 | 268 |
| Information Technology | 748 | 767 | 392 |
| Other hire and maintenance | 68 | 68 | 71 |
| Seminars, meetings and conferences | 101 | 130 | 112 |
| Publications, books and periodicals | 58 | 78 | 81 |
| Telecommunications | 161 | 161 | 124 |
| Recruitment costs | 48 | 90 | 220 |
| Office Consumables | 236 | 236 | 245 |
| Accommodation expenses | 135 | 135 | 96 |
| Internal Audit fees | 70 | 78 | 52 |
| External Audit fees | - | 24 | - |
| Pay case fine | - | - | 120 |
| Other | 142 | 141 | 153 |
| | 12,651 | 17,294 | 12,643 |
| Total | 15,773 | 20,478 | 15,775 |

5. Income

This note analyses the income recorded in the Statement of Comprehensive Net Expenditure.

| | 2014-15 £000 | 2013-14 £000 |
|---------------|-------------------------------|----------------------------------|
| | Core Department Outturn | Departmental Group Outturn |
| | Core Department Outturn | Core Department Outturn |
| RfR1 | | |
| Licence fees | 29,532 | 32,797 |
| Donations | - | 780 |
| Miscellaneous | 144 | 804 |
| Total | 29,676 | 34,381 |

Ofwat is mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCWater's operating costs. In 2014-15, we collected £5.13 million, which was transferred to Defra.

In accordance with HM Treasury guidance, we do not record these transactions as income within our financial statements.

6. Property, plant and equipment

OWML does not hold any non-current assets. These notes to the accounts relates to the core Department only.

Property, plant and equipment consists of furniture and fittings, office machinery and telecommunications, leasehold improvements and IT equipment.

| | £000 | £000 | £000 | £000 | £000 | £000 |
|---|---------------------|----------------------|------------------------------|------------------------|------------------------|-----------------------|
| | Payments on account | Furniture & Fittings | Office machinery & Telecomms | Leasehold Improvements | Information Technology | Core Department Total |
| Cost or valuation | | | | | | |
| At 1 April 2014 | 14 | 65 | 71 | 1,193 | 1,614 | 2,957 |
| Additions | 161 | - | - | - | 9 | 170 |
| Impairments | - | - | - | (109) | - | (109) |
| Reclassifications | (14) | - | - | - | 14 | - |
| Disposals | - | - | - | (263) | - | (263) |
| At 31 March 2015 | 161 | 65 | 71 | 821 | 1,637 | 2,755 |
| Depreciation | | | | | | |
| At 1 April 2014 | - | 26 | 43 | 373 | 1,468 | 1,910 |
| Charged in year | - | 6 | 11 | 132 | 89 | 238 |
| Impairments | - | - | - | (33) | - | (33) |
| Disposals | - | - | - | (213) | - | (213) |
| At 31 March 2015 | - | 32 | 54 | 259 | 1,557 | 1,902 |
| Carrying amount at 31 March 2015 | 161 | 33 | 17 | 562 | 80 | 853 |
| Carrying amount at 31 March 2014 | 14 | 39 | 28 | 820 | 146 | 1,047 |
| Asset Financing: | | | | | | |
| Owned | 161 | 33 | 12 | 562 | 80 | 848 |
| Finance Leased | - | - | 5 | - | - | 5 |
| Carrying amount at 31 March 2015 | 161 | 33 | 17 | 562 | 80 | 853 |

| | £000 | £000 | £000 | £000 | £000 | £000 |
|---|---------------------|----------------------|------------------------------|------------------------|------------------------|-----------------------|
| | Payments on Account | Furniture & Fittings | Office machinery & Telecomms | Leasehold Improvements | Information Technology | Core Department Total |
| Cost or valuation | | | | | | |
| At 1 April 2013 | - | 65 | 327 | 550 | 1,555 | 2,497 |
| Additions | 14 | - | 3 | 643 | 59 | 719 |
| Reclassifications | - | - | - | - | - | - |
| Disposals | - | - | (259) | - | - | (259) |
| At 31 March 2014 | 14 | 65 | 71 | 1,193 | 1,614 | 2,957 |
| Depreciation | | | | | | |
| At 1 April 2013 | - | 20 | 290 | 228 | 1,340 | 1,878 |
| Charged in year | - | 6 | 12 | 145 | 128 | 291 |
| Disposals | - | - | (259) | - | - | (259) |
| At 31 March 2014 | - | 26 | 43 | 373 | 1,468 | 1,910 |
| Carrying amount at 31 March 2014 | 14 | 39 | 28 | 820 | 146 | 1,047 |
| Carrying amount at 31 March 2013 | - | 45 | 37 | 322 | 215 | 619 |
| Asset Financing: | | | | | | |
| Owned | 14 | 39 | 20 | 820 | 146 | 1,039 |
| Finance Leased | - | - | 8 | - | - | 8 |
| Carrying amount at 31 March 2014 | 14 | 39 | 28 | 820 | 146 | 1,047 |

7. Intangible assets

OWML does not hold any intangible assets. These notes to the accounts relates to the core Department only.

Purchased software licences.

| | £000 | £000 | £000 |
|---|-----------------------------------|-----------------------------|-----------------------------|
| | Purchased software licences | Assets Under Development | Core Department Total |
| Cost or valuation | | | |
| At 1 April 2014 | 481 | 13 | 494 |
| Additions | - | 56 | 56 |
| At 31 March 2015 | 481 | 69 | 550 |
| Amortisation | | | |
| At 1 April 2014 | 279 | - | 279 |
| Charged in year | 69 | - | 69 |
| At 31 March 2015 | 348 | - | 348 |
| Carrying amount at 31 March 2015 | 133 | 69 | 202 |
| Carrying amount at 31 March 2014 | 202 | 13 | 215 |

| | £000 | £000 | £000 |
|---|-----------------------------------|-----------------------------|-----------------------------|
| | Purchased software licences | Assets Under Development | Core Department Total |
| Cost or valuation | | | |
| At 1 April 2013 | 375 | 13 | 388 |
| Additions | 106 | - | 106 |
| At 31 March 2014 | 481 | 13 | 494 |
| Amortisation | | | |
| At 1 April 2013 | 196 | - | 196 |
| Charged in year | 83 | - | 83 |
| At 31 March 2014 | 279 | - | 279 |
| Carrying amount at 31 March 2014 | 202 | 13 | 215 |
| Carrying amount at 31 March 2013 | 179 | 13 | 192 |

8. Capital and other commitments

8.1 Capital commitments

| | 2014-15 £000 Core Department | 2013-14 £000 Core Department |
|---|---------------------------------------|---------------------------------------|
| Contracted capital commitments at 31 March not otherwise included in these financial statements | | |
| Property, plant and equipment | 249 | - |
| Intangible assets | 5 | - |
| | 254 | - |

8.2 Operating leases

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

| | 2014-15 £000 Core Department | 2013-14 £000 Core Department |
|---|---------------------------------------|---------------------------------------|
| Obligations under operating leases comprise: | | |
| Buildings | | |
| Not later than one year | 1,164 | 1,525 |
| Later than one year and not later than five years | 4,468 | 4,492 |
| Later than five years | 2,920 | 2,255 |
| | 8,552 | 8,272 |
| Other | | |
| Not later than one year | 41 | 40 |
| Later than one year and not later than five years | 101 | 143 |
| Later than five years | - | - |
| | 142 | 183 |

8.3 Finance leases

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

| | 2014-15 £000 Core Department | 2013-14 £000 Core Department |
|---|---------------------------------------|---------------------------------------|
| Obligations under finance leases comprise: | | |
| Other | | |
| Not later than one year | 3 | 4 |
| Later than one year and not later than five years | 2 | 5 |
| Later than five years | - | - |
| | 5 | 9 |
| Less interest element | - | (1) |
| | 5 | 8 |

9. Financial Instruments

The Departmental Group is not exposed to the degree of financial risk faced by commercial entities because of the largely non-trading nature of its activities and the way in which government departments are financed. Ofwat has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the office in carrying out its activities.

Liquidity risk

The Departmental Group 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 Ofwat material deposits are held at the Government Banking Service and all material assets and liabilities are denominated in sterling, so Ofwat is not exposed to interest rate risk or foreign currency risk.

While OWML's material deposits are held in commercial bank accounts they are not invested and relied upon for income generation. OWML's material assets and liabilities are denominated in sterling, so OWML 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 the Departmental Group's financial assets and liabilities at 31 March 2015.

10. Cash and cash equivalents

| | 2014-15 £000 | 2013-14 £000 | |
|---|--------------------|-----------------------|------------|
| | Core Department | Departmental Group | |
| | Core Department | Core Department | |
| Balance at 1 April 2014 | 898 | 898 | 1,712 |
| Net change in cash and cash equivalent balances | 2,880 | 4,095 | (814) |
| Balance at 31 March 2015 | 3,778 | 4,993 | 898 |
| The following balances are held at: | | | |
| Government Banking Services (GBS) | 3,778 | 3,778 | 898 |
| Commercial banks and cash in hand | - | 1,215 | - |
| Balance at 31 March 2015 | 3,778 | 4,993 | 898 |

Any cash held at 31 March by the core Department is surrenderable to the Consolidated Fund as set out in note 1.9.

11. Trade receivables and other current assets

11.1 Analysis by type

| | 2014-15 £000 | | 2013-14 £000 |
|--|--------------------|-----------------------|--------------------|
| | Core Department | Departmental Group | Core Department |
| Amounts falling due within one year | | | |
| Trade receivables | 223 | 201 | 27 |
| Deposits and advances | 31 | 31 | 153 |
| Other receivables | 45 | 45 | - |
| HM Revenue and Customs (VAT) | 73 | 73 | 69 |
| Prepayments and accrued income | 344 | 344 | 355 |
| | 716 | 694 | 604 |
| Amounts falling due after more than one year: | | | |
| Prepayments and accrued income | 2 | 2 | 3 |
| | 2 | 2 | 3 |

11.2 intra-government balances

| | Amounts falling due within one year £000 | | | Amounts falling due after more than one year £000 | | |
|---|---|----------------------------------|-------------------------------|--|----------------------------------|-------------------------------|
| | Core Department | 2014-15 Departmental Group | 2013-14 Core Department | Core Department | 2014-15 Departmental Group | 2013-14 Core Department |
| Balances with other central government bodies | 222 | 200 | 69 | - | - | - |
| Balances with local authorities | 50 | 50 | 49 | - | - | - |
| Intra-government balances | 272 | 250 | 118 | - | - | - |
| Balances with bodies external to government | 444 | 444 | 486 | 2 | 2 | 3 |
| Total receivables at 31 March 2015 | 716 | 694 | 604 | 2 | 2 | 3 |

12. Trade payables and other current liabilities

12.1 Analysis by type

| | 2014-15 £000 | | 2013-14 £000 |
|---|--------------------|-----------------------|--------------------|
| | Core Department | Departmental Group | Core Department |
| Amounts falling due within one year | | | |
| Trade payables | 2,847 | 3,714 | 1,390 |
| Other payables | 443 | 443 | 206 |
| Accruals | 3,190 | 3,448 | 2,294 |
| Licence Fee income in advance | - | - | - |
| Deferred income | 763 | 791 | 374 |
| Current part of finance leases | 3 | 3 | 3 |
| Other taxation and social security | 290 | 290 | 283 |
| Amounts due to the Contingencies Fund | - | - | - |
| Excess cash due to be paid to the Consolidated Fund | 3,778 | 3,778 | 898 |
| | 11,314 | 12,467 | 5,448 |
| Amounts falling due after more than one year | | | |
| Finance leases | 2 | 2 | 5 |
| | 2 | 2 | 5 |

12.2 intra-government balances

| | Amounts falling due within one year £000 | | | Amounts falling due after more than one year £000 | | |
|---|---|---------------|--------------------|--|--------------|--------------------|
| | Core | Departmental | 2013-14 | Core | Departmental | 2013-14 |
| | Department | Group | Core Department | Department | Group | Core Department |
| Balances with other central government bodies | 5,820 | 5,367 | 1,318 | - | - | - |
| Balances with other public bodies | 12 | 12 | 152 | - | - | - |
| Intra-government balances | 5,832 | 5,379 | 1,470 | - | - | - |
| Balances with bodies external to government | 5,482 | 7,088 | 3,978 | 2 | 2 | 5 |
| Total payables at 31 March 2015 | 11,314 | 12,467 | 5,448 | 2 | 2 | 5 |

13. Provisions for liabilities and charges

13.1 Provisions

| | 2014-15 £000 | | | | 2014-15 £000 | | | | 2013-14 £000 |
|--------------------------------------|--------------------|-------------------|-------------------------|--------------|-----------------------|-------------------|-------------------------|--------------|--------------------|
| | Core Department | | | | Departmental Group | | | | Core Department |
| | Lease exit costs | Restructure costs | Incentive payment costs | Total | Lease exit costs | Restructure costs | Incentive payment costs | Total | Total |
| Balance at 1 April 2014 | - | 483 | 701 | 1,184 | - | 483 | 701 | 1,184 | 392 |
| Provided in the year | 809 | 251 | - | 1,060 | 809 | 291 | - | 1,100 | 1,086 |
| Provisions utilised in the year | - | (319) | (614) | (933) | - | (319) | (614) | (933) | (294) |
| Provisions not required written back | - | (2) | (87) | (89) | - | (2) | (87) | (89) | - |
| Balance at 31 March 2015 | 809 | 413 | - | 1,222 | 809 | 453 | - | 1,262 | 1,184 |

| Analysis by type | 2014-15 £000 | | | | 2014-15 £000 | | | | 2013-14 £000 |
|--|--------------------|-------------------|-------------------------|--------------|-----------------------|-------------------|-------------------------|--------------|--------------------|
| | Core Department | | | | Departmental Group | | | | Core Department |
| | Lease exit costs | Restructure costs | Incentive payment costs | Total | Lease exit costs | Restructure costs | Incentive payment costs | Total | Total |
| Amounts falling due within one year | 809 | 376 | - | 1,185 | 809 | 416 | - | 1,225 | 1,117 |
| | 809 | 376 | - | 1,185 | 809 | 416 | - | 1,225 | 1,117 |
| Amounts falling due after more than one year | - | 37 | - | 37 | - | 37 | - | 37 | 67 |
| | - | 37 | - | 37 | - | 37 | - | 37 | 67 |
| Total | 809 | 413 | - | 1,222 | 809 | 453 | - | 1,262 | 1,184 |

| Analysis of expected timing of discounted flows | 2014-15 £000 | | | | 2014-15 £000 | | | | 2013-14 £000 |
|---|--------------------|-------------------|-------------------------|--------------|-----------------------|-------------------|-------------------------|--------------|--------------------|
| | Core Department | | | | Departmental Group | | | | Core Department |
| | Lease exit costs | Restructure costs | Incentive payment costs | Total | Lease exit costs | Restructure costs | Incentive payment costs | Total | Total |
| Not later than one year | 809 | 376 | - | 1,185 | 809 | 416 | - | 1,225 | 1,117 |
| Later than one year and not later than five years | - | 37 | - | 37 | - | 37 | - | 37 | 67 |
| Later than five years | - | - | - | - | - | - | - | - | - |
| Balance at 31 March 2015 | 809 | 413 | - | 1,222 | 809 | 453 | - | 1,262 | 1,184 |

The Management Commentary provides further information in respect to new provisions and movements in provisions for 2014-15.

13.2 Pension liabilities

OWML has no employees and therefore does not operate a pension scheme. This note to the accounts relates to the core Department only.

| | 2014-15 £000 Core Department | 2013-14 £000 Core Department |
|---|---------------------------------------|---------------------------------------|
| Balance at 1 April 2014 | 2,785 | 2,651 |
| Analysis of the amount charged to the Statement of Comprehensive Net Expenditure | | |
| Interest costs | 117 | 105 |
| Benefits paid | | |
| Benefits paid | (179) | (175) |
| Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity | | |
| Experience (gain)/loss | 4 | 61 |
| Actuarial (gain)/loss | 157 | 143 |
| Balance at 31 March 2015 | 2,884 | 2,785 |

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 2015.

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 to 2012 are based on historic population experience for those years. Improvements from 2012 in line with the 2012 based UK principal population projections.
- All members are assumed to have a spouse or eligible partner from the date their pension is assumed to be paid. Spouses' assumed mortality is in line with that of members of the same age and gender. Husbands are assumed to be three years older than their wives.

The main financial assumptions (used to assess liabilities at 31 March 2015) are as follows.

- The gross discount rate is assumed to be 3.55 % a year (31 March 2014: 4.35%).
- The rate of increase in salaries is assumed to be 4.20% (31 March 2014: 4.50%).
- The rate on increase in pensions in payments is assumed to be 2.20% (31 March 2014: 2.5%).
- Consumer price inflation 2.20% (31 March 2014: 2.5%)

A cumulative actuarial loss of £2.1 million has been incurred by the scheme since 1 April 2004.

Sensitivity analysis of main actuarial assumptions

The sensitivity analysis of the main actuarial assumptions indicates the following.

- Increasing the discount rate by 0.5% would result in a corresponding decrease in liabilities of approximately 5.5% or £157 thousand.
- Increasing the CPI inflation assumption by 0.5% would result in a corresponding decrease in liabilities of approximately 5.5% or £157 thousand.
- Increasing assumed life expectancies in retirement to be equal to those of people one year younger, would result in a corresponding increase in liabilities of approximately 4.5% or £124 thousand.

The opposite changes in assumptions to those set out above will produce approximately equal and opposite changes in the liability. Similarly, doubling the changes in the assumptions will produce approximately double the changes in the liability.

The sensitivities show the change in each assumption in isolation. In practice, such assumptions rarely change in isolation and given the interdependencies between them their impacts may offset each other to some extent.

Analysis of actuarial loss

| | 2014-15 £000 Core Department | 2013-14 £000 Core Department | 2012-13 £000 Core Department |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
| Experience (gains)/losses arising on the scheme liabilities | 4 | 61 | 24 |
| Changes in assumptions underlying the present value of scheme liabilities | 157 | 143 | 75 |
| Per Statement of Changes in Taxpayers' Equity | 161 | 204 | 99 |

History of experience losses

| | 2014-15 Core Department | 2013-14 Core Department | 2012-13 Core Department | 2011-12 Core Department | 2010-11 Core Department |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Experience (gains)/losses arising on the scheme liabilities | | | | | |
| Amount (£000) | 4 | 61 | 24 | 71 | 15 |
| Percentage of the present value of the scheme liabilities | 0.1% | 2.2% | 0.9% | 2.7% | 0.6% |
| Total amount recognised in Statement of Taxpayers' Equity | | | | | |
| Amount (£000) | 161 | 204 | 99 | 110 | (103) |
| Percentage of the present value of the scheme liabilities | 5.6% | 7.3% | 3.7% | 4.2% | 4.1% |

14. Contingent liabilities disclosed under IAS37

On occasion, the Departmental Group will be subject to legal challenge and judicial review of decisions made in the normal course of its business. Legal judgments could give rise to liabilities for legal costs, but these cannot be quantified as the outcome of current proceedings is unknown, and therefore considerable uncertainty exists as to the nature and extent of any subsequent liability.

15. Related party transactions

CCWater

Ofwat transferred £5.1 million to Defra in respect of CCWater's operating costs for 2014-15.

Alan Sutherland – Non-executive Director of OWML/Chief Executive of WICS

£181 thousand was paid to WICS by OWML for Alan Sutherland's services to OWML during the year.

Total expenditure on the provision of consultancy services by WICS to OWML was £349 thousand, with a year-end payable of £229 thousand.

Johanna Dow – Non-executive Director of OWML/Chief Executive of Business Stream

£1 thousand was received by Ofwat from Business Stream for their annual Water Supply Licence (WSL) fee for 2014-15.

Peter Simpson – Non-executive Director of OWML/Chief Executive of Anglian Water Services

£163 thousand was paid to Anglian Water Service by OWML for staff secondments, with a year-end payable of £57 thousand.

Donations of £88 thousand were received by OWML for voluntary funding of phase one of the Open Water programme.

Total licence fee income of £3.9 million was received by the Departmental Group from Anglian Water during the year, with a year end payable of £336 thousand. Of the total licence fee income, £257 thousand was paid directly to OWML and £533 thousand was for CCWater's operating costs.

Peter Simpson is on the Board of MOSL and there have been no transactions with this company.

Heidi Mottram – Non-executive Director of OWML/Chief Executive of Northumbrian Water

Donations of £61 thousand were received by OWML for voluntary funding of phase one of the Open Water programme.

Total licence fee income of £2.5 million was received by the Departmental Group from Northumbrian Water during the year, with a year-end payable of £174 thousand. Of the total licence income, £172 thousand was paid directly to OWML and £340 thousand for CCWater's operating costs.

Heidi Mottram is on the Board of MOSL and there have been no transactions with this company.

Peter Bucks – Chairman of OWML

Total expenditure of £18 thousand was paid to Peter Bucks for the provision of professional services delivered to Ofwat during the period May 2013 to June 2014. This work was commissioned ahead of his appointment as Chairman of OWML.

Other

Ofwat also has a small number of immaterial transactions with other government departments. There are no related party transactions between Ofwat and any of its Directors.

Balances and transactions between Ofwat and OWML have been eliminated on consolidation and are not therefore disclosed in this note.

16. Events after the reporting period

In early April 2015, Ofwat completed the exchange on a new property operating lease, which sought to re-gear two of the four floors occupied at our existing premises in Birmingham. The new leases have been arranged so that they expire at the same time as our London office lease. As a result of the constructive obligation held by Ofwat on 31 March 2015, the following adjustments are included in these financial statements.

- A provision of £809 thousand has been included within note 13, reflecting the contractual lease exit charge payable for early surrender of the existing leases which were due to expire in July 2017.
- Birmingham leasehold improvements of £76 thousand at 31 March 2015 have been fully impaired.
- Deferred income relating to a rent free period of £7 thousand has been released.
- Commitments under the new lease arrangements are disclosed accordingly within note 8.

The Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate.

Part 3: Additional information

Progress on projects described in ‘Ofwat’s forward programme 2014-15’

| What we said | Evidence |
|---|---|
| April to June 2014 | |
| All regulated companies to have voluntary codes on governance on 1 April 2014 (Board leadership, transparency and governance). | Ofwat’s commentary on water companies’ governance codes, October 2014. |
| Publish our final principles for holding companies (Board leadership, transparency and governance). | Board leadership, transparency and governance – holding company principles, April 2014. |
| Publish a commentary on what we have seen in companies’ codes, highlighting areas of best practice and areas where we consider there is room for improvement (Board leadership, transparency and governance). | Ofwat’s commentary on water companies’ governance codes, October 2014. |
| Confirm ‘enhanced’ company status (2014 price review). | PN 03/14: Ofwat confirms ‘enhanced’ status for South West Water and Affinity Water, 4 April 2014. |
| Publish draft determinations for enhanced companies (2014 price review). | PN 04/14: Ofwat publishes draft determinations for South West Water and Affinity Water, 30 April 2014. |
| Publish draft determinations for companies seeking a June determination (2014 price review). | PN 06/14: Ofwat publishes draft determinations for Northumbrian Water and Dŵr Cymru, 30 May 2014. |
| Publish a draft Ofwat vision statement for consultation (New strategy). | Developing Ofwat’s new strategy, 4 June 2014, 17 June 2014 |
| Consult on proposed market governance arrangements for the new retail market for non-household customers (Choice and trading arrangements). | We are carrying out work on market governance as part of our Retail Market Opening programme in 2015-16 – and through our contribution to the Open Water programme. |
| Publish the framework for market codes (Choice and trading arrangements). | We are carrying out work on market codes as part of our Retail Market Opening programme in 2015-16 – and through our contribution to the Open Water programme. |

| What we said | Evidence |
|---|---|
| July to September 2014 | |
| Consult on how we can achieve a level playing field in water and wastewater markets (Choice and trading arrangements). | We are considering level playing field issues as part of our Retail Market Opening and Casework programmes in 2015-16 – and through our contribution to the Open Water programme. |
| Publish draft determinations for other companies (2014 price review). | PN 08/14: Ofwat draft decisions keep bills down , 28 August 2014. |
| October to December 2014 | |
| Publish final determinations for all companies (2014 price review). | PN 09/14: Water bills held down , 12 December 2014. |
| Publish a final vision statement (New strategy). | 'About us' section on the Ofwat website. |
| Consult on our strategic priorities (New strategy). | Ofwat's forward programme 2015-16 – draft for consultation , 15 January 2015. |
| Consult on how we will monitor our external environment and our progress towards our strategic goals (New strategy). | We are carrying out work on monitoring our environment and progress towards our strategic visions as part of our Strategy and Planning programme in 2015-16. |
| Establish a roadmap and approach for conducting licence review work (Licence review). | We are carrying out work on reviewing licences as part of our Finance and Governance programme in 2015-16. |
| Publish our final strategic priorities (New strategy). | Ofwat's forward programme 2015-16 , 31 March 2015. |
| Publish our conclusions on how we will monitor our external environment and progress towards our strategic priorities (New strategy). | We are carrying out work on monitoring our environment and progress towards our strategic visions as part of our Strategy and Planning programme in 2015-16. |
| January to March 2015 | |
| Publish a decision statement on our approach to ensure a level playing field (Choice and trading arrangements). | We are considering level playing field issues as part of our Retail Market Opening and Casework programmes in 2015-16 – and through our contribution to the Open Water programme. |
| Consult on changes to the standard conditions in water supply licences (WSL) to remove the in-area trading ban to implement the changes set out in the Enterprise and Regulatory Reform Act 2013 (Choice and trading arrangements). | We are carrying out work on removing the in-area trading ban as part of our Retail Market Opening programme in 2015-16. |

| What we said | Evidence |
|--|---|
| Consult on developing the information published by monopoly companies on the different parts of their businesses – known as ‘accounting separation’ (Choice and trading arrangements). | <p>Consultation on regulatory reporting, 30 September 2014.</p> <p>IN 15/01: Future company performance reporting and assurance, February 2015.</p> |
| Publish updated guidance on which customers we consider are eligible to choose their retail water and wastewater supplier (Choice and trading arrangements). | <p>Guidance on eligibility – a consultation, 9 March 2015.</p> |
| All regulated companies fully meeting our Board leadership, transparency and governance principles – as a minimum – by April 2015 (Board leadership, transparency and governance). | <p>We will monitor companies’ progress as part of our Finance and Governance programme in 2015-16.</p> |
| Set out our approach to considering special administration arrangements (Special administration arrangements). | <p>We are carrying out a review of special administration arrangements as part of our Finance and Governance programme in 2015-16.</p> |
| Consult on and publish our forward work programme for 2015-16 (New strategy). | <p>Ofwat’s forward programme 2015-16 – draft for consultation, 15 January 2015.</p> <p>Ofwat’s forward programme 2015-16, 31 March 2015.</p> |

Measuring our performance

In 2014-15, we started work to design an assessment framework to support our new strategy. The aim is to provide an indication of the state of progress in the sector and our state of progress as a regulator.

The assessment framework will include:

- the shared long-term objectives that stakeholders think the water sector needs to deliver to secure customers' trust and confidence ('sector vision success factors');
- the long-term objectives that our Board think that Ofwat needs to deliver to be the regulator we need to be ('Ofwat vision success factors'); and
- a system for monitoring progress against both the sector and Ofwat success factors, such as performance indicators, surveys or assessments. For the sector success factors, this will include information collected by service providers, Ofwat and other organisations with an interest in the sector.

We intend for information on progress towards the two visions to be publicly available in an accessible format so that it can engage customers and other interested stakeholders. We think these sector and Ofwat 'dashboards' will help:

- encourage the water sector to improve its performance;
- provide a tool for those with an interest in the sector to discuss priorities for improvement; and
- help us monitor the benefits we are delivering as part of our own work programme.

We are working with key stakeholders, including other water sector regulators, to develop the assessment framework. We will publish more details on our assessment framework during 2015-16. And, where they are available, we will trial some of the measures for reporting against our Ofwat vision in next year's annual report.

How we manage risks

In July 2014, our Board approved a new risk and opportunities strategy, which set out our approach for managing and responding to risks and opportunities to:

- the sector;
- our organisation; and
- our work.

Our risk and opportunities strategy is based on HM Treasury's '[Orange Book: Management of risk – Principles and Concepts](#)'. Its key elements are that:

- the goal of risk management is to support the delivery of our strategy;
- 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 key factors such as achieving desired outcomes and managing reputational risk;
- programme and project risk registers are reviewed regularly;
- the strategic risk and opportunity register is updated regularly and reviewed by the Senior Leadership Team at quarterly risk and opportunity stocktake conversations; and
- actions arising from internal audit reviews are followed up to the agreed timetable.

In line with the principles of the [UK Corporate Governance Code](#):

- our Board, Audit and Risk Assurance Committee and Senior Leadership Team regularly review our register of strategic risks and opportunities register;
- the Audit and Risk Assurance Committee receives risk review presentations from the owners of strategic risk and opportunities and programme Senior Responsible Owners, and senior director overviews on a rolling basis;
- our Audit and Risk Assurance Committee includes an independent member from outside Ofwat who is not a Board member; and
- risk and opportunity management is embedded into all of Ofwat's programmes and their component projects.

We carried out significant work in 2014-15 to develop a new set of strategic risks and opportunities, which our Board approved in January 2015. Each strategic risk and opportunity is managed by a risk owner who is one of the senior directors.

HM Treasury's Risk Management Assessment Framework helps public sector organisations assess their standard of risk management. By the end of 2014-15, we moved from satisfactory (level 2) to good (level 3) against the framework – on a scale of 1 to 5. This was based on assessment we carried out, which was checked by our internal auditors.

The table below sets out our strategic risks and how we manage them.

Our strategic risks and how we manage them

| Risk | Controls |
|--|--|
| Changing the culture of a sector with different types of service provider and service delivery | <p>We developed our approach to the 2019 price review in close consultation with the sector and other stakeholders. We will also be consulting the sector and stakeholders on our future approach to price setting during 2015-16.</p> <p>We carry out disputes, complaints and other investigations in a timely way.</p> <p>We intervene in the sector where it is consistent with our strategy. We also speak with and listen to our stakeholders transparently.</p> |
| Delivery of outcomes customers need, want and can afford | <p>We use information provided by service providers – including the annual outcome delivery reports from monopoly service providers – and other intelligence to assess their performance. We intervene where necessary to protect customers and in a proportionate way.</p> <p>We use our full set of regulatory tools, including carrying out investigations and making decisions on complaints and disputes.</p> <p>We developed and delivered an approach to the 2014 price review that was based on delivering the outcomes customers need, want and can afford.</p> |
| Legal risks | <p>We have high-quality and resilient in-house legal resources. We have a General Counsel advising our Board and Senior Leadership Team. We anticipate and recognise legal risks as a core part of all of our programmes. A legal representative also attends our Board committees and programme boards so that legal risks are considered, and robust legal advice is embedded in decision making.</p> |
| Sector resilience | <p>We are carrying out work to test special administration arrangements in the event that a service provider gets into financial or other difficulties.</p> <p>We set out and communicate in advance the principles for where we intervene in the sector. This is supported by intelligence so that we make the right decisions.</p> |
| How we are perceived – our reputation and credibility | <p>We are providing evidence to the Competition and Markets Authority's process for deciding Bristol Water's price controls for 2015-20.</p> <p>We are recruiting a delivery partner to help us to open the new market for retail water and wastewater services for non-household customers in England. We are also working with other stakeholders to make sure this programme of work is well managed, including having effective governance arrangements in place.</p> <p>We are making improvements to make our decisions on disputes and complaints and our response to enquiries quicker and more effective.</p> <p>We are implementing improved approaches for speaking with, listening to and working with our stakeholders.</p> |

| Risk | Controls |
|--|---|
| <p>Securing active stakeholder participation in delivering the vision of trust and confidence in the sector, and enable our vision for Ofwat</p> | <p>We are improving our approach to how we speak with and listen to our stakeholders so that our messages are communicated and well understood. We are also working more closely with other partner organisations, including exploring opportunities for joint working – for example, working with the UK Regulators Network.</p> <p>We are making improvements to the way we look for risks and opportunities to the sector and us (‘horizon scanning’) and our general approach to business planning.</p> |
| <p>Understanding our external environment and engaging effectively with it</p> | <p>We continue to monitor the legal and political framework we operate within in England and Wales.</p> <p>To help us respond to policy developments in Wales, we set up our Welsh working group.</p> |
| <p>Programme delivery</p> | <p>We have implemented new approach to programme-based working – and a new corporate governance framework to support this.</p> <p>With agreement from relevant stakeholders, we have also been carrying out overall programme management for opening the new market for retail water and wastewater services for non-household customers in England.</p> |
| <p>Culture, values and behaviour</p> | <p>We are developing clear policies and guidance for our staff on our organisation’s expectations of culture, values and behaviours – and will make sure these are embedded across our organisation through our programmes and projects. This includes putting in place appropriate monitoring and tracking to make sure the right culture, values and behaviours have been embedded.</p> |
| <p>Corporate governance and organisational infrastructure</p> | <p>We have implemented a new corporate governance framework and trained key staff to use it. We are implementing a leadership development programme for our senior and wider leadership teams. And we are developing our technology and infrastructure to support our organisation in good decision making.</p> |

How our work aligns with the UK and Welsh Governments' priorities and guidance

Under the Water Industry Act 1991, the Secretary of State for Environment, Food and Rural Affairs and the Welsh Government have powers to issue strategic priorities and objectives to the Water Services Regulation Authority (Ofwat). We are required to act in accordance with these priorities and objectives when discharging our legal functions.

Guidance from the Secretary of State

In May 2013, and following consultation, the UK Government published a strategic policy statement (SPS) to us, including revised social and environmental guidance. This sets out ten priority areas to which the UK Government expects us to have regard in carrying out our work.

The SPS makes it a requirement:

- for us to report on a regular basis to the Secretary of State on how we have reflected these priorities in our regulatory decisions;
- for our Chairman to agree a reporting timetable with the Secretary of State – and review it every year;
- for us to summarise what action we have taken to support the delivery of the priorities in our annual report and accounts; and
- for us to summarise the steps we propose to take to further the delivery of the priorities in our forward work programme each year.

We have written to the Secretary of State setting out that alongside reporting in our annual report and accounts against the ten priorities in the SPS, we will publish specific reports each year on agreed priorities. For 2014-15, this comprises:

- our contribution to the UK Government's sustainable development objectives;
- evidence of sufficient company action to help customers struggling to pay their water and wastewater bills;
- progress on competition; and
- proportionality of regulation.

Below, we summarise what action we have taken to support the delivery of the ten priorities.

Priority and contribution

1. Impacts of regulatory changes on sector investment prospects

Our 2014 price review followed the methodology that we set out in 2013, which reflected our commitment to retaining regulatory stability in key areas.

For example, we retained the regulatory capital value as the underpinning framework for the price review, which has continued to allow investment from the private sector at low cost. We also carried out a high level of engagement with investors – we held more than 400 meetings with them during the price review process.

All but one company accepted our final decisions. So, the sector is well placed to see the substantial new investment that we allowed companies financed by the private sector over the period 2015-20. Included in this investment are projects to secure the resilience of water supplies over the longer term, which underlines the evolutionary nature of our regulatory changes.

2. Proportionality of the regulatory framework

The proportionate approach we took to the price review during the year concentrated our efforts on the areas that matter most to customers, and that have the biggest impact on bills. At the same time, we wanted to see services improve for customers and the environment.

For example, in April 2014, we announced that South West Water and Affinity Water were to be given enhanced status, which meant that their business plans for 2015-20 required very little challenge or intervention from us. These two companies also received their draft determinations earlier under an accelerated timetable that was welcomed by the companies.

Proportionate regulation is a key principle that underpins our new strategy. We want companies to be accountable to their customers for the outcomes they deliver. Consistent with this, in February 2015, we published our monitoring and assurance framework, which set out a new approach to company assurance.

By placing each company in one of three categories, the aim is to target our regulation on those companies that we consider need more oversight to ensure that they deliver the outcomes for customers to which they have committed. As far as possible, we want to avoid intervention, but remain committed to intervening where we need to on a proportionate basis to protect customers.

3. Impacts of the regulatory framework on sector investment profile

Changes we made to our price review methodology saw companies take a total expenditure (totex) approach to investment during the price review. This evolution of our regulatory framework has given them the freedom to choose the best solutions to deliver the outcomes to which they have committed.

As a result, the totex approach has helped companies make better decision on how they invest in the sector to ensure sustainable, long-term solutions that deliver for customers and the environment. Over the period 2015-20, they will invest £44 billion on improving services to customers.

Because the sector is a long-term one, our five-yearly price reviews can sometimes cut across longer investment periods. For the 2014 price review, we retained certain measures to ensure long-term investment, but also to incentivise early investment where companies identified a clear need.

These incentives have helped to smooth the sector's investment profile, in line with the recommendations of Infrastructure UK (IUK).

4. Contribution to the UK Government's sustainable development objectives

Our work this year has contributed to the UK Government's sustainable development objectives – protecting customers, the environment and wider society, as well as contributing to economic growth.

For example, our final decisions for the price review mean that over the period 2015-20, average water and wastewater bills in England and Wales will fall by around £20 from £396 to £376 before inflation.

At the same time, customers will see improved levels of service by 2020, including:

- more than 370 million litres of water a day saved by tackling leakage and promoting water efficiency – enough to serve all of the homes in Birmingham, Manchester and Leeds;
- a reduction in the time lost to supply interruptions (down by 32% on average);
- 4,700 fewer properties flooded by sewer water; and
- cleaner water at more than 50 beaches.

Also, the number of people benefiting from financial support such as social tariffs will more than double to around 1.8 million by 2020.

Our work to develop the retail market set out in the Water Act 2014 will ensure greater choice for non-household customers in England. It will also underpin savings to the economy through service providers helping customers to reduce their water and carbon use.

During 2014-15, we have continued to engage with Thames Water on the Thames Tideway Tunnel, a long-term infrastructure project that will bring the River Thames into compliance with the Urban Wastewater Treatment Directive (improving river water quality), and provide necessary capacity in the sewer network for future generations (reducing sewer flooding into homes and businesses). Our role has been to keep bills down for customers while making sure an efficient financing model will ensure the investment needed to deliver the project.

5. Impacts of the regulatory approach on the sector's preparation for long-term challenges, such as climate change / 6. Impacts of the regulatory approach on company innovation, such as catchment management / 7. Impacts of the regulatory approach on sector resilience and sustainable water resource management

The regulatory changes we introduced at the price review enabled companies to develop more sustainable and innovative approaches to deliver the water and wastewater services that customers rely on. For example, moving to totex and outcomes has resulted in companies adopting more sustainable and flexible approaches.

In their business plans, companies committed to around £700 million of expenditure to ensure resilience of supplies and services to customers now and over the long term. More than half of the 171 outcomes that companies have committed to delivering relate to climate change adaptation measures and include the following.

- All but two companies said that they would not take additional water from rivers, despite population increases.
- Thirteen companies have committed to saving more than 200 million litres of water a day by 2020 through enhanced water efficiency measures.
- Levels of metering will increase from 48% in 2014 to 61% by 2020.
- Leakage levels will reduce by 5% by 2020.

During the year, we started to set out our approach to delivering our new primary duty on resilience. We have commissioned a Resilience Task Force chaired by Jacob Tompkins, Managing Director of Waterwise, to consider resilience in the water sector.

We have framed our approach to resilience in the context of:

- services to customers;
- long-term planning; and
- sustainability.

Our role is to set the right incentives and regulatory framework, and to continue to act as a safety net for customers.

Catchment management schemes are a very good example of an innovative approach to delivering safe and secure water supplies. Working with farmers to tackle water pollution at source instead of building a new water treatment works, for example, is a more sustainable way of ensuring good quality drinking water.

Companies have committed to spending £200 million on catchment management programmes over the period 2015-20 to help:

- control pollution;
- improve drainage;
- reduce carbon emissions; and
- reduce costs to customers.

The approach we took at the price review has enabled companies to make the best management decisions in delivering the outcomes to which they have committed.

8. Sufficiency of company action to help customers struggling to pay bills / 10. Effectiveness of the 2014 price review in delivering outcomes sought by customers and other stakeholders

We have continued to put customers at the heart of our decision making during the year. Our price review methodology ensured that each company take into account of customers' priorities in their outcomes.

Overall, the average water and wastewater bill in England and Wales will reduce by 5% – or around £20 – before inflation over the period 2015-20.

A key element in this successful outcome for customers was our asking the companies to work with their customers to understand their priorities and their willingness to pay.

Another important factor was the support that a number of companies received for the development of social tariffs to help customers who struggle to pay their water and wastewater bills. From 1 April 2015, 14 companies will operate a social tariff for their most vulnerable customers. All companies, through the WaterSure scheme, offer some form of subsidised support.

Setting the cost of capital – which is the minimum rate of return that lenders or investors require to support investment in the sector – forms a key part of our decision making during the price review.

When companies submitted their business plans in December 2013, we proposed a cost of capital of more than 4%. In January 2014, we reduced the cost of capital to 3.7%. In December 2014, when we made our final decisions, we reduced it further to 3.6%. A reduction in the cost of capital by 1.0% reduces customer's bills by around £20.

So, by reducing the cost of capital, challenging the companies to ensure customers get more for less and through the development of social tariffs, we have been able to relieve some of the pressure on customers' bills over the next five years.

9. Progress on competition, to ensure this is in step with the Water White Paper and UK Government boundaries

In May 2014, the Water Act 2014 became law. As well as introducing choice for all business and non-household customers by 2017, the Act also allows for a series of potential reforms to improve resilience and increase efficiency in wholesale (or upstream) services.

During the year, we continued to work with the sector to develop the retail market in water services. OpenWater Market Ltd (OWML) was created and has worked on developing the rules that set out how the new market arrangements will work in practise. It has published a series of Market Architecture Plans (MAPs).

In parallel, we have taken work forward to support the development of the new market arrangements, including:

- introducing a new licence condition on the companies to ensure that OWML can be appropriately resourced;
- setting separate price controls on retail services, which will help to provide a clear wholesale charging boundary to support entry into the new retail market;
- publishing the roadmap to the opening of the market in 2017; and
- consulting on the scope of the new market arrangements through our proposed new guidance on who will be eligible to switch in the new market.

Guidance from the Welsh Government

In December 2013, and following consultation, the Welsh Government laid before the Assembly new social and environmental guidance (SEG) to us, including the priority areas to which they expect us to have regard in carrying out our work. In February 2014, this was confirmed by the Assembly. The SEG includes an expectation that we will provide feedback on the management of these overarching priorities as part of our annual reporting process.

We have written to Welsh Ministers to explain how we have done this. We also summarise the actions we have taken below.

Priority and contribution

1. Regulatory proposals: assess impacts of regulatory changes on consumers and investors /
7. Research and evidence-based decisions and policy making: take account of research and costs in making decisions

Our approach to the price review during 2014-15 reflected our commitment to maintaining regulatory stability.

This included carrying forward the changes we made to our methodology. This saw the companies take totex approach to investment in the sector. It also placed customers at the heart of the regulatory process, giving them greater opportunity to agree with their water companies the outcomes they want at a price they can afford.

For the first time, we set four separate price controls in a more targeted approach. And we required companies to propose their own outcomes, and the rewards and penalties attached to them. We intervened to protect customers and ensure efficiency in many cases, but most of the incentives remained as companies had proposed. We discussed these innovations in detail with investors, customers and other stakeholders throughout the price review to ensure regulatory stability.

The totex approach has also led to companies making more sustainable decisions, such as working with farmers to tackle water pollution at source rather than building new water treatment works. This underpins the resilience of the water and wastewater services companies provide to their customers, which in turn makes the sector a more secure investment prospect.

While we adopted a new approach to our price review, we retained the basic framework, which also encouraged continued investment and a transparent approach to our engagement with investors. As a result, the sector will see substantial new investment over the next five years.

Our new approach encouraged companies to engage more with their customers. Underpinning our final decisions in December 2014 was substantial evidence of customers' acceptance of companies' plans, including evidence of willingness to pay. We also reduced the cost of capital, which is the minimum rate of return that lenders or investors require to support investment in the sector.

Also, our work during the year on the actions that customers expect companies to take when they have filed a complaint, alongside the cost of complaint handling, has encouraged the sector to adopt a redress scheme (WATRS). The WATRS scheme started on 1 April 2015. We worked closely with CCWater and the companies to develop the scheme.

The new redress scheme should be good for companies as it resolves difficult disputes and identifies ways to avoid future service problems. And a good system of redress should enhance trust and confidence in this essential public service.

3. Sustainable development: contribute to the Welsh Government's sustainable development objectives / 5. Efficiency and cost effective solutions: drive innovation within the boundaries set by the Welsh Government to ensure improvements in efficiency / 6. Resilience and joined up outcome-based solutions: enable resilience against natural and other hazards / 9. Integrated water management solutions: encourage sustainable and innovative water management solutions / 10. Future resource management: encourage integrated long term planning and solutions

Our work during the year has contributed to the Welsh Government's sustainable development objectives – protecting customers, the environment and wider society, as well as contributing to economic growth.

For example, our price review saw the biggest-ever customer conversation – we required all companies to set up an independent customer challenge group (CCG), and there were also an unprecedented 250,000 direct customer conversations across the sector.

Other innovations we introduced in the price review helped companies to develop more sustainable and innovative approaches. These include a focus on outcomes and a move to totex. Evidence shows that more flexible approaches such as catchment management can deliver a better service to customers at a price they can afford.

The price controls we set in December 2014 for the period 2015-20 provide rewards and penalties for the companies operating wholly or mainly in Wales to deliver the outcomes agreed with their customers and set out in their business plans. This includes outcomes related to the resilience of companies' assets and services, and the provision of a reliable and high-quality customer service. We have intervened to protect customers where necessary, including driving a significant efficiency challenge of £3 billion across the sector. But where there is sufficient evidence of customer support, we have not challenged companies' specific schemes or outcomes. This approach has given them the opportunity to pursue more innovative, flexible, sustainable, long-term solutions.

As a result of the work we carried out on the price review during the year, companies are set to invest more than £3 billion – or around £2,000 for every household in Wales – over the next five years. By 2020, customers will benefit from substantial improvements in areas of service in Wales that really matter to them, including:

- more than 15 million litres of water a day saved by tackling leakage and promoting water efficiency;
- a reduction of over an hour in the time lost to supply interruptions; and
- 55 fewer properties flooded by sewer water.

We also clawed back at least £13 million from companies operating wholly or mainly in Wales for customers for underperformance during the previous price review period – most of this was for environmental failings, such as pollution incidents, and sewage treatment compliance.

Dŵr Cymru has committed to outcomes in 2015-20 that will increase the resilience of critical assets where failure would have a major impact on service to customers or on the environment. It has a close relationship of trust and confidence with its customers.

Dŵr Cymru and Dee Valley Water are also expecting metering to increase over the period 2015-20 (from 40% to 49% in Dŵr Cymru's service area, and from 59% to 65% in Dee Valley Water's area). We know that metering reduces water use and bills – evidence suggests that Southern Water's Universal Metering Programme, for example, has already delivered a 16.5% reduction in water use, saving most metered customers an average of £162 a year.

During 2014-15, we worked with the Welsh Government, Defra, Natural Resources Wales and the Environment Agency to develop proposals for:

- abstraction reform; and
- the next water resources planning guideline to guide water companies' development of their 2019 water resources management plans.

4. Affordability: take account of affordability issues in Wales

Our work during the year has taken into account affordability issues in Wales. Our price review created a new dynamic between companies and customers, as we asked companies to engage with their customers and identify what services and outcomes they value.

We then challenged each company to focus their business plans on delivering those outcomes efficiently and affordably. In Wales, this approach meant companies seeking input from more than 12,000 customers, and then developing outcomes that their customers said they wanted and were willing to pay for.

Our final decisions, which we made in December 2014, mean that customers in Wales will get more from their water companies over the next five years but with lower bills – around 5% on average before inflation.

As part of our approach to ensuring that companies engaged more with their customers and in understanding the factors that affect water affordability, we revised our [guidelines on dealing with household customers in debt](#) in July 2014.

In addition to this, the conclusions of our price review show that there will be an increase of around 300,000 households receiving help with their water and wastewater bills across Wales by 2020.

2. Environmental and statutory obligations: facilitate compliance with domestic and European legislation / 8. Drinking water quality: ensure compliance with drinking water quality obligations

Our work during 2014-15 has taken in to account European legislation and drinking water quality.

The price controls we set in December 2014 will enable all companies providing services to customers in Wales to comply with these legal obligations over the period 2015-20. We have worked with Dŵr Cymru and Natural Resources Wales to ensure that our price controls include a suitable provision for delivering measures that are likely to be required under the Water Framework Directive. For the first time, we also required Board assurance that companies' business plans would cover such investment.

We recognise the importance that the Welsh Government places on the continuing supply of safe, clean drinking water. This is reflected in the outcomes for the safety and excellent quality of drinking water that Dŵr Cymru and Dee Valley Water put forward in their business plans. Our price controls, coupled with the rewards and penalties attached to the relevant measures of success, provide the right incentives for the companies to achieve compliance with the statutory standards and deliver the outcomes that customers require and value.

List of impact assessments carried out during 2014-15

We carried out no impacts assessments during 2014-15.

Review of Board effectiveness

The Board carried out a review of its effectiveness looking back over the previous 12 months. Each Board member completed a questionnaire that sought to understand the way the Board operates and the role of and support from its Committees. The Chairman also met with each Board member to understand their response. The Board recognised that it had been through a period of transition over the previous 12 months as a new Board getting to grips with difficult issues.

This year has also seen changes to some of the Committees. Catherine Waddams has taken on the role of Chair of the Casework Committee, with Martin Lawrence and Jonson Cox joining as members in November 2014. The Committee has been successful in determining three cases in its new form. We have also established a Thames Tideway Tunnel Committee, chaired by Jonson Cox, to support the full Board on this programme of work.

We also welcomed Vanessa Howlison as an Independent member of our Audit and Risk Assurance Committee. She replaced Richard Kennet, to whom we said goodbye following eight years of service.

Jonson Cox
Chairman

Progress in reducing regulatory burdens

Background

The UK Government introduced the Regulatory Enforcement and Sanctions Act 2008 for the purpose of delivering better regulation. The Act placed a duty on us to:

- review the regulatory burdens we impose;
- reduce any that are unnecessary and unjustifiable; and
- report on our progress each year.

When we report on progress, we have to set out what we have done in the past 12 months, and what we will do in the coming year, to review our functions in line with the duties set out above. We also have to set out the reasons for maintaining any burdens.

Our forward programme sets out what we intend to do over the coming 12 months. Our report on what we have done in the past year is set out below.

Report on progress

Our more targeted and proportionate price setting methodology has meant we have been able to reduce the regulatory burden on companies in a number of areas.

During the year, we reduced our requirements on the information that monopoly companies must send to us to align them to the new forms of price control we introduced as part of 2014 price review. For example, we will no longer require monopoly companies to produce financial information using full current cost accounting (CCA). But we will require them to publish their summary financial results using CCA, which we confirmed after consultation with the sector.

We also took a targeted and proportionate approach to our requirements for the assurance that monopoly companies provide. For example, as part of our proposed monitoring framework (see page 16) we decided:

- not to impose any further requirements for 2015-16 (beyond the sector minimum) on South West Water and Affinity Water – the two enhanced companies at the 2014 price review (see page 24); and
- to require more extensive assurance of Dee Valley Water.

For other companies, we will require them to propose their own bespoke additional targeted assurance, levelling up so that all customers have comparable trust and confidence in the sector information being provided.

We expect companies to meet their obligations to customers – and put things right where they get things wrong. We take a targeted and proportionate approach to enforcement that balances costs and benefits to customers. For example, during the year, we:

- accepted [Thames Water's commitment to pay a package worth £86 million to customers and the communities it serves](#), following our investigation into the company's reporting of sewer flooding data in 2010 – and imposed only a notional fine; and
- [accepted binding commitments from Bristol Water](#) to make changes to both its structure and processes to address the specific competition concerns that we identified.

Performance against stated levels of service

Every year, we respond to general public enquiries for information. We also investigate disputes between customers and their water companies.

We set out our performance for 2014-15 against our standards of service below.

General enquiries

In 2014-15, we replied to more than 3,404 enquiries, including phone calls and written correspondence. This compares with 5,300 in 2013-14.

| Performance standard for general enquiries | | |
|--|---------|---------|
| Standard | 2014-15 | 2013-14 |
| At least 95% of all general enquiries to be dealt with within ten working days | 98.7% | 98.3% |

Information requests

The Freedom of Information Act 2000 (FOIA) and the Environmental Information Regulations 2004 (EIR) provide a general right of access to all types of recorded information held by public authorities. They place a number of obligations on public authorities and also set out exemptions to rights of access.

The FOIA and the EIR apply to Ofwat because we are a public authority. We have a responsibility to provide a response to any written request, normally within 20 working days. There are some exceptions to this deadline; we are able to take further time in order to consider the public interest in the disclosure of information.

Over the past year, we received 246 information requests that we dealt with under the FOIA and EIR. We responded to 97.1% within deadlines. In 2013-14, we received 265 requests and responded to 97.35% within deadlines.

Detailed information on the FOIA and EIR is available from the Ministry of Justice (MoJ) and the Information Commissioner's Office (ICO). The MoJ collects and publishes statistics on the handling of requests for information by more than 40 central government bodies, including Ofwat. You can view the performance of participating bodies on the MoJ website.

Disputes and complaints about water and wastewater services

CCWater represents consumers in the water sector. It deals with most complaints from consumers about the service their water company provides that the company itself cannot resolve.

Where customers remain dissatisfied following CCWater's efforts to resolve their complaint, from 1 April 2015 they have the right to refer their complaint to the Water Redress Scheme (WATRS). WATRS is a voluntary alternative dispute resolution scheme to help address the very small number of customer complaints that remain unresolved. WATRS is designed to provide an independent, impartial and easy to use alternative to going to Court or a Tribunal.

We are responsible for the following disputes and complaints.

- 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 transfer appeals.
- Refusals by the companies to install an optional meter.
- Guaranteed standards scheme (GSS) payments.
- Trade effluent appeals.
- Pipe-laying in streets and across private land.

The time taken to resolve disputes and complaints depends on the nature and complexity of individual cases.

We have a number of performance measures to monitor and improve our performance. We continue to keep all aspects of our performance under review.

Initial response to disputes and complaints

We aim to respond to all disputes and complaints efficiently and effectively. We aim to meet our performance standard. In 2014-15, we received 248 disputes and complaints – compared with 221 in 2013-14. We set out our performance against our performance standard below.

| Performance standard | 2014-15 | 2013-14 |
|---|---------|---------|
| Initial response to 95% of all complaints within ten working days | 95% | 94% |

Initial assessment of disputes and complaints

Before we investigate a dispute or complaint we carry out an initial assessment to decide whether:

- it falls within our jurisdiction; and
- we should investigate.

In 2014-15, we closed 88% of the 248 complaints we received within our initial assessment phase target. In 2013-14, we closed 84% of the 221 complaints we received in this phase.

Investigations we carry out

We aim to investigate as quickly and thoroughly as possible. Where we investigate a dispute or complaint we estimate when we will resolve it (the 'case closure phase'). The complexity of some cases can change after we begin an investigation, so sometimes we are unable to resolve them in the case closure phase.

In 2014-15, we resolved 68% of 40 complaints within the case closure phase. This is the first year we collected this information. In 2013-14, we resolved 71% of 34 complaints in this phase.

Resolved complaints

We resolved 248 complaints during the year (223 in 2013-14). Of these:

- 86% were resolved within three months (compared with 87% in 2013-14); and
- 92% were resolved within six months (compared with 90% in 2013-14).

Complaints to the Parliamentary and Health Service Ombudsman

If anyone is unhappy with how we have handled their dispute or complaint, we carry out an internal review to consider whether we handled it correctly. If the complainant remains dissatisfied with our handling of their complaint, they can ask the Parliamentary and Health Service Ombudsman (PHSO) to investigate.

During 2013-14, one complaint was investigated by the PHSO. In June 2014, the PHSO found that our handling of this case was so poor it amounted to maladministration. In particular, the Ombudsman criticised:

- the length of time it took us to resolve the complaint;
- our poor communication with the complainant; and
- the frustration, time and cost he incurred in trying to get us to put things right.

We responded to the report by apologising to the customer, and by paying £250 compensation. At the same time, we made improvement to our internal complaint processes.

In August 2014, the PHSO carried out another investigation regarding a complaint brought to them regarding our handling of a case. In March 2015, the PHSO produced its final report and found that we carried out the case in the way that we should have done. The PHSO decided not to uphold the complaint because they did not find any serious administrative failings in our consideration of the case.

Resource management 2014-15

Staff recruitment (by gender and ethnic group)

| Level and salary range | 2014-15 | | | 2013-14 | | | 2012-13 | | |
|-----------------------------|---|--------------------------------------|--|---|--------------------------------------|--|---|--------------------------------------|--|
| | Full-time equivalent staff appointed ¹ | Proportion of women (%) ¹ | Proportion from ethnic minorities (%) ¹ | Full-time equivalent staff appointed ¹ | Proportion of women (%) ¹ | Proportion from ethnic minorities (%) ¹ | Full-time equivalent staff appointed ¹ | Proportion of women (%) ¹ | Proportion from ethnic minorities (%) ¹ |
| Band 1 – £15,623 to £22,220 | 0 | 0 | 0 | 1 | 0 | 100 | 2 | 0 | 50 |
| Band 2 – £22,221 to £31,448 | 8 | 63 | 13 | 3 | 67 | 0 | 7 | 85 | 44 |
| Band 3 – £31,449 to £47,146 | 6 | 33 | 17 | 12 | 25 | 0 | 10 | 31 | 16 |
| Band 4 – £47,147 to £72,114 | 5 | 80 | 60 | 7 | 57 | 0 | 8 | 49 | 25 |

| Level and salary range | 2014-15 | | | 2013-14 | | | 2012-13 | | |
|------------------------------|---|--------------------------------------|--|---|--------------------------------------|--|---|--------------------------------------|--|
| | Full-time equivalent staff appointed ¹ | Proportion of women (%) ¹ | Proportion from ethnic minorities (%) ¹ | Full-time equivalent staff appointed ¹ | Proportion of women (%) ¹ | Proportion from ethnic minorities (%) ¹ | Full-time equivalent staff appointed ¹ | Proportion of women (%) ¹ | Proportion from ethnic minorities (%) ¹ |
| Band 5 – £72,115 to £108,171 | 3 | 33 | 0 | 4 | 50 | 0 | 6 | 0 | 0 |
| Total | 22 | 55 | 23 | 27 | 48 | 4 | 33 | 40 | 25 |

Notes:

1. Rounded to the nearest whole number.

Staff in post

| Type | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---------------|---------------|---------------|
| Employed staff head count | 147 | 199 | 185 |
| Agency staff and consultants head count | 7 | 20 | 17 |

Employed staff information

| Area | 31 March 2015 | 31 March 2014 | 31 March 2013 |
|---|---------------|---------------|---------------|
| Full-time equivalent staff | 136 | 191 | 177 |
| Proportion of women (%) | 70 | 48 | 47 |
| Proportion from ethnic minorities (%) | 30 | 12 | 18 |
| Proportion disabled (%) | 1 | 3 | 2.3 |
| Members of the Senior Civil Service | 7 | 8 | 11 |
| Number of fixed-term and casual contracts | 11 | 13 | 13 |
| Number of staff working part-time | 20 | 28 | 30 |
| Staff turnover (%) | 10* | 12 | 16 |

*Does not include end of fixed-term contracts, death in service or leavers via voluntary exit or voluntary redundancy.

Staff training attendance (by ethnic group)

| Ethnic group | 2014-15 ¹ | | 2013-14 | | 2012-13 | |
|---------------------|--------------------------------------|----------------|--------------------------------------|----------------|--------------------------------------|----------------|
| | Number of training days ² | % ³ | Number of training days ² | % ³ | Number of training days ² | % ³ |
| White | – | – | 318 | 78 | 418 | 77 |
| Other ethnic groups | – | – | 48 | 12 | 89 | 17 |
| Unknown | 132.5 | 100 | 42 | 10 | 32 | 6 |

| | 2014-15 ¹ | | 2013-14 | | 2012-13 | |
|-------------------------------|--------------------------------------|----------------|--------------------------------------|----------------|--------------------------------------|----------------|
| Ethnic group | Number of training days ² | % ³ | Number of training days ² | % ³ | Number of training days ² | % ³ |
| Total number of training days | 132.5 | 100 | 407 | 100 | 539 | 100 |

Notes:

1. We did not collect information on training days by ethnic group in 2014-15.
2. Rounded up.
3. Rounded to the nearest whole number.

Staff by gender

| Area | 31 March 2015 |
|---------------------------|---------------|
| Employed staff head count | 147 |
| Number of women | 67 |
| Number of men | 80 |

Executive Directors by gender

| Area | 31 March 2015 |
|---------------------|---------------|
| Employed head count | 7 |
| Number of women | 5 |
| Number of men | 2 |

Members of Senior Civil Service by gender

| Area | 31 March 2015 |
|---------------------|---------------|
| Employed head count | 7 |
| Number of women | 3 |
| Number of men | 4 |

Ofwat's compliance with the public sector equality duty

Background

The public sector equality duty (section 149 of the Equality Act 2010) requires public bodies to consider the needs of different groups of individuals when carrying out their day-to-day work. It requires public bodies to have due regard to the need to:

- eliminate discrimination;
- advance equality of opportunity; and
- foster good relations between different people when carrying out their activities.

The equality duty is supported by specific duties set out in regulations, which came into force on 10 September 2011. The specific duties require public bodies, such as Ofwat, to publish relevant, proportionate information demonstrating compliance with the equality duty and to set specific equality objectives.

External

As an economic regulator, Ofwat rarely works directly with individuals but carries out its functions through the way we regulate water companies. So our work to further equality is largely through our general regulatory approach. We seek to ensure these approaches do not have unintended or disproportionate impacts.

On pages 104 to 112, we summarise the actions we have taken in 2014-15 in relation to the UK Government's strategic policy statement to us, including revised social and environmental guidance, and the Welsh Government's social and environmental guidance.

During the year, we published information for customers about billing agents and where to go for help and advice. This is because we want to enable customers to make informed choices about billing agents. We had previously identified potential risks to customers from the activity of some billing agents with unsustainable business models, or false or dubious claims. Concerns about billing agents in the water sector featured in customer contacts to Citizens Advice, as well as Ofwat and CCWater. Elderly customers or those without access to support seemed to be particularly affected.

We continued to work with companies, CCWater and Water UK (the representative body for water companies) to help the sector set up an independent alternative dispute resolution (ADR) scheme. From 1 April 2015 customers in England and Wales have been able to go to an independent adjudicator if their complaint has not been resolved by their water company or after intervention from CCwater.

Water UK launched the Water Redress Scheme (WATRS), which will address disputes relating to bills and payments, metering, water supply and wastewater services and will aim to make its decision within 20 working days of receiving an application. If WATRS supports a customer complaint, it will decide what action the company must take, including carrying out work or paying compensation for loss or damage. It provides an additional service meaning customers have a final opportunity to resolve their complaint without having to go to court, which is not a viable option for many customers. The scheme is funded by the water companies, but run independently by the Centre for Effective Dispute Resolution (CEDR) and overseen by an independent panel.

As an organisation, we offer a range of services in relation to publications and correspondence to help advance equality of opportunity through access to information.

For example, we make publications available in large print and braille formats and are committed to a website that complies with Government guidance on accessibility. We have a Welsh language scheme and use a scoring system to objectively identify any material which need not be published in Welsh or bilingually. We will issue a reply in Welsh when someone writes to us in Welsh. We will also, if practicable, reply in the same language to correspondence we receive in languages other than Welsh or English.

In March 2015, we started a project to develop a set of branding guidelines covering our use of things like fonts and colours. This will take into account the needs of people with disabilities such as dyslexia and colour vision deficiency ('colour blindness').

Internal

In 2013, we put in place a People Strategy to deliver our objectives by adopting strong people management practices and ultimately by becoming an employer of choice – one that is recognised as being attractive to existing employees and prospective candidates because our work, culture, environment and rewards make it a great place to be. It includes a commitment to put our values of respect, integrity, leadership and excellence at the forefront of everything we do. We also want a working environment that, among other things, provides a welcoming culture that is free from discrimination and values diversity and opinions.

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

- race;
- sex;
- sexual orientation;
- age;
- marital status;
- disability;
- religion and belief;
- gender reassignment;
- pregnancy and maternity; 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 principles.

During the year, we set out an objective to put our values (respect, integrity, leadership and excellence) at the forefront of everything we do. One of the ways in which our performance is measured is by our staff survey results. For example, by the end of 2016, we want at least 70% of our people to think that colleagues demonstrate our values and for there to be an improvement in our staff survey responses. Our 2014 People Survey results indicated that people were more likely to think that we put our values at the forefront of our work (32%) compared to 2013 (20%).

Equality objectives for 2014-18

| Objectives | Measured by | Due date |
|--|--|--------------------|
| To put our values (respect, integrity, leadership and excellence) at the forefront of everything we do | <p>There are year-on-year improvements in our performance against our key performance indicators.</p> <p>Turnover measures show increases in movement for career progression.</p> <p>At least 70% of our people think colleagues demonstrate our values.</p> <p>There is an improvement in our staff survey responses.</p> | By the end of 2016 |
| To provide a working environment that is welcoming and diverse, and that supports effective working | <p>We are recognised as an employer of choice and people seek out opportunities to work here.</p> <p>At least 80% of our people are willing to recommend Ofwat to friends as a good place to work.</p> <p>At least 80% of our people are proud to say they work at Ofwat.</p> <p>We fare well against benchmarked organisations.</p> | By the end of 2018 |

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a leading economic regulator, trusted and respected, challenging ourselves and others to build trust and confidence in water.



Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7699
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

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