

July 2023

Water Services Regulation Authority (Ofwat)

Annual report and accounts 2022-23

For the period 1 April 2022 to
31 March 2023

HC 1356

Ofwat

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For the period 1 April 2022 to 31 March 2023

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Part 1

Our performance
report

Overview

Our performance report summarises the outcomes we aim for, the work we have achieved, and the water sector’s performance in delivering for customers.

Purpose and activities

We want the water sector to improve life through water for today’s customers, and customers of the future. This means:

- driving the best outcomes for customers and the environment while keeping bills affordable;
- acting to ensure companies meet their responsibilities for securing long-term resilience; and
- protecting the environment for future generations with a sector that remains attractive to investors.

Our strategy, [Time to act, together](#), explains how we drive progress in these areas.

We regulate the industry through a variety of tools, including our price reviews that take place every five years. We carry out our functions to fulfil the duties set out in legislation and in accordance with the priorities set by the UK and Welsh Governments.

Performance against the forward programme 2022-23

We have seen positive progress against our strategy, achieving almost all the milestones set out in our [forward programme 2022-23](#) (see Appendix A1). Almost all other deliverables have been delivered or are on track.

Following consultation earlier this year, we published our [forward programme 2023-24](#), which sets out our plans for the next financial year.

Key issues and risks

We have a strategy for managing and responding to risks and opportunities consistent with HM Treasury’s Orange Book: [Management of risk – principles and concepts](#). In line with its principles, risk and opportunity management is embedded across our organisation.

Our governance statement on page 51 gives more information on our management of risks.

Going concern basis

We have adopted a going concern basis for the preparation of these accounts, as set out in note 1.14 on page 112.

Chair's foreword



Ofwat recognises the challenges the sector is facing and is taking focused action. To address climate change, population growth and increasing urbanisation, water companies need to undertake a sustained and significant programme of complex and lengthy investment projects, as well as improve the performance of their wastewater treatment systems to reduce their environmental impact.

This means that water companies will need to change how they operate – building capacity and capability, within their organisations and in the supply chain, to undertake investment activities on operational infrastructure, while continuing to provide reliable and resilient water and wastewater services to millions of households and businesses.

And, at the same time, society rightly demands a higher level of responsibility from the water companies that Ofwat regulates. As such, people expect Ofwat to do more to drive efficient and effective performance; to ensure that water companies understand and manage their assets appropriately; and that there is a focus on long-term planning and delivery.

Over the past 12 months, Ofwat has been changing – strengthening its capabilities in the areas of enforcement, company performance management, planning and delivery. And as a result of natural churn among some of our executive directors, we have taken the opportunity to refresh and reorganise the leadership team. We have worked hard to achieve greater collaboration among the regulatory community – with our counterparts at the Environment Agency and Natural Resources Wales, as well as the Drinking Water Inspectorate. Going forward, we will seek to build upon the successful Regulators' Alliance for Progressing Infrastructure Development (RAPID) as a way of joint working to facilitate the delivery of much-needed investment. We also welcome Defra's [Plan for Water](#) which provides an integrated process for streamlining and improving regulation across many facets of the industry.

Finally, on behalf of the Board, I would like to thank my predecessor – Jonson Cox – for preparing the ground for the changes we are now putting in place. I would also like to thank our departing senior directors, Aileen Armstrong, John Russell and Claire Forbes, who have been key parts of the Ofwat journey, particularly in preparing for the upcoming price review, in developing key components of Ofwat's wider strategy and in delivering our engagement and communications strategies.

Iain Coucher
Chair

Chief Executive's introduction

In a year where water and wastewater have faced unprecedented attention, we have been working to tackle the immediate problems facing the sector and enabling long-term solutions to enduring challenges.

Our water company performance report, published in December, set out a clear picture of performance. While there were some areas of progress, such as reductions in leakage and meeting asset health performance commitments, there were too many areas where much more needs to be done. We also identified companies which need to take action to improve their financial resilience in our financial resilience monitoring report. We have taken action, for example, by pushing companies to make immediate commitments to improving river quality, and through our open cases into six wastewater companies, while keeping the wider sector under investigation.

Since the year end, there has been considerable focus on the performance and financial resilience of Thames Water in particular. We have been clear that Thames Water has significant issues to address and we will continue to engage closely with the company in the months ahead as we set the revenue allowance and service packages across the sector for 2025-30. More broadly, I am pleased that we have seen over £2 billion of new equity invested in the sector since 2020, as companies look to improve their financial resilience and finance growth in their asset base.

Overall, trust in the sector has been diminished by poor performance and the apparent failure to demonstrate the link between performance and dividends and executive pay. I am pleased that we have now implemented company licence modifications that will require companies to link dividends directly to performance for customers and the environment. We are also tightening requirements on companies to link performance to executive pay.



Our focus has also been on tackling longer-term challenges which require sustained and collaborative solutions. Collaboration across regulators through RAPID is enabling solutions for water transfers and other water resources issues. Our PR24 methodology, published in December, provides a framework for long-term planning, within and beyond the five-year cycle, which will require companies to make new environmental commitments, reduce pollution incidents and the use of storm overflows, and to improve biodiversity and reduce greenhouse gas emissions. All of this is supported by our ongoing support for innovation and open data.

Despite the high levels of scrutiny and challenge, I am proud of the way our people have continued to demonstrate their commitment to making a difference for customers and the environment. My thanks go to the wider Ofwat team, and to all the water customers and stakeholders who have taken the time this year to work with us, and share their insight and expertise.

David Black
Chief Executive

Our performance in 2022-23 – a summary

Ofwat is the independent economic regulator of the water sector. Our role is to enable companies to provide, and hold them accountable for, the very best services for customers, society and the environment, now and in the future. We also oversee the markets in the water sector to make sure they are working for customers.

We want to make the greatest contribution possible to improving life through water. Our success is measured by how we are driving and shaping the outcomes delivered by companies. Through our price reviews, we set clear expectations of what companies should achieve over a five-year period, funding them to meet their responsibilities. At the 2019 price review, we set stretching but achievable targets for company performance during 2020-25. Performance data from 2021-22, the latest period for which we have full year results, reveals some progress and areas where more work is needed.

We do not work in isolation. Our performance report explains the relationship between the priorities that guide our work: the UK Government and Welsh Government strategic policy statements, the goals we set for ourselves, and the customer and environmental outcomes delivered by water companies.

We set out our performance over the past year (2022-23) against our [three strategic goals](#) and our customer outcomes.

In delivering against our goals and each of these customer outcomes, we have helped to further the strategic priorities and objectives set by the UK and Welsh Governments in their strategic policy statements. These are statements setting out strategic priorities and objectives for Ofwat in carrying out relevant functions relating wholly or mainly to England and Wales respectively under section 2A and section 2B Water Industry Act 1991.

We also influence company behaviour through other formal and informal methods of regulation, to ensure that the sector meets the standards required and adapts to new challenges. Where companies fall short of the high standards we and customers expect of them, we intervene.

The diagram on the next page shows the relationship between:

- our duties and functions;
- our goals; and
- the outcomes we want to achieve for customers (in light of the UK and Welsh governments' strategic priority statements in force during the year).

Influences on outcomes for water customers

Factors guiding our work as the independent economic regulator of the water sector



Our work influences how water companies operate

Outputs and outcomes for customers and the environment



2022-23 at a glance

- April 2022**
- Eight entries in the second Water Breakthrough Challenge won a share of £20 million to explore innovation in open data, carbon capture and supporting vulnerable customers.
 - Final major connection of Thames Tideway Tunnel between Greenwich and Bermondsey, and drive towards Abbey Mills Pumping Station, completed.
 - David Black made permanent Chief Executive of Ofwat.

- May**
- Joint customer research with CCW found most customers were satisfied with water company services, but that sewer flooding has a significant negative impact on customers.
 - RAPID announced approval to the next phase for two strategic resource options on an accelerated track to address the water resource deficit in Hampshire, and accepted two new solutions into the programme.
 - StreamLine, a new service provided by Ofwat, the Environment Agency and the Drinking Water Inspectorate, launched to help innovators navigate regulatory barriers.
 - Paying fair guidelines set out principles for water companies to support household customers across England and Wales pay bills, get help and repay debts.
 - Iain Coucher announced as new Chair of Ofwat, replacing Jonson Cox.

- June**
- Sixth enforcement case opened, against South West Water, as part of our ongoing investigation into how companies manage their wastewater treatment works.

- July**
- PR24 draft methodology published.
 - New open access competition for innovators confirmed.

- August**
- Defra's storm overflows reduction plan set targets for water companies to tackle sewage discharges by 2050.
 - Our sixth health and wellbeing survey found 74% considered Ofwat's support for health and wellbeing good or very good.
 - Ofwat's new London office in Canary Wharf opened, sharing space with the Civil Aviation Authority.

- September**
- C-MeX, the household customers' measure of experience of, and satisfaction with, their water company, showed that only South Staffs Water improved on its score for the previous year (2021-22). The top performers on D-MeX, the measure of experience for developer customers, were Hafren Dyfrdwy, Severn Trent Water and Portsmouth Water.

- October**
- 11 graduates joined Ofwat. The gender (40% male, 60% female) and ethnicity (40% White, 60% minority) profiles showed our continuing commitment to equality, diversity and inclusion (EDI). We partnered with MillionPlus universities to target recruitment from Welsh universities and more local Midlands universities in Birmingham.
 - Yorkshire Water committed to recover intragroup loans worth nearly £1 billion to improve their financial resilience and settle the enforcement case we brought against them.

November

- RAPID's annual progress report 2021-22 showed progress on securing water resilience.
- Transform, the higher-value stream of the Water Breakthrough Challenge, received 10 entries from 6 water companies, totalling £66 million.
- Final determinations for in-period outcome delivery incentives confirmed 11 companies will return £132 million to customers through lower 2023-24 bills.
- Our Water company performance report highlighted poor performance from six lagging companies (Northumbrian Water, Southern Water, South West Water, Thames Water, Dŵr Cymru and Yorkshire Water) and we required them to provide action plans on how they intended to improve their performance.

December

- Our annual Monitoring financial resilience report showed several companies had strengthened their financial resilience, partly driven by our intervention.
- Our programme to review, streamline and standardise bilateral transactions in the business retail market concluded, which MOSL will implement.
- Our final decision on changes to retail price caps will enable efficient retailers to earn a fair return, while supporting the long-term stability of the business retail market.
- Thames Tideway Tunnel 83% complete.
- Our final methodology for the 2024 price review set out our expectations for companies' business plans.

January 2023

- Our conference, 'Press Go – resetting the water sector and rebuilding trust in a crisis', discussed how the sector could better support customers and the environment.
- Ofwat's Innovation Fund launched a £4 million open competition to reward outside innovators with bold solutions for the water sector.

February

- After the driest February in 30 years, we urged water companies to improve their final water resource management plans to secure reliable water services for the future.
- As part of our commitment to EDI, we introduced transparent interviews, meaning that we share some interview questions with candidates in advance.
- We published our decision to modify company licences to enable us to stop companies paying dividends if they would risk financial resilience, or where dividend payments are not sufficiently linked to performance.

March

- Portsmouth Water awarded a £167 million contract to Future Water MJJV Limited to build the first new large-scale water reservoir in more than three decades, at Havant Thicket in Hampshire.
- First 'Your water, your say' meeting held, allowing customers and stakeholders to question and challenge water companies' future plans in public online meetings.

The water sector under pressure



Background: the dry summer in 2022

Six water companies enacted temporary use bans on hosepipes

Rainfall totals for August ranged from 61% of long-term average in east England to 40% in the north-east and south-west England

Most water supply reservoirs were notably low for the time of year, worsened by high customer demand. By the end of August, reservoir stocks were at 58% of capacity

Across England, almost all rivers were below normal levels for the time of year, with some exceptionally low

Groundwater levels were normal or below normal for the time of year, with chalk aquifers in southern England below normal to exceptionally low

All companies reported increased leakage because of soil movement and high demand



Pressure on the water sector and its regulators intensified in the dry summer and subsequent drought, which was accompanied by an increase in leakage and ongoing concerns about sewage pollution. There was a renewed focus on the resilience of our water supplies, infrastructure spending, and concerns about companies' financial resilience and executive pay.

During the year, we have worked closely with Defra and the Environment Agency on planning for summer 2023, recognising the risks that may arise from a sustained period of lower rainfall, and considering what further, early interventions are needed on drought resilience to prepare for the possibility of continued dry weather this summer.

We welcomed Defra's Plan for Water, which sets out an integrated plan for delivering clean and plentiful water, and its support for regulation of the sector with strengthened powers for regulators and collaborative working.

Defra published its final storm overflows discharge reduction plan in August. The plan sets out new, specific targets for water companies to tackle wastewater discharges by 2050, with an estimated cost of £56 billion over 25 years. By 2035, water companies will have to improve all storm overflows discharging into or near every designated bathing water, and improve 75% of overflows discharging to high priority nature sites. By 2050, this will apply to all remaining storm overflows covered by the targets, regardless of location.

In June 2022 the 11 wastewater companies made ambitious public commitments in their [river water quality action plans](#) to reduce the use of storm overflows by 2025, increase monitoring and improve transparency over the next few years. These commitments were updated for wastewater companies in England in Defra’s [storm overflows discharge reduction plan](#) in August 2022.

Dŵr Cymru
 Improve 420 km of rivers to achieve ‘good ecological’ status by 2025.

Northumbrian Water
 Reduce discharges to average of 20 a year, and eliminate operational impediments to rivers achieving good ecological status.

Yorkshire Water
 Reduce discharges by 20% against 2021 baseline
 Reduce impact of storm overflows and sewage treatment works by 2030.

Hafren Dyfrdwy
 Ensure storm overflows and sewage treatment works do not harm rivers.

United Utilities
 Reduce discharges by 33% against 2020 baseline, and reduce impact of storm overflows and sewage treatment works by 2030.

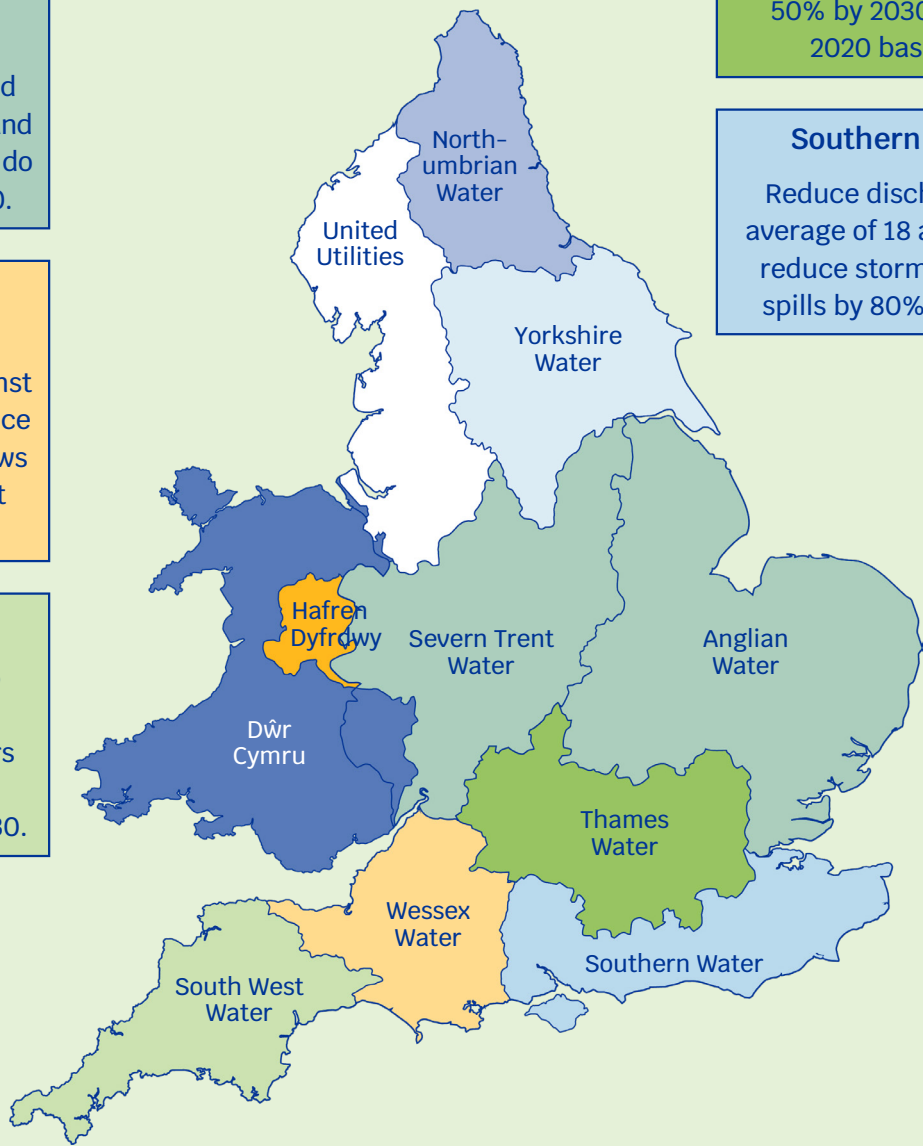
Thames Water
 Reduce duration of discharges by 14% against 2020 baseline, and reduce storm overflow spills by 50% by 2030 against 2020 baseline.

Severn Trent Water and Anglian Water
 Reduce discharges to average of 20 a year, and ensure storm overflows and sewage treatment works do not harm rivers by 2030.

Southern Water
 Reduce discharges to average of 18 a year, and reduce storm overflow spills by 80% by 2030.

Wessex Water
 Reduce duration of discharges by 25% against 2020 baseline, and reduce impact of storm overflows and sewage treatment works by 2030.

South West Water
 Reduce discharges to average of 20 a year, reduce impact on rivers by 33% by 2025, and target zero harm by 2030.



Ofwat’s work – headlines by goals

Our work holds the water companies to account and supports them to deliver outcomes that benefit customers, the environment and the long-term resilience of the water sector.

Goal 1

To transform water companies’ performance

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Delivering for current and future customers – our next price review

Ensuring bills are affordable

Investing for the future

Investigation into the management of wastewater treatment works

Promoting a more effective retail market

Working to end the misery of sewer flooding

Supporting open data to benefit customers and the environment

Improving the environment and meeting the challenges of climate change

Partnering to streamline innovation

Goal 2

To drive water companies to meet long-term challenges through increased collaboration and partnerships

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Encouraging innovation through competition

RAPID progress on water resilience

Strengthening collaboration in Wales

Goal 3

For water companies to provide greater social and environmental value

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Understanding customers better through research

Supporting all residential customers to pay their water bills

Sharpening water companies’ focus on customers

Trialling new household charging structures

Improving financial resilience

Further action on executive pay

Incentivising water companies to deliver on net zero

1

Goal 1: To transform water companies' performance

Delivering for current and future customers – our next price review

We continued to work on our next price review (PR24), which will set price limits for 2025–30.

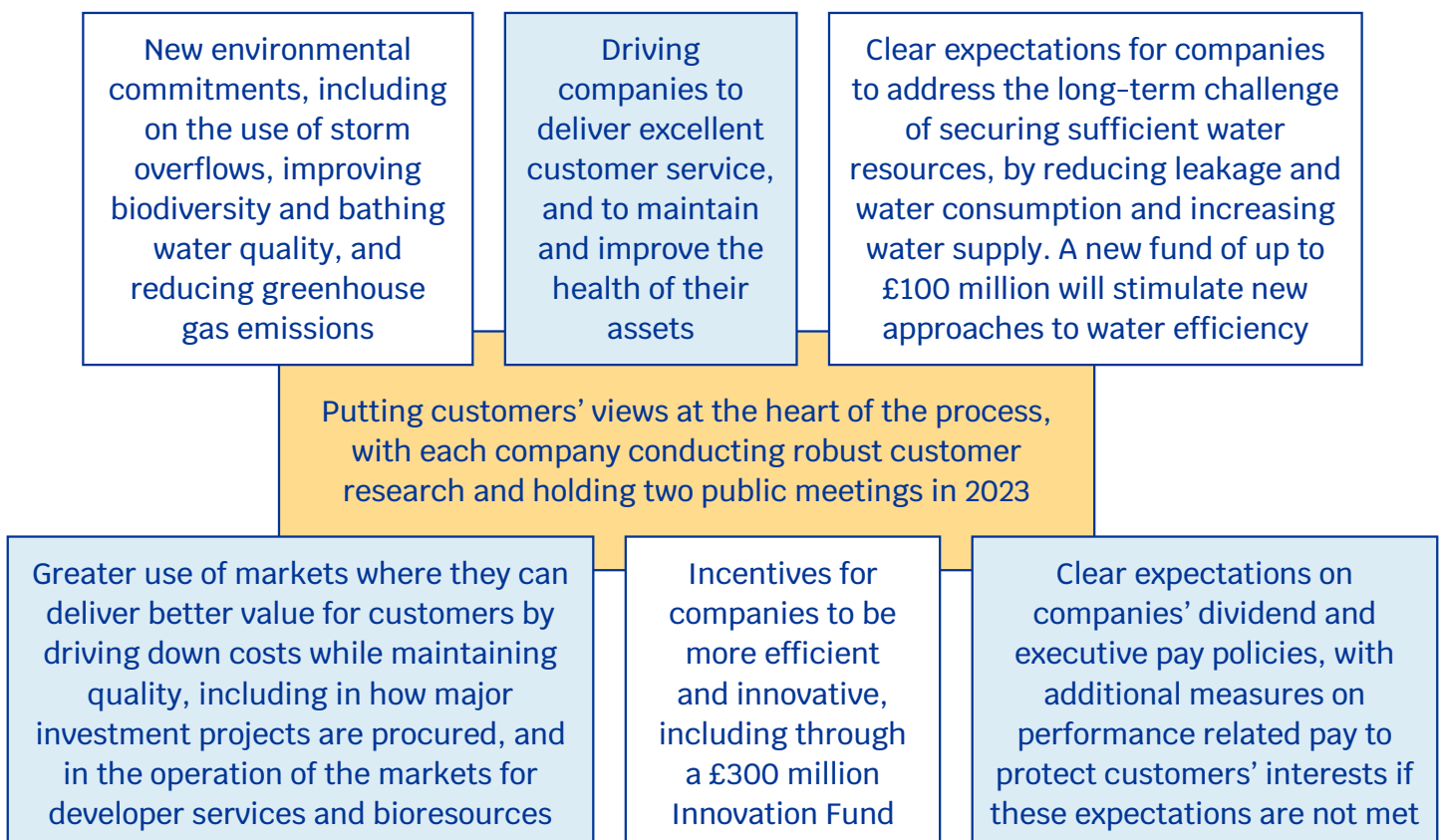
We have four key ambitions for PR24:

- an increasing focus on the long term;
- delivering greater social and environmental value;
- reflecting a clearer understanding of customers and communities; and
- driving improvements through efficiency and innovation.

We consulted on our [draft methodology](#) in July and published the [final methodology](#) in December.

The methodology will guide water companies to focus on securing better outcomes for customers and the environment as they draft their business plans.

Key elements of the PR24 framework



3.29%

Early view of allowed
return for PR24

The water companies will submit their business plans in October 2023. These will set out the investment they need to deliver their long-term delivery strategies. The companies will have to consider the affordability of their plans, deliver investment projects efficiently and balance the interests of current and future customers. Customers will be given a say in shaping their water company's business plan through open challenge 'Your water, your say' meetings, which started in March. The stakeholder engagement we require as part of the process is supported by CCW and we appointed an independent chair, Kevin Johnson of Urban Communications, to oversee this process.

Two years ahead of our final determinations at PR24, we provided an early view of the allowed return, which is 3.29% (in real, CPIH terms).

This gives companies and investors a clearer view on what we consider to be a reasonable rate of return in PR24. This is above the allowed return set at PR19, reflecting changes in interest rates. Our approach is in line with the UKRN methodology on setting the cost of capital which was published in March 2023.

In March we appointed a PwC-led consortium, which includes Mott MacDonald, CEPA and Gridlines, to help us deliver the 2024 price review.

Ensuring bills are affordable

In 2022-23 customers' combined water and sewerage bills increased on average by 2%, or about £8. In February, water companies announced water bill increases, which were on average 7.5%, or £31.

Similar to previous years, the average water bill increased by less than the level of inflation, although there is variation between water companies across England and Wales. For 2023-24, the inflation (CPIH) adjustment is 9.3%. Higher inflation translates into greater overall bill rises than in previous years.

In October 2022, a [joint letter](#) from David Black and CCW Chief Executive Emma Clancy asked companies to ensure that more customers benefit from social tariffs and to consider how they can mitigate any significant inflationary increases in customers' bills for 2023-24.

While every company set out action on affordability in response, four companies confirmed in addition that they would not be taking their full revenue allowance for 2023-24, which they will defer to later years (when the inflation adjustment is forecast to be lower).

In 2021-22 about one million households benefited from social tariffs – a 20% increase on the previous year. We expect this steep rise to continue; our own research found more people are now aware of these tariffs. Companies are also changing eligibility criteria to increase access to these tariffs.



1 million

Households
benefiting from
social tariffs in 2021-22

Investing for the future

£10.2 billion

Amount industry spent in 2021–22

In 2021–22 the industry spent £10.2 billion to deliver water and wastewater services, and invest in capital maintenance and new assets.

As part of the price review process, we set allowances for how much companies can invest over the price control period, to maintain and improve water networks. Between 2020 and 2022 (the first two years of PR19), 14 companies underspent their budget for improving their water network and eight companies underspent their cost allowances for improving their wastewater network. We expect these companies to get their enhancement programmes back on track and deliver the associated improvements in service. We will take action where we find companies are failing to comply with their obligations, and this year we set expectations for the sector to step up their ambition at PR24.

Investigation into the management of wastewater treatment works

We have made substantial progress in our current enforcement cases against six water companies and aim to finalise our decisions in 2023–24. All wastewater companies in England and Wales remain subject to our overarching investigation.

Ofwat’s investigations focus on whether companies are complying with obligations that we have a responsibility to enforce, notably their duty to deal effectually with the contents of their sewer network¹ and related licence obligations with respect to how water companies overall operate, manage and report on their performance, including of their wastewater treatment works. The Environment Agency is conducting parallel criminal investigations into companies’ compliance with their obligations under environmental permits issued by the Environment Agency.

As part of PR24, we will consider how to incentivise and enable the companies to further reduce harm caused by overflows to achieve targets set by Defra in its [storm overflows discharge reduction plan](#), along with the new storm overflow duties introduced by the Environment Act 2021, once in force.

1. Including obligations under Regulation 4 of the Urban Waste Water Treatment (England and Wales) Regulations 1994.

November 2021

Ofwat and Environment Agency announced [investigations](#) into how water and wastewater companies in England and Wales manage their wastewater treatment works

David Black [wrote](#) to all water companies requesting further information on discharges

March 2022

We opened five enforcement cases, into Anglian Water, Northumbrian Water, Thames Water, Wessex Water and Yorkshire Water

June 2022

We opened a sixth enforcement case, against South West Water

Promoting a more effective retail market

6.4%

Average increase
in final bills
before inflation

In December we published our [final decision on changes to retail price caps](#) on smaller business customers using less than 0.5Ml of water a year who have not engaged in the market by switching retailers. Our decision led to an average increase in final bills of about 6.4% before inflation for business customers in England on a dual (water and wastewater) metered tariff. The change in price caps will enable efficient retailers to earn a fair return while supporting the long-term stability of the business retail market, which will benefit customers.

We also simplified the price caps applying to smaller business customers by moving to an England-wide national price cap. This will help to ensure that price caps better reflect efficient costs to serve customers, because such costs do not vary significantly by region.

£1 million

Anticipated annual
savings after
bilateral processes

The new price caps will be introduced over a two-year period from April 2023, to manage the impact on business customers. Annual maximum changes in customers' retail charges will be limited to £60 per year, before inflation.

We continued to address the frictions which prevent the market from working effectively and delivering better outcomes for customers. One of these is cumbersome and ineffective wholesaler-retailer interactions. These 'bilateral' interactions are the processes through which wholesalers and retailers interact to deliver services to customers – for example replacing and installing meters. When the market opened, each wholesaler adopted its own individual approach to meeting service requests which has led to inconsistency, additional cost and poor service.

We oversaw a project for the market operator (MOSL) to set up a bilateral hub to review and standardise these transactions, which has led to:

- annual savings of about £2.5 million through improved efficiency; and
- an improvement in overall data quality, which is another of the three main market frictions.

£1 million of additional savings a year are anticipated after all new bilateral processes are implemented.

Our methodology for PR24 introduced a new performance commitment to measure business customer and retailer experience (BR-MeX) of water companies in England. This will incentivise wholesalers to take a more customer-orientated approach to resolving frictions in the business retail market and improve their performance. We will work with MOSL and other market participants to develop this.

Working to end the misery of sewer flooding

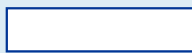
In October, CCW and Ofwat met with wastewater companies to discuss progress on improving responses to [sewer flooding](#) in customer’s homes and gardens.

We repeated what we expect to see from wastewater companies in response to sewer flooding:

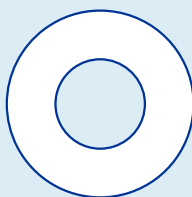


We welcomed companies’ commitment to doing the right thing for the customer first and addressing where responsibilities lie afterwards. We will repeat our [joint research](#) in future to find what difference this has made.

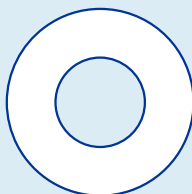
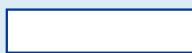
Opening data to benefit customers and the environment



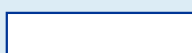
In line with our data strategy, we provided an accompanying [Power BI dashboard](#) with greater automation alongside our December [water company performance report 2021-22](#) (previously known as the service delivery report), and published the underlying data to open data standards for the first time.



In 2022 we commissioned consultants PwC to carry out a [technical review](#) of progress on open data in the water sector. It found that the water sector is at the beginning of its open data journey, with most companies categorised as being at the lower levels of maturity. We published [Open data in the water industry: making the change](#) in June 2023.



We welcomed Thames Water’s decision to voluntarily publish close to real-time information about all [untreated discharges](#) from its 468 permitted discharge locations in January.



Goal 2: To drive water companies to meet long-term challenges through increased collaboration and partnerships

2

Improving the environment and meeting the challenges of climate change

The Climate Change Committee's [review of organisations' adaptation reports](#) found good evidence that we are driving climate change adaptation action through setting targets and creating guidance. Our third [climate change adaptation report](#) to Defra was published in January 2022.

In April we published a [discussion paper](#) on evolving our approach to regulating operational resilience. We propose to target reporting of additional water and wastewater measures, then gain further insight through enhanced monitoring and ultimately consolidate each element into an integrated monitoring framework. Over time, this will give us a clearer view of asset health and wider operational resilience in the sector.

We worked with Defra to include a demand target in its [environmental targets consultation](#). The final target, published in December, is to

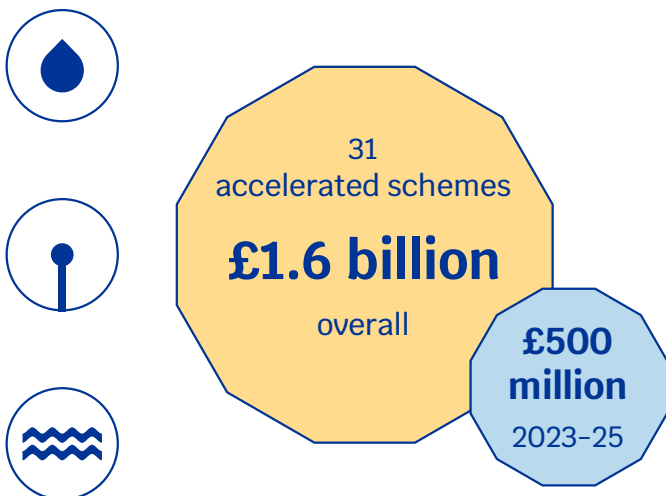
reduce the use of public water supply in England per head of population by 20% from the 2019-20 baseline reporting year figures, by the end of the reporting year 2037-38.

In September we reviewed [water companies' environmental incentives](#) to support more water efficient new homes. The report set out the results of our review of environmental incentives for developer services and highlighted examples of collaboration, innovation and good practice.

Water companies need to significantly improve river and bathing water quality by reducing spills and harm from storm overflows and reduce nutrient pollution in rivers from wastewater treatment works to protect our environment. Each of these areas will require significant investment from water companies in the next price control period, 2025-30.

Companies are also now required to publish data on their spill numbers from storm overflows. The [2022 dataset](#) covers 91% of all storm overflows and shows that on average, storm overflows spilled 23 times (29.4 in 2021).

We agreed with Defra to initiate a project to accelerate infrastructure delivery in England. All English water companies (except SES Water) put forward proposals to accelerate additional infrastructure delivery in 2023-24 and 2024-25 through the use of the transition funding mechanism at PR24. After careful consideration, we announced proposals to approve 31 schemes, valued at around £500 million over the 2023-25 period and over £1.6 billion overall.



Partnering to streamline innovation

Innovation is vital to tackling the challenges the sector faces, such as those relating to climate change, to secure reliable water services, safe drinking water and a healthy water environment.

In May, together with the Environment Agency and the Drinking Water Inspectorate, we set up [StreamLine](#), a joint regulatory advice service to help innovators and businesses in England and Wales better understand the regulatory environment governing the water sector. This collaborative one-stop-shop removes the need to contact the regulators separately, cutting response times from over 60 days to less than 20 days to get co-ordinated advice.

In November, we won a grant with the Drinking Water Inspectorate and the Environment Agency for an innovation [project](#). Together we will explore how we can improve regulation and stimulate innovation to tackle the challenges facing the water sector using the data we hold.



Encouraging innovation through competition



The £200 million Innovation Fund was introduced at PR19 to stimulate innovation in the water sector. During the pilot period we awarded £63.7 million of funding to 41 innovative projects. An [impact evaluation](#) published in July 2022 made recommendations and pointed to positive change which can be attributed to the fund.

We [consulted](#) on proposed changes to the innovation fund to 2025. This included creating a new, smaller value competition, opening up elements of the fund directly to innovators by removing the requirement for them to bid via water companies, and easing the current requirements in relation to intellectual property rights.

After overwhelmingly positive feedback, we integrated the following proposals into the design of the fund for 2022-25.

- A new 'open access' competition, targeted at smaller innovators and lower Technology Readiness Level proposals (project values up to £500,000).
- We removed the requirement for an entry to be led by a water company or new appointee² for our mid-value competition (Catalyst).
- We relaxed the requirements to share background IPRs for the mid-value fund and removed all requirements for sharing intellectual property for the new low TRL fund.
- We refined our innovation themes to better reflect the 2050 water innovation strategy, and UK and Welsh Government strategic priorities.

2. Company appointed pursuant to our new appointments and variations policy.

Our revised innovation competition themes are:

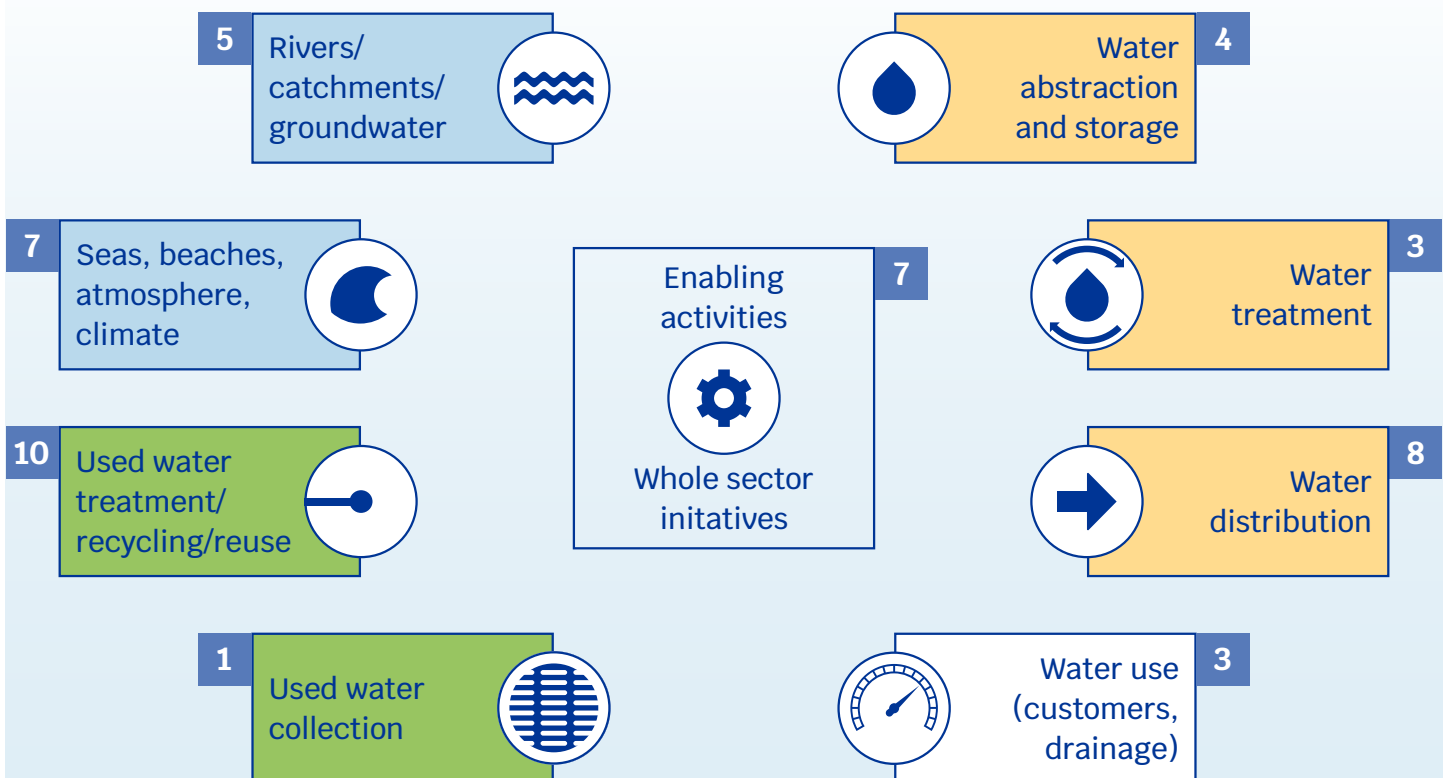
- responding and adapting to climate change, including achieving the sector ambitions of net zero carbon, zero waste and zero leakage;
- protecting and enhancing the environment and natural systems, to protect current and future customers from the impacts of extreme weather and pollution;
- delivering long-term operational resilience and understanding infrastructure risks to customers and the environment, finding solutions to mitigate these in sustainable and efficient ways; and
- testing new ways of conducting core activities to deliver the services customers and society need, expect and value, both now and in the future.

We will continue to consider how we manage the challenges and risks of working more directly with non-regulated entities and how to reach a wider audience of innovators who may not have heard of the fund.

Spring, the sector’s innovation centre of excellence, will support us on some aspects of the delivery of our new Discovery competition, which launched in January 2023 and targets early-stage innovations.

32 entries totalling £34 million were submitted to the Catalyst stream of the Water Breakthrough Challenge, competing for a share of the £7 million prize fund. Following moderation seven of the 10 entries to Transform will advance to stage two of the competition to compete for the £30 million prize fund. We [announced](#) the winners for both streams in May 2023.

Numbers of innovation competition winners across the water cycle



RAPID progress on water resilience

RAPID published its ambitious [2022-23 forward programme](#) in April. Its delivery priorities are grouped into five themes:

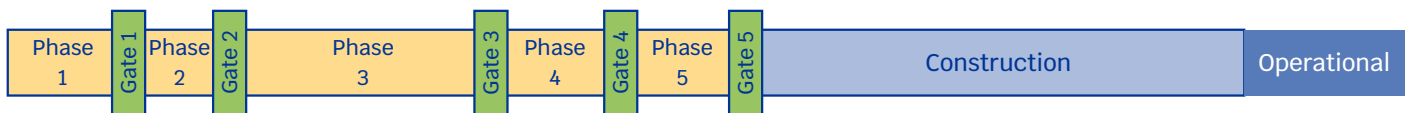
- developing a positive culture and driving performance;
- providing effective oversight of the strategic solutions;
- engaging people and organisations;
- achieving effective long-term water resources resilience; and
- exploring and addressing regulatory and commercial opportunities, gaps and barriers.

The gated process is a series of checkpoints within the RAPID programme. Each water resource solution needs to meet certain criteria in order to receive the additional funding to continue their investigation and development of the solutions.

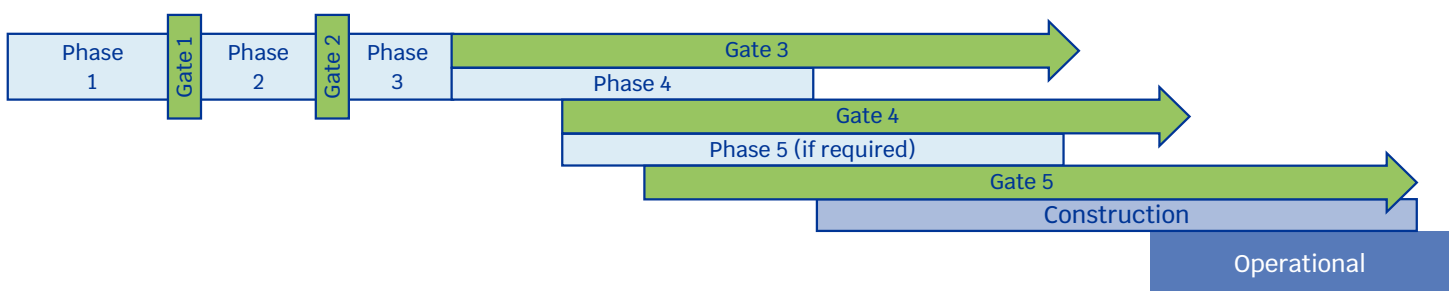
RAPID’s gated process for potential strategic regional water resource solutions



Accelerated gates



Standard gates



In May RAPID published its accelerated gate two final decisions on the three strategic regional water resource solutions being developed to address the water resource deficit in Hampshire. At the request of Southern Water, Fawley desalination was removed from the RAPID gated process. Both Hampshire water transfer and water recycling solutions progressed to accelerated gate three. We applied a delivery incentive penalty of 10% to these solutions because the submissions fell significantly short in some areas. Gate three assessments of schemes on the accelerated track will be made in summer 2023.

We continue to use ‘[Lessons learnt from gate one and accelerated gate two](#)’ to refine our assessment approach and published ‘[Strategic regional water resource solutions guidance for gate three](#)’ in August 2022.

We decided that two new solutions, Mendips Quarries (proposed by Wessex Water and South West Water) and Upper Derwent Valley reservoir extension (Severn Trent Water and Yorkshire Water) should join the RAPID programme.

In August we published the outcomes of our consultation on the [regulatory and commercial framework for strategic water resource solutions](#). Overall, respondents agreed with our proposals, noting that the multi-faceted nature of solutions required new thinking on some aspects of the regulatory and commercial frameworks. There was broad support for a continuing role for a RAPID-type framework into both the construction phase of the current projects and for future strategic water resource solutions. We reviewed our regulatory and commercial work programme in light of the responses.

During the year RAPID commissioned two reports to develop our approach further. Large, complex, or novel infrastructure projects like the RAPID schemes are typically riskier and more challenging to cost benchmark than simpler, more routine projects. We will use CEPA's report on [Approaches for estimating](#)

[and benchmarking costs for large scale water infrastructure projects](#) to assess strategic water resources solutions such as desalination plants, wastewater reuse plants, water reservoirs, and water transfer schemes.

Baringa and Mott MacDonald's report on [Future considerations for regional coordination of the planning, development and operation of water resources in England](#) sets out six principles for co-ordinating water resources to ensure water is available when required. These include providing public value through using resources efficiently, appropriately allocating costs and benefits between groups and over time, and improving the environment and water quality through every lifecycle stage.

Credit Suisse hosted our [investor event](#) in October, which showcased studies of the South Lincolnshire reservoir, Fenland reservoir and transfer and Hampshire water transfer and water recycling solutions.

We published our [annual progress review 2021-22](#) in November noting what we had achieved by reference to the priorities that were set out in our 2021-22 forward programme.

Strengthening collaboration in Wales

We are committed to continuing to implement our regulatory framework in Wales in a way that is relevant to the Welsh context and that accounts for the specific circumstances of Wales.

In the context of our price review for the 2025-30 period, we want to involve Welsh stakeholders from the start in developing long-term strategies. We agreed with the water companies, Hafren Dyfrdwy (HDD) and Dŵr Cymru, Natural Resources Wales, the Welsh Government, the Drinking Water Inspectorate and CCW to implement a [collaborative approach](#) in Wales for PR24. This will be mobilised through the Wales PR24 forum.

We expect the water companies to use research in deciding priorities for Wales. We hope this will help align the high-level customer outcomes to be achieved, and provide transparency in how the companies' business plans are developed.

* HDD provides water services only in this area



3

Goal 3: For water companies to provide greater social and environmental value

Supporting all residential customers to pay their water bills

We updated our [Paying fair guidelines](#) in May. These set principles and minimum service expectations for how companies should be supporting all residential customers in England and Wales to pay their water and wastewater bill, including those in vulnerable circumstances or at risk of falling into debt.

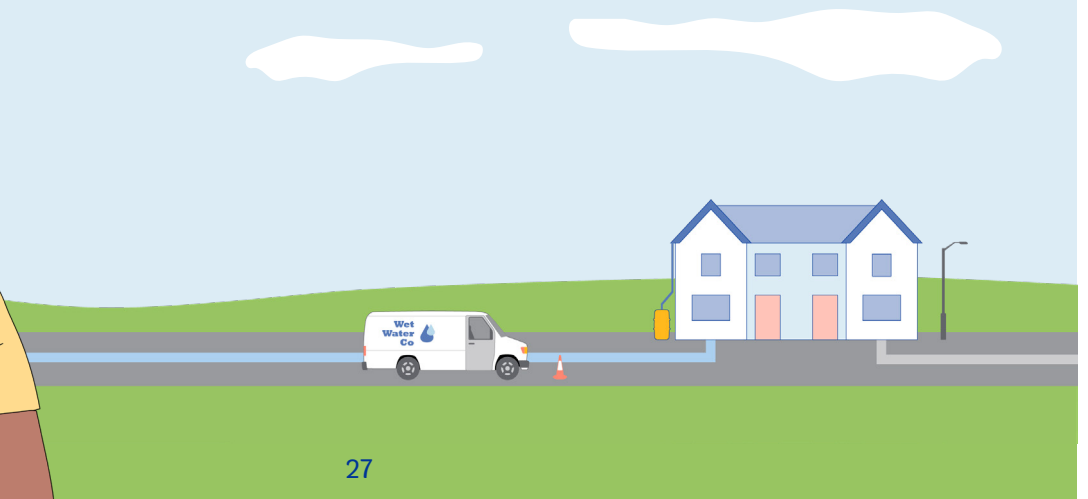
Our [customer research](#) showed that water companies could do more to support customers with mental health issues and design information about their services and bills around customers' needs. The new guidelines include an expectation that companies involve customers in vulnerable circumstances in the design of communications. Companies should also consider extra training for staff to deal sensitively with people with mental health and money issues.

The new guidelines require companies to:

- offer more flexible payment options for customers on irregular incomes and zero hours contracts;
- talk sensitively with customers struggling to pay to understand their circumstances and resolve problems without needing to take debt recovery action;
- use more complaints, research and other customer feedback to make real time improvements to payment, help and debt services; and
- make full use of data to find those customers who are struggling and offer them support.

Sharpening water companies' focus on customers

In 2022 we started work with the sector to develop a [customer-focused licence condition](#) to incentivise high-quality service, as anticipated in our 'Time to act, together' strategy. To support the sector's transformation, licences need to provide a clearer approach for how companies should treat their customers when things go wrong.



Understanding customers better through research

Over 2022-23 we carried out a new programme of [research](#) to better understand household customers' needs, priorities and experiences of water services. We use insights from this research to test our own policies, and guide where and how we hold companies to account. We work closely with CCW to conduct joint pieces of research.

Top findings from our research

Customer preferences

April 2022
(Joint with CCW, Yonder Consulting)

Qualitative research into preferences of water consumers in England and Wales to inform development of common performance commitments for the next price review.



Customer spotlight: People's views and experiences of water

April 2022
(Joint with CCW, Savanta)

Two-thirds of respondents were happy with water services, but only a third would trust their company to fix a problem quickly.

Just over a quarter thought companies acted in the interests of people and the environment.



Cost of living: water customers' experiences

May 2022
(Savanta)

Just over half of bill payers believed they would struggle to pay a utility bill in the coming year, rising to 7 in 10 if the household had children.

A third of those who expected their financial situation to worsen reported feeling depressed.



Customer experiences of sewer flooding

May 2022
(Joint with CCW,
BritainThinks)

People whose homes are flooded with sewage are frequently let down by wastewater companies, leaving them in long-term distress.

Despite providing a good service initially, companies were falling short on communication, resolution and compensation.



Data sharing

July 2022
(Accent)

We encourage data sharing between the water and other sectors to increase the number of customers on priority service registers.

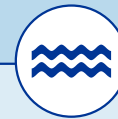
43% said they were comfortable with utility companies sharing personal data if it means they get the service they need.



River water quality

July 2022
(Savanta)

Almost six in ten (59%) wanted their water company to prioritise improving the quality and cleanliness of rivers in England and Wales, even if this led to an increase in the price of their water bills.



Cost of living: water customers' experiences – wave two

December 2022
(Savanta)

More customers were struggling with household bills and two-thirds expected their situation to worsen. Many reported getting deeper into debt. 75% of 18 to 34-year-olds were struggling to pay bills 'sometimes' or more often.

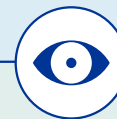
Since wave 1, customers struggling to pay their water bill increased by a third, from 15% to 20%.



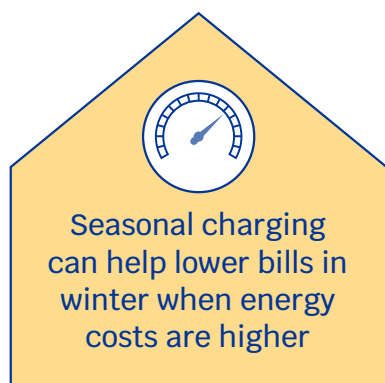
Trust and perceptions: people's views on the water sector

February 2023
(Savanta)

Most of the public trust their water company to provide good quality drinking water and a reliable service. Only a third trust their water company to prevent sewage from entering rivers or seas.



Trialling new household charging structures



While our price reviews set overall revenue controls, the charging framework determines how much different customers pay. Companies set charges to comply with our high-level charging rules, as well as other legal obligations. They also set reduced charges (social tariffs) for customers who have difficulty paying their bill in full, in line with government guidance.

Charges are a potentially powerful tool by which companies can support affordability, as well as sustainability goals such as water efficiency.

Currently, customers' bills are set on a flat standard amount based on their type of property, or on flat rate based on how much water they use. In September we consulted on [charging innovation to support affordability](#), actively encouraging companies to think creatively, conduct charging trials and share learning.

We asked companies to consider ideas like seasonal charging to help lower water bills in the winter when energy costs are higher, or reduced bills for homes with water butts and permeable driveways, which can lower the risk of flooding and pollution. Successful trials could be rolled out to all households in a given area.

Affinity Water will be the first to implement a charging trial under our new rules. Later this year it will charge around 1,500 pre-selected households a cheaper rate for using a lower amount (or 'block') of water, and progressively higher prices for using larger volumes of water. The company expects at least two out of three homes in the trial to pay less for their water than they do currently.

Improving financial resilience

After consultation, in February we [modified water company licences](#) to improve their transparency and consistency, and require companies to:

- stop paying dividends before their financial resilience leads to a downgrade in their credit rating to the lowest investment grade;
- maintain dividend policies and to only pay dividends that take account of service delivery for customers and the environment over time, current and future investment needs and financial resilience over the long term;
- hold two credit ratings from at least two credit rating agencies; and
- notify us about any changes to credit ratings.

These new powers will enable us to stop companies paying dividends if it would risk their financial resilience, and take enforcement action against water companies that do not link dividend payments to performance.

We have been proactive in driving companies with weaker financial resilience, as identified in our Monitoring financial resilience report, to take steps to address this. While we have seen some progress with substantial new equity across the sector in the current regulatory period, more needs to be done by some companies to strengthen their financial resilience. We will maintain our focus on this in the coming year.

Further action on executive pay

We took steps to reinforce our expectations on company remuneration policies and decisions. In December we wrote to all remuneration committee chairs and separately to four companies (Thames Water, Southern Water, South West Water and Portsmouth Water) to raise specific concerns about their approach.

We plan to disallow revenues as part of reconciliation at PR24 (and also at PR29) where decisions on executive pay do not meet our expectations so that customers do not fund executive bonus payments where they have not been sufficiently earned through the company's performance for customers and the environment. We consulted on our approach in March and published our recovery mechanism [guidance](#) in June.

Incentivising water companies to deliver net zero

The UK water sector is responsible for about a fifth of the UK waste sector's greenhouse gas emissions, accounting for about 1% of total UK greenhouse gas emissions.

In January 2022, the Secretary of State for Business, Energy and Industrial Strategy asked us to [review our regulatory framework](#) for compatibility with the UK government's [Net Zero Strategy pathways to 2050](#) and interim carbon budgets, and [report](#) back by summer 2022.

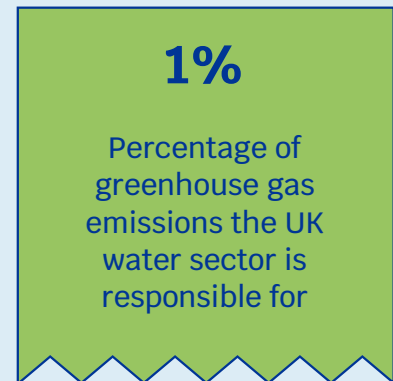
Current and planned water company actions reflect the UK government's Net Zero Strategy pathways. These include:

- actions to decarbonise water and wastewater treatment;
- technological innovations;
- renewable energy generation and usage; and
- considering net zero in developing and delivering strategic water resources solutions.

We expect the industry to identify the right approaches to net zero in innovative ways, and to demonstrate their value through established accreditation standards, initiatives, and frameworks. This approach, embedded in the context of using markets to deliver

for customers and combined with growing clarity on our climate change expectations for water companies, will enable them to respond in ways best tailored to local and regional circumstances.

We are working with the sector to improve greenhouse gas emissions reporting, and support projects that capture carbon emissions from water processing plants through our Innovation Fund. At PR24, we are proposing to incentivise water companies to deliver net zero by introducing a common operational greenhouse gas emissions performance commitment. RAPID has a clear process for ensuring companies actively consider embedded, as well as operational emissions in their solutions.



The outcomes delivered by water companies

Our [forward programme 2022-23](#) sets out four customer outcomes that companies need to deliver against:

- Reliable, resilient, safe and good quality water and wastewater services.
- Value for money for customers, keeping bills affordable.
- Leaving the environment in a better condition for future generations.
- Companies acting in the long-term interests of society and the environment.

Our [Water company performance report](#), published in December 2022, shows that in some areas companies have responded to the challenge we set at the 2019 price review. However, in other areas progress is too slow.

We are taking action to ensure that the poorest performing companies are making the improvements needed. In 2021-22 (the latest data available because of the reporting lag) the sector incurred much larger total net underperformance payments than in the previous year (£60 million compared to £19 million in 2020-21).

There has been good performance in some areas...

Leakage

We are encouraged to see progress towards long-term reduction targets on leakage but there is still a long way to go.



Asset health

All companies met water asset health performance commitments (mains repairs and unplanned outage) in 2021-22. Companies need to ensure that their assets are in a good condition to deliver the best service for customers and the environment. For wastewater networks, the number of sewer collapses has reduced since 2020-21.



...and poorer performance in other areas

Pollution

Levels of pollution incidents in the environment and customers' homes remains too high. In 2021-22 the number of serious pollution incidents increased and treatment works compliance deteriorated. Six enforcement cases into this are ongoing. Only four companies met the performance level to reduce sewage flooding in customers' homes.



Expenditure

Companies spent only 68% of their forecast enhancement cost allowances. Companies should be using enhancement expenditure to deliver improvements, for example in wastewater capacity, to reduce sewage discharges and to improve drought resilience.



Customer satisfaction

In 2021-22, most companies reported a drop in customer satisfaction. We plan to introduce a customer-focused condition in all companies' licences to increase their customer focus and incentivise the very best service for customers.



Per capita consumption

Nearly all companies failed to meet their performance level on reducing demand. The hot, dry summer of 2022 highlighted how precious our water resources are and the need for companies to make real progress in this area.



Cyber security

We were concerned to hear of the ransomware attack on South Staffs Water, and have been monitoring closely how the company has supported customers through this incident.



Addressing poor performance

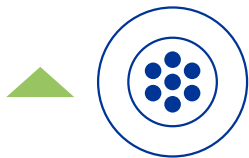
We categorised the performance of six companies as lagging behind. They will now have to develop a clear action plan to address their poor performance, and we will monitor their progress against delivering these improvement plans.



Reliable, resilient, safe and good quality services



In 2021-22 there was a disappointing fall in customer satisfaction, with only one company, South Staffs Water, improving its C-Mex score from the previous year.



In 2021-22 most companies improved their performance on reducing internal sewer flooding, although they failed to meet the target. Overall sector level performance has deteriorated since 2020-21.

▼ **6**

Six companies met the water supply interruptions (caused mainly by large mains bursts) target in 2021-22, down from 10 in 2020-21. Some companies cited power outages caused by the storms of late 2021 and early 2022 as the primary factor contributing to poorer performance.

▲ **5.7%**

The percentage of customers recorded on companies' priority services registers increased from 3.8% to 5.7% and all but three companies are on track to meet their common performance commitment target by the end of 2025. More work is needed to raise customer awareness of these services, and to ensure that companies are providing the support that customers have said they need. We welcome the companies' progress on data sharing (for example with energy companies or local authorities) to identify customers requiring extra support.



Value for money and keeping bills affordable

▲ **£8**

In 2022-23 customers' combined water and sewerage bills increased on average by 2%, or about £8.



In May 2022 our paying fair guidelines set out [requirements](#) for companies to offer more flexible payment options for customers on irregular incomes and zero hours contracts, and to use data to find customers who are struggling and offer them support.



134 l/day

Less water is used in households with a meter compared to ones without – customers with a water meter use 134 litres per person per day. Customers without a water meter use 174 litres per person per day.

In October, jointly with CCW, we wrote to all water companies to ask them to set out their plans for supporting customers through [cost of living](#) pressures. In January we published a [summary](#) of water companies' responses.



Leaving the environment in a better condition for future generations

▲ **14**

14 companies met their leakage target in 2021-22. All companies reported a drop in leakage, but the savings were smaller than planned. We expect companies to improve their understanding of their water balance and ensure their assets can withstand weather shocks. Water companies have committed to halving leakage from the 2017-18 level by 2050.

▼ **2%**

Category 1-3 pollution incidents reduced by 2% in 2021-22, a disappointingly small improvement.



The Environment Agency's [environmental performance assessment](#) for 2021 rated two of the nine wastewater companies as poor (one star), four as requiring improvement (two stars) and three as industry leading (four stars).

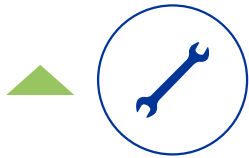
▼ **5.2%**

Sector average annual per capita consumption decreased by 5.2% in 2021-22. This is an improvement on the average increase of 8.8% in 2020-21.

In 2022, out of the 419 bathing waters measured in England, 407 (97.1%) met at least the minimum standard of the Bathing Water Regulations. Bathing waters meeting the highest standard, Excellent, rose to 72.1%.

407

Companies acting in the long-term interests of customers and the environment



All companies met their water asset health (mains repairs and unplanned outage) performance commitment levels in 2021-22.

The current estimated cost of the Thames Tideway Tunnel at completion is £4,384 million in outturn prices. The average household customer bill impact (reflecting RPI as of November 2022) in 2023-24 is estimated to be £25 in outturn prices.

£25

United Utilities progressed the direct procurement for customers (DPC) of the Haweswater Aqueduct Resilience Programme (HARP). The company has applied for planning permission to replace the aqueduct, which runs from the Lake District through Lancashire to Greater Manchester. It supplies drinking water to over two million people.

21 million l/day

Portsmouth Water awarded a £167 million contract to Future Water MJJV Limited to build the first new large-scale water reservoir in more than three decades at Havant Thicket in Hampshire. The two major construction contracts are in place, a significant milestone. The reservoir, a collaboration between Portsmouth Water and Southern Water, will be able to supply up to 21 million litres of water a day once complete.

Financial commentary

Our financial highlights are summarised below.

Operating costs summary

Operating costs 2022-23

	2022-23			2021-22
	Core Regulation	Thames Tideway Project	Total	Total
	£000	£000	£000	£000
Income				
Licence fees received	(31,998)	(400)	(32,398)	(29,483)
Other income	(79)	-	(79)	(80)
Credit note issued at end of year	-	82	82	130
	(32,077)	(318)	(32,395)	(29,433)
Expenditure				
Administration costs	32,250	318	32,568	28,533
Net operating expenditure/(income)	173	-	173	(900)

Core regulation budget

We are funded primarily by fees charged to the companies we regulate. Fees are recovered annually from water undertakers and sewerage undertakers (appointed water companies) and licensed suppliers in the business retail market under licence condition N and Condition 9 of Part A of water supply and/or sewerage licence (WSSL) standard conditions respectively. Our fee income is subject to the constraints set out in these companies' licence conditions. While our revenue funding comes directly from the sector in this way, our budget settlement is subject to discussion and agreement with HM Treasury through the spending review process.

The core regulation operating budget was set at £33m for 2022-23. Against this we underspent by £0.8m. We retained £0.5m of this as a year end audit buffer. This means our net underspend of £0.3m (1% of budget), reflects Ofwat materially utilising its funding.

Following consultation, we set an overall core budget of £40.2m for 2023-24 and set this out in our final Forward Programme in March 2023. Since then, we have had confirmation from HM Treasury that we can increase our budget funded through licence fees by a further £11.3m. The additional funding for Ofwat will be focused on building resources to help drive transformation in company performance, addressing

long term infrastructure delivery, making progress towards the next price review (PR24), as well as delivering a significant boost to the regulator's enforcement capacity. This sets a revised core budget for the year of £51.5m. We are conscious of the importance of demonstrating value for money for Ofwat and are agreeing a range of key performance indicators with HM Treasury to demonstrate the link between costs and outcomes.

Thames Tideway project

The regulation of the Thames Tideway project is funded under a separate licence and is paid for by Thames Water Utilities Limited and Bazalgette Tunnel Limited (Tideway), the infrastructure provider. The budget for 2022-23 was estimated at £0.5m. We invoiced £0.4m of the licence fees at the beginning of the year. Underspend against budget arose because of lower utilisation of third party support than originally expected.

At the end of the year, we returned £0.08m of excess licence fees recovered to Tideway by credit note. The budget for 2023-24 has been confirmed as £0.5m.

Capital expenditure

Capital expenditure is funded by budget cover agreed with HM Treasury, which is recorded in our budget estimates. Our core budget for 2022-23 was agreed at £0.58m. In addition to this we had a capital budget of £2.5m for IFRS 16 (Leases). We underspent against our total capital budget by £0.07m, part of which we held as contingency.

Our core capital budget for 2023-24 has been confirmed as £0.86m. The capital programme for 2023-24 includes upgrading of IT equipment including a hardware refresh, for example of our Surface Pros, and delivery of our data strategy.

Sustainability report

We have adopted an operational control approach to identify which of our activities generate carbon emissions. Our carbon footprint has been calculated using the relevant requirements of the Greenhouse Gas Protocol Corporate standard and details both absolute and normalised (relative) emissions. The breakdown of our carbon footprint can be found in Table 1.

Table 1. Ofwat’s annual GHG emissions by activity type (2022-23)

Type of Emissions	Activity	Units	(tCO ₂ e)	% of total
Indirect Energy (Scope 2)	Purchased Electricity (kWh)	198,269.96	38.34	18.30%
	Subtotal	198,269.96	38.34	18.30%
Other Indirect Emissions (Scope 3)	Business Travel	-	28.64	13.67%
	Flights (miles)	3,256.80	0.87	0.41%
	Rail (passenger miles)	332,853.84	19.01	9.08%
	Taxi (miles)	353.93	0.12	0.06%
	Motor Mileage (miles)	14,539.73	3.99	1.91%
	Car Hire (miles)	-	-	0.00%
	Hotels (nights)	430.00	4.65	2.22%
	Waste and Water	-	0.42	0.20%
	Emissions from Water consumption (m ³)	39.98	0.02	0.01%
	Waste (tonnes)	2.62	0.41	0.19%
	Material Use	0.65	0.60	0.28%
	Paper (tonnes)	0.65	0.60	0.28%
	Electricity WTT, T&D & WTT T&D (kWh)*	198,269.96	13.52	6.45%
	WTT**	-	5.96	2.84%
	Home Working Model	-	122.00	58.24%
Subtotal	-	171.14	81.70%	
Total emissions (tCO₂e)				209.48

*Transmission and distribution (T&D) are those emissions associated with grid losses (the energy loss that occurs in getting the electricity from power plant to the organisations that purchase it).

** Well-to-tank (WTT) emissions are those emissions associated with the upstream processes of extracting, refining, and transporting raw fuel to the vehicles, asset, or process under scrutiny.

Ofwat does not have any Scope 1 emissions, nor do we hold any natural capital or landholdings or any car fleet, hence these are not reported on. No construction or refurbishment projects have been undertaken during the period 2022-2023.

We report our performance against the Greening Government Commitments and have reflected this in this Sustainability Report.

Our carbon emissions for the period 2022-23 were 209.48 tonnes of CO₂e. The largest source of emissions was home working & commuting, which accounted for 122 tonnes of CO₂e, or 58.24% of the total. Electricity consumption comprises 18.3% of the total emissions, or 38.34 tonnes of CO₂e.

Despite the number of FTE’s increasing, the amount of time spent working from home decreased which, when coupled with the decrease in emission factors for the UK grid, resulted in a decrease in home working and commuting emissions.

Business travel has increased post pandemic by 13.67%, which is to be expected. Rail travel accounted for 9.08% of the total footprint – rail travel is the lowest emitting form of public transport utilised by Ofwat.

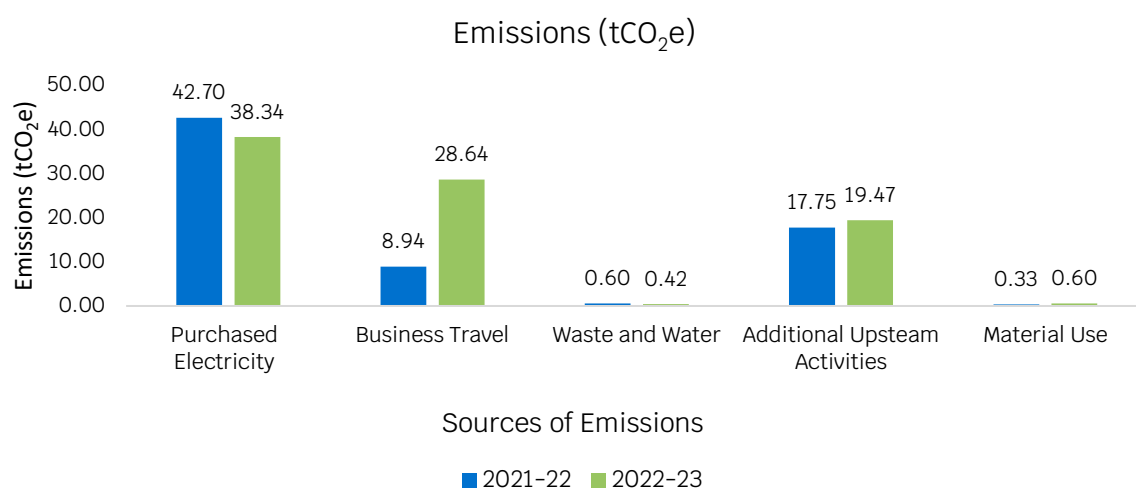
The results reported include both national and international travel with emissions from international travel only being present within the flight data: 0.70 tCO₂e coming from international short haul flights and 0.17 tCO₂e from domestic flights.

Ofwat do not own their own fleet and therefore there are no Scope 1 emissions associated with vehicles. Motor vehicular use only occurred within the business travel category through the use of taxis and employees’ own vehicles (known as Ofwat’s grey fleet). The types of vehicles used is not known, and it is therefore not possible to indicate what percentage are categorised as Ultra-Low Emission Vehicles.

Total emissions have decreased by 31.66 tonnes of CO₂e (-13%) compared to 2021-2022. Figure 1 below compares Ofwat’s greenhouse gas emissions by source (excl. home working model) from 2021-2022 and 2022-2023. The decrease is mainly due to a decrease in electricity use across all sites, as well as a 10% decrease in the emission factor for UK generated electricity. The decrease in emission factor can be attributed to the 'greening of the grid', with more renewable energy being utilised and less fossil fuel generated electricity (coal produced electricity in particular saw a large drop).

Due to increased business travel and the emission factors for well-to-tank and transmission and distribution emissions increasing, Ofwat’s additional upstream activities emissions have increased by 10%.

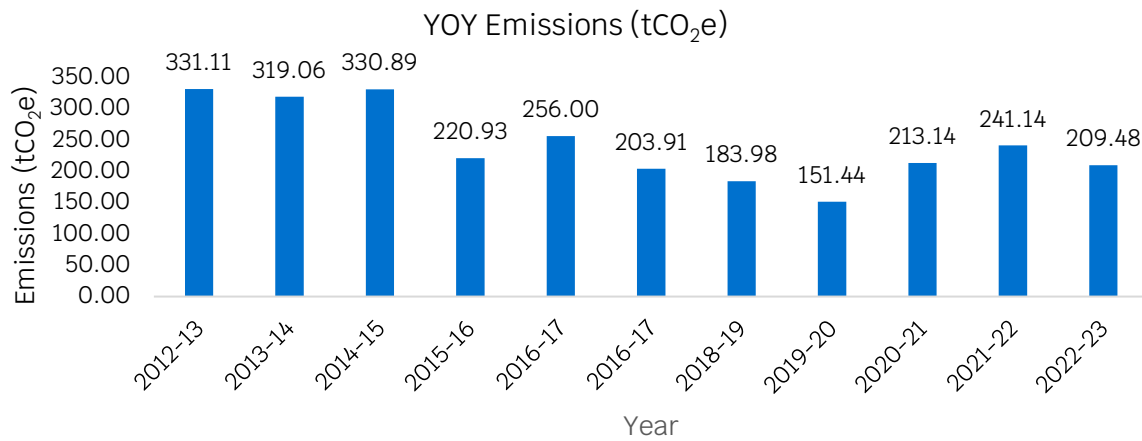
Figure 1. Ofwat’s greenhouse gas emissions by source (excl. home working model)



The increased office use also saw an increase in material use with paper use increasing by 80% since Ofwat started tracking paper use in 2021-2022. Ofwat consumed the equivalent of 259.13 reams of A4 paper in 2022-2023. Figure 2 compares emissions for

the last ten years. It should be noted that homeworking and commuting emissions were only included from 2020-21. A more detailed breakdown by year over the last 10 years is presented in Table 2.

Figure 2. Ofwat’s greenhouse gas emissions (scopes 1,2 and 3)



Ofwat has chosen staff numbers (FTE) against which to benchmark emissions. Ofwat FTE numbers have increased from an annual average of 257 to 262 over the 2021-22 to 2022-23 period. Normalised emissions (tonnes of CO₂e per FTE) have decreased by 14.9%, from 0.94 tCO₂e to 0.80 tCO₂e as seen in Figure 3. This is lower than the 2020-2021 figure of 0.88 tCO₂e, but not as low as the 0.58 tCO₂e from 2019-2020 as seen in Figure 3.

Figure 3. Ofwat’s normalised greenhouse gas emissions (scopes 1,2 and 3)

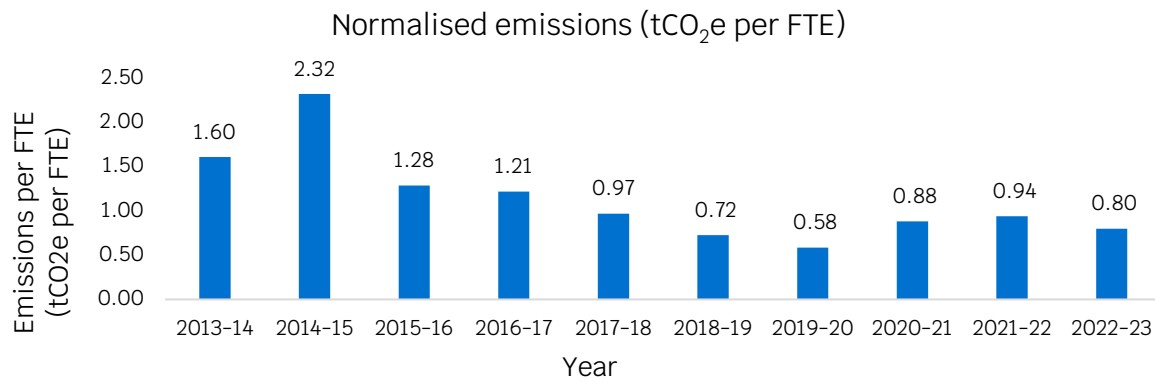


Table 1. A year-on-year comparison of Ofwat’s total emissions

Type of Emissions	Activity	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
		(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)
Indirect Energy (Scope 2)	Purchased Electricity	207.83	187.64	201.00	127.12	125.14	104.28	92.93	81.45	44.54	42.70	38.34
	Subtotal	207.83	187.64	201.00	127.12	125.14	104.28	92.93	81.45	44.54	42.70	38.34
Other Indirect Emissions (Scope 3)	Business Travel (miles)	58.55	71.98	60.49	48.36	79.81	56.33	53.95	38.51	0.76	8.94	28.64
	Flights (miles)	15.55	27.73	8.40	12.08	16.37	0.67	0.85	0.26	-	-	0.87
	Rail (passenger miles)	37.04	37.46	46.84	30.36	57.21	51.24	50.99	37.76	0.27	5.97	19.01
	Taxi (miles)	1.00	1.43	0.74	0.68	0.40	0.31	0.19	0.21	0.02	0.05	0.12
	Motor Mileage (miles)	3.17	4.66	4.23	4.99	5.58	3.92	1.91	0.29	0.48	1.35	3.99
	Car Hire (miles)	1.69	0.66	0.27	0.25	0.25	0.18	-	-	-	-	-
	Hotels										1.57	4.65
	Waste and Water	5.36	3.67	7.96	5.21	5.98	4.05	3.78	4.01	0.10	0.60	0.42
	Emissions from Water consumption (m ³)	0.97	0.96	0.92	0.25	0.15	0.15	0.13	0.14	0.00	0.01	0.02
	Waste (tonnes)	4.39	2.71	7.04	4.96	5.84	3.90	3.65	3.87	0.09	0.59	0.41
	Material Use										0.33	0.60
	Paper (tonnes)										0.33	0.60
	Electricity T&D (kWh)*	32.12	28.81	32.92	20.82	20.49	27.93	22.88	19.24	6.68	15.88	13.52
	WTT**	27.24	26.95	28.53	19.42	24.57	11.32	10.45	8.23	0.22	1.87	5.96
	Home Working Model									160.84	170.82	122.00
	Subtotal	123.27	131.42	129.90	93.81	130.86	99.63	91.06	69.99	168.60	198.44	171.14
Total emissions (tCO ₂ e)		331.11	319.06	330.89	220.93	256.00	203.91	183.98	151.44	213.14	241.14	209.48
Normalised emissions	Average FTE across reporting period		199.00	142.84	172.00	211.00	211.00	254.00	260.00	242.00	257.00	262.00
	Normalised emissions (Tonnes of CO ₂ e per FTE)		1.60	2.32	1.28	1.21	0.97	0.72	0.58	0.88	0.94	0.80

*Transmission and distribution (T&D) are those emissions associated with grid losses (the energy loss that occurs in getting the electricity from power plant to the organisations that purchase it).

** Well-to-tank (WTT) emissions are those emissions associated with the upstream processes of extracting, refining, and transporting raw fuel to the vehicles, asset, or process under scrutiny.

Electricity

Grid decarbonisation does have a key role in the year on year emissions reduction. However, as shown in the tables below, Ofwat's electricity consumption has also decreased when compared to 4 (or more) years ago.

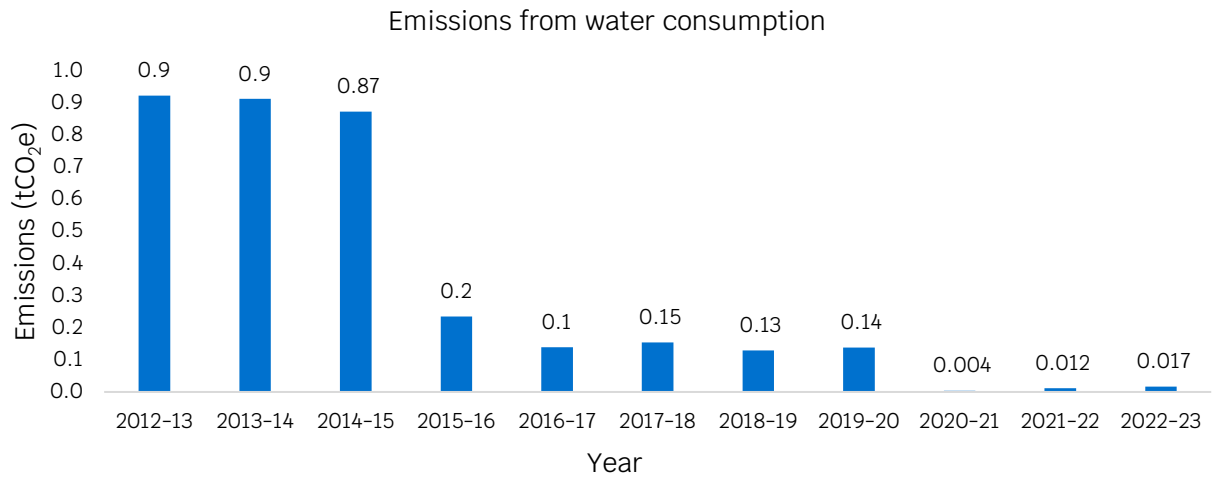
	Electricity tCO ₂ e	Electricity emission factor	Year on year % of change in emission factor (grid decarbonisation impact)
2016-17	125	0.41205	
2017-18	104	0.35156	-17.2%
2018-19	93	0.28307	-24.2%
2019-20	81	0.25560	-10.7%
2020-21	45	0.23314	-9.6%
2021-22	43	0.21233	-9.8%
2022-23	38	0.19338	-8.9%

	Electricity kWh	Year on year % electricity kWh consumption
2016-17	303,708	
2017-18	296,634	-2%
2018-19	328,280	10%
2019-20	318,658	-3%
2020-21	191,051	-67%
2021-22	201,115	5%
2022-23	198,270	-1.4%

Water

Water consumption was 39.98 m³, resulting in 0.017 tonnes of CO₂e in 2022-23, as shown in Figure 4. This is a 45% increase from the previous year, mainly due to 43 (monthly average) staff attending the London and Birmingham offices compared to 25 in 2021-22, but still significantly less than pre-pandemic levels. Water consumption is only used for kitchen facilities. The washroom/toilets are a shared facility with other occupants of the building so fall under the landlord's remit. Water consumption at the London site was estimated based on consumption per FTE in the Birmingham office.

Figure 4. Ofwat’s emissions from water consumption



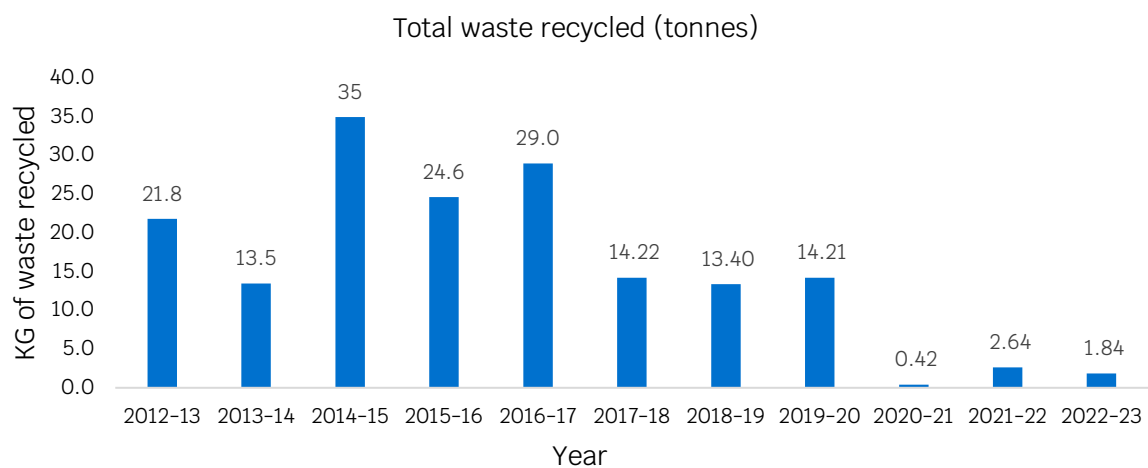
Waste

All general waste is segregated for recycling or landfill disposal. Ofwat is unable to measure the latter as it is disposed via a central collection point in a multi-tenanted building. We have assumed that 70% of total waste is recycled.

1.84 tonnes of waste were recycled in 2023-23, resulting in 0.04 tonnes of CO₂e. Landfill waste has been estimated at 0.8 tonnes, resulting in 0.37 tonnes of CO₂e. Figure 5 shows the year-on-year comparison for recycled waste.

Waste figures at Ofwat’s London site were estimated based on FTEs.

Figure 5. Ofwat’s recycling (kgs)



In 2022-23, Ofwat developed a Net Zero Strategy and an implementation plan for Ofwat, reflecting our commitment to the Greening Government Commitments (GGCs).

The outcomes of the Net Zero Strategy show that Ofwat's position will shift over the next few years, building upon the work carried out in the first few years to deliver on our ambition. In years 1 & 2, we aim to build the foundations of the strategy. Ofwat are currently in Year 1 and are due to start the first calculation of Ofwat's full Scope 3 footprint.

In the meantime, our 2022 Climate Adaptation Report³ discusses the risk to the organisation through climate change that could affect or hamper our ability to carry out our functions, for example through disruption to office facilities or transport that could prevent systems or staff operating effectively; and impact the way we work. We have taken action to ensure we effectively manage the risks from climate change to our day-to-day operations.

In ICT and Digital Services we continue to increase our use of cloud services and whilst this has a lower carbon footprint than running our services internally on onsite infrastructure, we expect our use of these services to increase over the next couple of years as we support our data transformation programme before we can optimise and start to decrease our carbon footprint.

We are also working to the principle that any new contracts are with suppliers who are committed to carbon reduction plans to achieve net zero emissions by 2050 regardless of the size of procurement. As part of our work to establish our net zero strategy we have included the principles set out in the Greening Government: ICT and digital services strategy⁴.

A minimum of 10% of the scoring criteria for all our applicable contracts reflect sustainability themes, and wherever possible we go above this. Our ICT procurement activity is predominantly through the Crown Commercial Services frameworks which align to the Government Buying Standards⁵. During 2023 we will continue to embed sustainable procurement standards into our procurement practices to further embed the Government Buying Standards in all our procurement activity.



David Black
Accounting Officer

18 July 2023

³ [Ofwat's 3rd Climate Change Adaptation Report – Ofwat](#)

⁴ [Greening government: ICT and digital services strategy 2020-2025 – GOV.UK \(www.gov.uk\)](#)

⁵ [Sustainable procurement: the Government Buying Standards \(GBS\) – GOV.UK \(www.gov.uk\)](#)

Part 2

Our accountability
report

Corporate governance report

Directors' report

Roles and responsibilities

Ofwat is a non-Ministerial Government Department with its own resource estimate. Our Chief Executive and Accounting Officer is David Black, and Iain Coucher is our Chair⁶.

Audit arrangements

Our external auditor is the Comptroller and Auditor General (C&AG), who is appointed under statute and is required to audit our financial statements under the Government Resources and Accounts Act 2000 and report to Parliament on this examination. The notional cost of this audit service is £76k (2021-22: £60k). There was no auditor remuneration (actual or notional) for non-audit work. As Accounting Officer, I have taken all steps necessary to make myself aware of any relevant audit information, and to establish that our auditors are aware of that information. As far as I am aware, there is no relevant audit information of which our auditors are unaware.

Our internal audit service independently measures and audits the adequacy, reliability and effectiveness of management, risk management, and financial control systems. This service is provided by RSM UK Group LLP (RSM) who were appointed as of 1 April 2022 through a competitive procurement process. The internal auditors make recommendations based on an appraisal of each system reviewed. The 2022-23 internal audit was performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

Protected personal data-related incidents

We have an information and technology security policy and related procedures in place to manage the risks associated with protected personal data-related and other security incidents. These adhere to the HM Government Security Policy Framework which sets out how all HM Government organisations and third parties handling HM Government information and other assets must apply protective security. We continually monitor the effectiveness of our policies to ensure we have a robust process in place for detecting, reporting, responding to and handling security incidents.

A breach of protected personal data is defined as “any circumstance that has arisen contrary to policy and that has the potential to compromise HMG assets”. Assets include

⁶ Iain Coucher took over as Chair in July 2022.

people, property or information. The circumstance may include actions that are actual or suspected; accidental, deliberate or attempted. 'Compromise' is to bring the asset into disrepute or danger.

We have experienced no personal data incidents during 2022-23 that we considered sufficiently serious as to require the Information Commissioner to be informed, consistent with legislation and ICO guidance.

Supplier payment performance

As at 31 March 2023 we are achieving an average of 90% against our target for paying 100% of agreed invoices within 30 days of receipt. The corresponding full year figure for 2021-22 was 95%.

During the year we implemented a new finance system. There was a slight dip in our payment performance resulting from clearing the backlog of invoices as a result of the system migration and as users were developing their understanding of working with the new system.

Financial instruments

We do not have borrowings; we rely for our cash requirements primarily on licence fee income, claims on HM Treasury reserves for working capital and Contingency Fund repayable advances. We are not, therefore, exposed to significant liquidity risks.

Further details are provided in note 8 in the accounts.



David Black
Accounting Officer

18 July 2023

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed Ofwat to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of and the use of resources by Ofwat during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofwat and of its income and expenditure, Statement of Financial Position and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards (as set out in the Government Financial Reporting Manual) have been followed, and disclose and explain any material departures in the accounts;
- take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable; and
- prepare the accounts on a going concern basis.

The Accounting Officer confirms that this annual report and accounts as a whole is fair, balanced and understandable. The Accounting Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed David Black, Chief Executive, as Accounting Officer of Ofwat. 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 HM Treasury.

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

Accountability Report

Governance Statement – Summary

This Governance Statement sets out our governance, risk management and internal control arrangements. It applies to the financial year 1 April 2022 to 31 March 2023 and, where appropriate, up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

Governance framework

Ofwat adheres to the principles of the [Corporate Governance in central government departments: code of good practice](#).⁷

The governance statement sets out:

- a summary of the key elements of our governance framework;
- a review of our effectiveness in 2022-23; and
- the Accounting Officer's statement.

Effectiveness and assurance

As Accounting Officer, I, along with Ofwat's Board, am responsible for reviewing the effectiveness of our performance management and internal control system, informed by both internal and external audit and the operation of the internal control framework. The Board and Audit and Risk Assurance Committee (ARAC) have provided support and challenge in keeping the effectiveness of our system of internal controls under review throughout the year. The Non-Executive Directors also provide me with an independent view of our performance at Board and in their roles on Ofwat's Board committees.

I have full assurance on the maintenance of a comprehensive system of assurance and controls to support me as Accounting Officer to ensure compliance with the principles in Managing Public Money and in particular those in relation to governance, decision-making and financial management. In addition to the usual checks undertaken during the year, I have received assurance that we comply with the mandatory requirements under the relevant Government Functional standards. On the basis of the evidence received from the Executive Directors, the Non-Executive Chair of the Board and the Non-Executive Director Chairs of the Committees, particularly ARAC, I am satisfied that I have the necessary level of assurance to discharge my responsibilities effectively with

⁷ <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

respect to the period covered by this Governance Statement. Full records are available as set out below.

Ofwat's strategy, aligned with the UK and Welsh governments' strategic policy and objectives statements, provides the basis for our annual priorities, which are set out in the forward programme each year following consultation. This drives our work and, ultimately, each of our people's objectives. Directors, project delivery managers and People Leaders regularly review progress against our plans. The Senior Leadership Team and Board review progress across our portfolio each quarter and adjustments are made where appropriate to reflect changes in the internal and external environments, consistent with our duties. Our internal audit process reviews our controls across our activity throughout the year, to provide assurance that those controls and the assurance we receive from them are effective throughout Ofwat. Our internal auditors, RSM, provided an assurance report at the end of the year on the basis of the internal audit programme agreed with ARAC. Progress against this programme was monitored by ARAC and internal audit assurance reports were shared with the Committee both at formal meetings and outside meetings if the timing did not align and to ensure prompt communication.

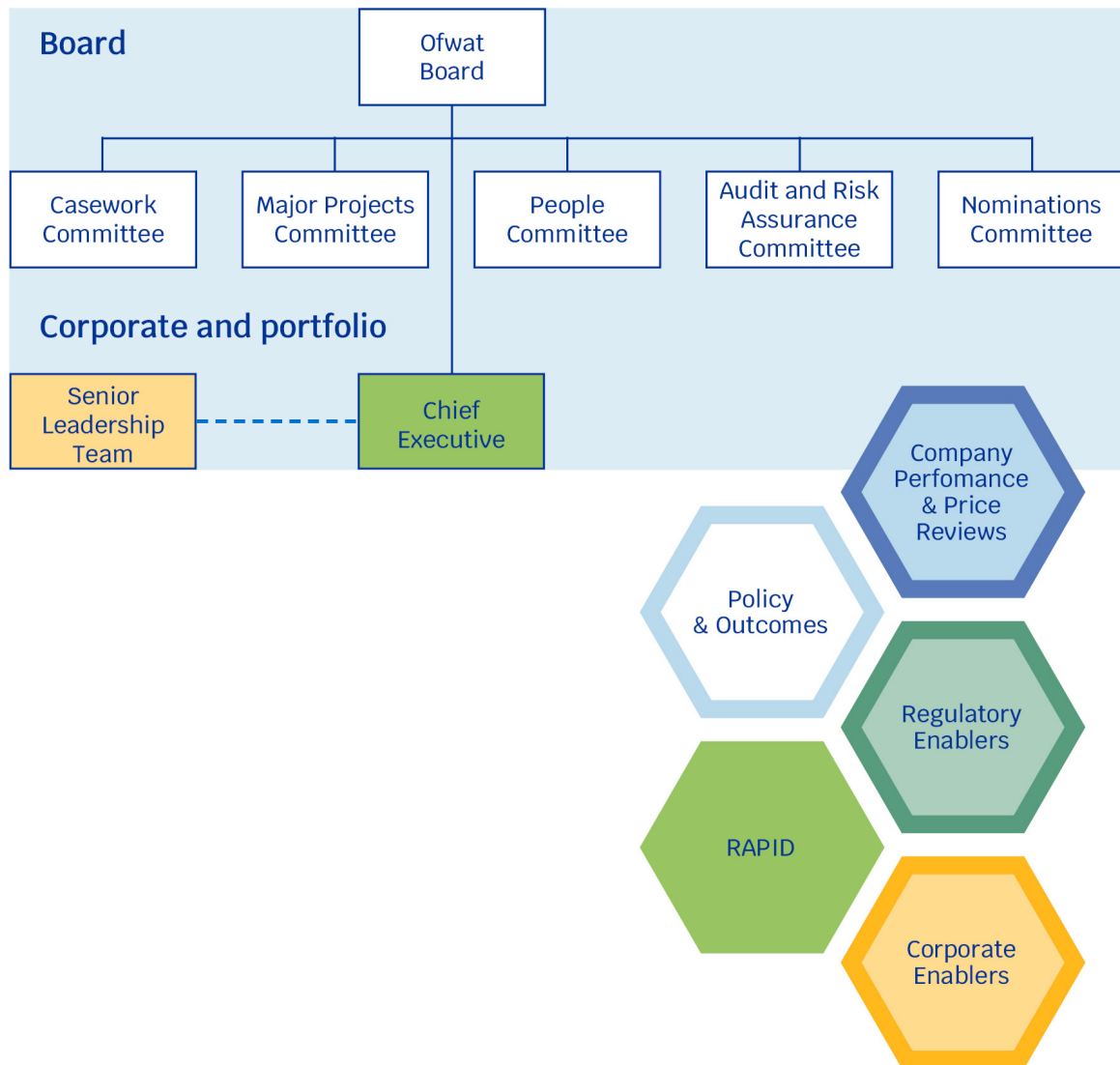
In terms of our risks and opportunities environment, this is monitored closely through regular reviews of our strategic risk register by the Senior Leadership Team and through active management of risk registers in project teams, and action required is taken accordingly. The strategic risks are incorporated into our quarterly portfolio reports to the Board as well as submitted for discussion to ARAC. Security (including information risks) and cyber risks are escalated where necessary by the Senior Information Risk Owner (SIRO) and the Data Protection Officer. Throughout the year ARAC gained assurance on security (including information risks) and cyber risks. We took steps to confirm our risk environment and compliance with relevant sanctions legislation and to work with those we regulate to ensure they have appropriate governance and controls in place.

In addition, ARAC receives deep dive risk review presentations on key risk areas from the accountable team, covering strategic and project risks. In addition to its regular oversight of effective risk management and assurance, the reviews by ARAC this year have included: scenario planning, the PR24 Delivery Partner procurement, the management of our public records obligations, and whistleblowing.

Our resource requirements are assessed regularly in the context of our rolling operational plan. In terms of general financial and corporate governance, progress against our budget and forward programme is monitored on an ongoing basis. We undertake a thorough monthly review of budgets and progress against the milestones we have set. This is also reflected in the quarterly portfolio report to the Board. This has helped to further mitigate risks associated with workloads and the challenge of balancing these with the resources available to us, ensuring that our people's wellbeing during this year remained at the heart of our delivery.

Ofwat’s governance framework during 2022-23

During the year Ofwat was organised into a series of Clusters and teams, focused on outcomes, collaboration and agility across closely interconnected areas of work. The cluster structure is set out below. The teams within clusters were supported by Project and Programme Management (PPM) partners to ensure management and delivery of the portfolio of work both within the Clusters and across Ofwat as a whole.



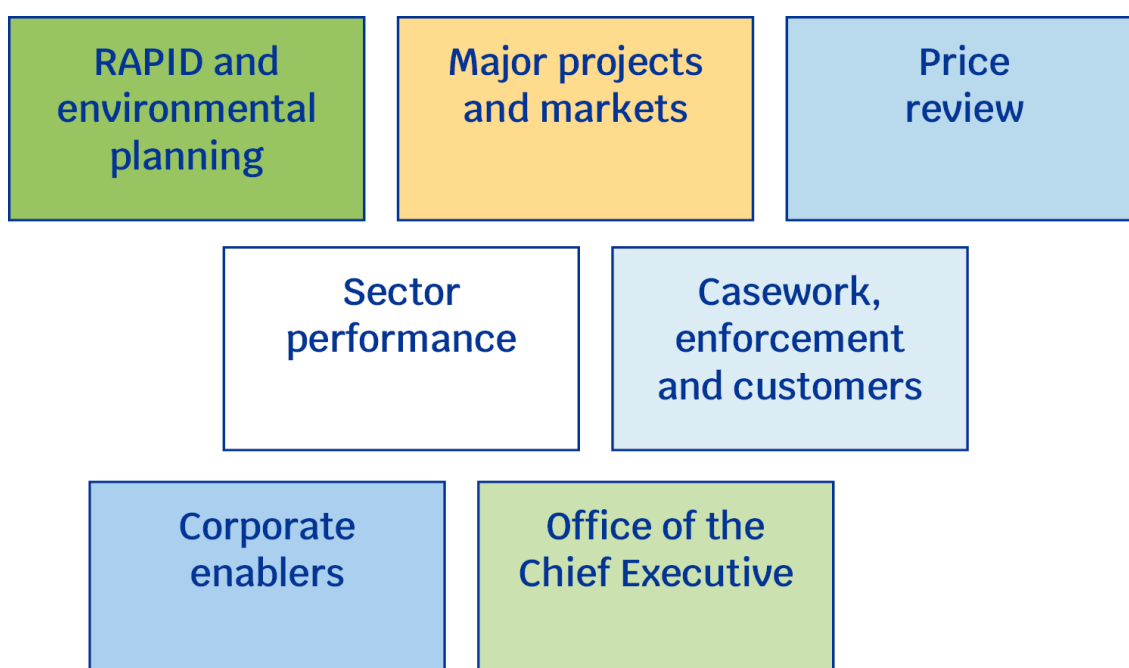
The two core policy Clusters were Company Performance & Price Reviews and Policy & Outcomes. Company Performance & Price Reviews embraced our work on the price review for 2025-30, company performance and insights, as well as implementation of our data strategy and the investor liaison function. The Policy & Outcomes Cluster embraced our work on the environment, customer service and engagement, financial resilience, board leadership and governance, innovation, markets and charging, government engagement, and our Ofwat-led work on strategic resources (Direct

Procurement for Customers and Tideway). The Regulators' Alliance for Progressing Infrastructure Development (RAPID) team has interfaces with both these Clusters in policy terms.

Our Regulatory Enablers functions encompassed licensing, enforcement and customer enquiries and complaints, legal and governance, communications and customer research, and the Chief Economists' team. Our Corporate Enablers functions covered People, IT/Digital, Facilities/Business Support, and Finance and Procurement.

With effect from 1 May 2023, we have moved to a new Directorate structure with the following Directorates.

Directorates



The focus of each of these Directorates is as follows:

Price reviews – delivery of our price review 2025-30, PR19 implementation, and looking ahead to future periods; investor relations and the environment policy.

Sector Performance – strengthening oversight of company performance, bringing together the insight and impact team, data strategy, financial resilience, and operational resilience teams, as well as our strategy, government relations, and company governance teams.

Casework, Enforcement and Customers – enforcement, casework and licensing, and customer policy.

Major Projects and Markets – development of future assets and resources (DPC (Direct Procurement for Customers) and Tideway), business retail policy, new appointments and variations (NAV) policy and charging. This Directorate works closely with RAPID as projects are approved and handed over from RAPID.

RAPID & Environmental Planning – in addition to continuing the work of the RAPID alliance in sponsoring the development of new large scale strategic supply options, this directorate will be the centre of our early engagement on both water resources and wastewater planning.

Office of the Chief Executive – legal, communications and customer research, governance and portfolio management, information governance, the Executive office and PAs, and the chief economist's team.

Corporate Enablers – People Hub, Finance, Procurement and IT/facilities and workplace management.

Our governance structure

Ofwat has a three layered system of governance:

- our Board and Board committees;
- our Senior Leadership Team; and
- our governance framework.

This framework enables us to undertake effective and transparent decision-making and enables appropriate challenge and assurance by our Non-Executives.

Ofwat Board

As a non-Ministerial Government Department, and independent economic regulator, the role of the Board is critical to our success. The Board, comprising a mix of Executive and Non-Executive Directors, helps to guide us strategically and provide challenge and advice to the Chief Executive and the Executive team on their development and implementation of Ofwat's strategy and our business plan, and performance against that plan.

Ofwat's Board has a majority of independent Non-Executives with a Non-Executive Chair. In the course of 2022-23, the Board comprised six Non-Executive Directors in addition to the Chair and four Executive Directors, including the Chief Executive.

Ofwat's Non-Executive Director appointments have no entitlement to performance-related pay or pension entitlements.

Experience, skills and training

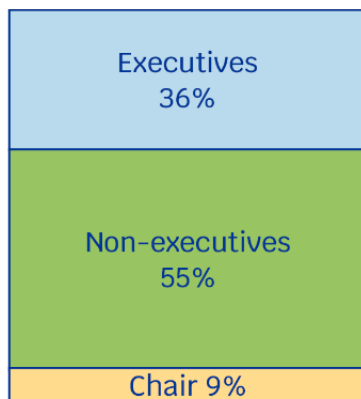
The Board’s membership provides the necessary balance of experience and expertise, covering our functions, duties and strategy. The Board continued to have dedicated teach-ins on a number of areas of Ofwat's work and members of the Board also attended a number of company site visits.

Board diversity

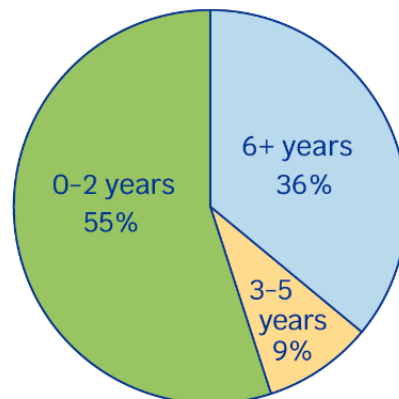
We set out below data on Board diversity reflecting Board composition at the end of the financial year.

To strengthen the knowledge and skills mix of committee membership, we have an independent member on our Audit and Risk Assurance Committee. In addition, as part of the UKRN Next Generation NEDs initiative, which seeks to promote greater diversity in appointments as Non-Executive Directors over the long-term, we had an observer on this Committee who joined for a year from December 2021 to December 2022. We are continuing with this programme in 2022-23, including with our People Committee. In addition, we are participating in the UK Boardroom apprentice scheme and our first boardroom apprentice joined in January 2023.

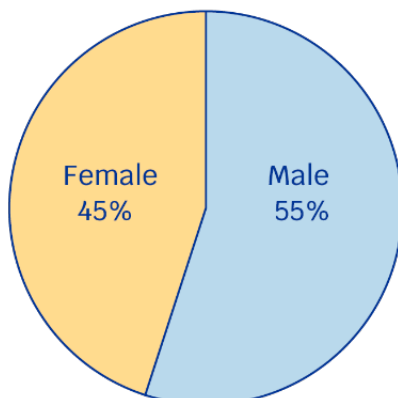
Board composition



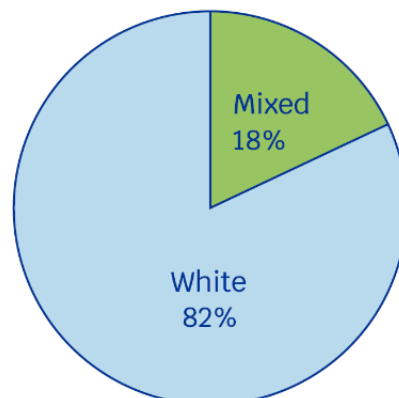
Board length of service



Board – gender breakdown



Board – ethnicity breakdown



The Board provides:

- **Challenge:** the Board has a range of roles in providing challenge to the Executive in addition to its own decision-making role. This includes reviewing and challenging our forward programme of work and performance against that programme, and providing challenge to proposed decisions Ofwat makes as a statutory body.
- **Expertise:** providing wider public and private sector expertise to help shape the development and delivery of Ofwat's strategy and to improve our performance.
- **Strategy:** agreeing our strategy and ensuring our strategic direction is clear and deliverable, taking into account risk and focusing on the long-term success of Ofwat and value for those who pay water bills.
- **Support:** reviewing the comprehensiveness and reliability of assurances on the accuracy of the financial statements, setting Ofwat's risk appetite and ensuring that risk management and control processes across Ofwat are robust, appropriate and proportionate, supporting the Chief Executive as Accounting Officer. The Board also approves material expenditure.

The Board does not have a role in day-to-day operational decision-making other than on matters reserved for the Board as set out in our Board Rules of Procedure. The General Counsel attends Board meetings and is accountable to the Board for providing legal advice.

The Board met formally 11 times in 2022-23 in a mix of fully virtual and hybrid formats. Minutes of the Board's meetings are published on the Ofwat website. At each meeting (and during August when the Board does not meet), the Board receives an update from the Chief Executive covering: developments in implementation of our strategy; project oversight; operational (finance, people, IT and procurement) and governance matters; ways of working; and communications. This report highlights material developments and any key risks to delivery.

Throughout the year, the Board considered the full range of issues relevant to Ofwat's strategy, including the development of our PR24 methodology, company performance (both generally and addressing particular company issues), companies' environmental performance and new initiatives to better protect the environment, strategic water resource options and regional planning, the development of companies' drainage and wastewater management plans, innovation and open data, consumer policy particularly in relation to vulnerable customers, our approach to, and interventions on financial resilience and performance related executive pay, and developments in the business retail market. The Board monitored progress in delivery of our strategy and considered how it needed to develop in light of current challenges and, in terms of our internal enabling activities, considered progress in delivering our financial transformation plan and IT strategy. We also invited to our Board a number of external guests to cement closer working relationships or simply to bring the "outside in" to our Board and to learn from others' experience:

- the Chair and CEO of the Environment Agency, and later in the year, the Chief Inspector of the Drinking Water Inspectorate to discuss the central challenges facing the sector and our shared vision for addressing them and how we could work more closely together
- the Chair of the Open Data Institute to discuss how to drive change in the application of open data in the water sector
- the Chief Executive and Director of Customer Services, UK Power Networks to discuss how they had transformed customer service
- Savanta, to discuss the key findings from the research commissioned by Ofwat into customers' perceptions of the water sector and levels of trust in the sector and companies to deliver a variety of services in England and Wales.

Graphs provide a snapshot as at 31 March 2023.

Register of interests

The Board Rules of Procedure include requirements and guidance on the disclosure and management of actual or potential conflicts of interest that Board members may have. They provide that the Board member in question is not entitled to vote on any decision in relation to any matter that gives rise to a conflict and each Board meeting begins with the disclosure of any conflicts of interest that may be relevant to matters on the agenda, which are then noted in the minutes. We also maintain a register of interests in line with the Code of Conduct for Board Members of Public Bodies. The register of Board members' disclosable interests is published alongside the Rules of Procedure and updated regularly throughout the year.

To maintain public trust in Ofwat, the Rules of Procedure also contain requirements in relation to appointments on leaving office to manage potential conflicts. All external appointments are subject to scrutiny in line with the business appointment rules.

Board committees

Work is delegated or assigned to five Board committees, where smaller groups of Non-Executives and members of the Senior Leadership Team can examine issues in more detail. Reports are provided to the Board for discussion and, where appropriate, for decisions to be made. Each committee is chaired by a Non-Executive Director. The Board's supporting committees are:

- Audit and Risk Assurance Committee
- People Committee
- Casework Committee
- Major Projects Committee
- Nominations Committee

Committee	Roles and responsibilities	Issues considered
<p>Audit and Risk Assurance Committee Chair: Alison Munro</p>	<p>The purpose of the Audit and Risk Assurance Committee (ARAC) is to support the Board and the Accounting Officer in their responsibilities for managing issues of risk, control, governance and associated assurance. It reviews the sources of assurance in place to meet the Board's and Accounting Officer's needs, considering whether they are sufficiently comprehensive and complete, reviewing their reliability and integrity, and providing an opinion (with respect to governance, risk management and internal controls) on how well the Board and Accounting Officer are supported in decision-making and discharging their accountability obligations. The Committee acts only in an advisory capacity to the Board and has no executive powers.</p>	<p>During the period of this report, the Committee met seven times. In May 2022, the Committee submitted its recommendation to the Board to approve the annual accounts and it considered the approach to the 2022-23 annual accounts and draft governance and performance reports in December 2022 and March 2023 respectively. Other matters discussed by the Committee in 2022-23 included:</p> <ul style="list-style-type: none"> • deep dive reviews focusing on key strategic risks and assurance, and cluster risks (including scenario planning and our and the sector's approach to whistleblowing); • IT Strategy and refreshed Roadmap for 2022-2024, alongside a review of the IT Operating Model; • PR24 Delivery Partner planning, structure and assurance; • An update from our shared security advisor under the Government Security Cluster Group; • management of our public records obligations; • progress in implementation of Ofwat's Data Strategy and an update on implementation of the Finance transformation project; • an update on business continuity arrangements; • the results of a number of internal audit reports alongside a regular review of progress against the annual internal audit plan; and • regular reviews of our progress in implementing actions arising from internal and external audit and other reviews. <p>All of the scheduled internal audit reviews were completed, as agreed by the Committee, with findings providing either substantial, moderate or adequate assurance (the latter reflecting that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control). Matters reviewed included:</p> <ul style="list-style-type: none"> • Key Financial Controls – Financial Systems; • Cyber Security Controls; • Payroll framework; • Business Performance Reporting Framework; and • A follow-up Review to test implementation of agreed actions. <p>Overall for the 2022-23 financial year, RSM's internal audit opinion is that Ofwat has an adequate and effective framework for risk management, governance and internal control. However, their work has identified further enhancements to our framework to ensure that it remains adequate and effective, for example with respect to our payroll framework. We have agreed actions to address all the findings associated with our internal audit reports and their delivery is being monitored.</p>
<p>People Committee Chair: Seema Kennedy</p>	<p>The role of the People Committee is to oversee the implementation of the People Strategy and to specifically address pay and conditions of employment of Senior Civil Service (SCS) employees.</p>	<p>The Committee met [3] times during the year. Matters discussed during 2022-23 included:</p> <ul style="list-style-type: none"> • the results of the Ofwat employee survey, including the accompanying action plan; • the results of the Health & Wellbeing survey and reviewing Ofwat's wellbeing programme; • Reviewing attrition and retention at Ofwat; • An assessment of Ofwat's progress in delivering on the outputs from its People strategy, including prioritising future areas of delivery; • progress in delivering our EDI strategy; • management information relating to staff-related issues and trends; • assessment of the implementation and impact of hybrid working; and • pay and reward for non-SCS staff and the SCS pay remit.

Casework Committee Chair: Nicola Bruce	The Casework Committee is responsible for making certain final decisions in strategic enforcement cases Ofwat pursues.	During the period the Committee met six times to discuss Ofwat's approach to enforcement and our open enforcement cases as part of reading into the underlying issues prior to being asked to make final decisions on these strategic cases.
Major Projects Committee Chair: Jonson Cox (till 30/6/22) Iain Coucher (from 1/7/22)	The purpose of the Committee is to make certain relevant decisions and to provide challenge, support and advice to the Executive with respect to the Thames Tideway Tunnel project and Direct Procurement for Customers projects, as well as certain decisions with respect to the Havant Thicket project (with effect from August 2022).	During the year the Committee met seven times where they received updates on the Thames Tideway Tunnel (TTT) Project and DPC (Direct Procurement for Customers) projects including United Utilities Haweswater Aqueduct Resilience Programme (HARP), Anglian Water's Middlegate project and Dwr Cymru Welsh Water's Cwm Taf project. The Committee also received updates on Portsmouth Water's Havant Thicket Winter Storage Reservoir (Havant Thicket) project. Decisions that were made included: <ul style="list-style-type: none"> • Approval of a commercial settlement agreement between Bazalgette Tunnel Limited (Tideway) and one of its Main Works Contractors; • Amending Tideway's licence to change the Planned System Acceptance Date from 28 February 2027 to 31st August 2027; • Designation of Cwm Taf as a DPC project; and • Final decision on the Havant Thicket cost adjustment mechanism.
Nominations Committee Chair: Iain Coucher ⁸	The Committee's role is to review, and make recommendations on, the structure, size, and composition of the Board; be engaged in succession planning for the Board members, the Senior Leadership Team and other senior roles; and be engaged in the appointment of any member of the Senior Leadership Team.	During 2021-22, the Committee met twice in relation to the appointment of Executive Directors for PR24, and the new Sector Performance, Major Projects and Markets, and Casework, Enforcement and Customers Directorates.

Board members' terms of appointment and attendance

The Chair and Non-Executive Directors have played a full part in Board business by attending and contributing to Board and Board committee meetings.

April 2022 to March 2023^Ω

Board member		Board Meetings (11)#	Audit and Risk Assurance Committee Meetings (7)	People Committee Meetings (3)	Casework Committee Meetings (6)	Nominations Committee Meetings (2)	Major Projects Committee Meetings (7)
Iain Coucher Chair		9/9*	-	2/2	-	2/2	6/6
Term started 01/07/2022	Term ends 30/06/2026						
Jonson Cox Chair		3/3	-	1/1	-	0/0	2/2
Term started 01/11/2012	Term ended 30/06/2022						
Mark Bayley Non-Executive Director		9/11	7/7	-	1/1**	-	6/7
Term started	Term ends						

⁸ Other than when dealing with matters relating to the Board chair.

28/04/2016	31/10/2025						
Alison Munro Non-Executive Director		11/11	7/7	-	-	2/2	6/7
Term started 28/04/2016	Term ends 31/10/2025						
Nicola Bruce Non-Executive Director		11/11	-	-	6/6	-	-
Term started 01/12/2020	Term ends 30/11/2025						
David Jones Non-Executive Director		11/11	7/7	-	5/6	-	-
Term started 01/12/2020	Term ends 30/11/2024						
Seema Kennedy Non-Executive Director		11/11	-	3/3	-	2/2	-
Term started 01/12/2020	Term ends 30/11/2024						
Jonathan Kini Non-Executive Director		11/11	-	3/3	-	-	6/7
Term started 01/12/2020	Term ends 30/11/2023						
David Black Ω Ω Chief Executive		11/11	7/7	3/3	6/6	2/2	7/7
Term started 28/05/2022	Term ends 27/05/2027						
Aileen Armstrong Senior Director		11/11	-	-	-	-	-
Term started 16/05/2016	Term ended 16/06/2023						
John Russell Senior Director		10/11	-	-	-	-	5/7
Term started 25/07/2016	Term ends 30/06/2023						
Lisa Commene Senior Director		11/11	7/7	3/3	5/6	-	-
Term started 01/04/2021	Term ends 31/03/2026						

Vanessa Howlison Independent Member of the Audit and Risk Assurance Committeeβ							
Term started 01/01/2015	Term ends 30/06/2023	1/1	6/7	-	-	-	-

Ω Attendance is noted by reference to the number of meetings Board members could have attended while members of the Board and Committees.

Ω Ω David was appointed Chief Executive on 20 April 2022, having served as Interim Chief Executive since April 2021

β Vanessa Howlison attended part of the July Board meeting as an observer.

* Iain Coucher attended the May Board meeting as an observer.

** Mark Bayley attended the December Casework Committee teach-in meeting as an observer.

The Board also had two informal Board calls in August and September 2022 to consider the sector's performance during the drought.

Board effectiveness

The Board regularly reviews its own effectiveness as part of the management of each meeting and through other regular meetings, including 1:1s with the Chair. The Board takes the opportunity to meet more informally throughout the year to enhance its cohesion as a team.

In considering its role during the year, the Board recognised that Ofwat was going through a number of changes during the financial year and had to ensure it was fully equipped for Ofwat to play its part in meeting the challenges faced by the sector. This is likely to include more active oversight and even greater collaboration and partnership with wider key stakeholders, governments and other regulators. A focus for the coming year is ensuring effective decision-making for PR24 and how best to utilise the skills of the Board via its Committee structure and on an informal basis.

We intend to undertake an external board effectiveness review in Q2/Q3 2023-24.

Senior Leadership Team

The Senior Leadership Team (SLT) comprises the executive members of the Board, other Senior Directors, and the General Counsel. The SLT meets frequently and considers matters relating to Ofwat's management, portfolio of activity and resources, subject to the overall direction, reserved powers and oversight of the Board. It does not generally act as a decision-making forum, but provides guidance or steer to relevant decision-makers, including the Chief Executive. The Managing Director, RAPID, also attended, at the invitation of the Chief Executive, acting in an observer capacity to the extent decisions were sought.

Its focus is strategic across Ofwat's portfolio, including horizon scanning and the scrutiny of strategic risks and opportunities. It also focusses on our relationships and on ensuring that we have the right people, systems, processes and internal policies to support the delivery of our strategy. It plays a key leadership role, particularly in terms of overseeing and exemplifying our values, behaviours and culture. Progress against our portfolio is fed back to each Board meeting through the Chief Executive's report.

We have four smaller groups comprising SLT members and other senior colleagues to focus on the following key areas:

- Business improvement and planning
- People
- Data strategy
- Stakeholder engagement

Ways of working to deliver our strategy

During the last year we have continued to deliver on the three key enabling strategies – People, IT and Finance – to enable our internal transformation to support delivery of our [Time to Act, together](#) strategy.

Our People Strategy focuses on five key themes in order to achieve our vision to transform Ofwat from a great place to work to being a great place to be:

- Being Leaders: Leadership;
- Being our Best: Talent Management & Development;
- Being Well: Health & Wellbeing;
- Being Ourselves: Equality, Diversity & Inclusion;
- Great Work: Being Effective & Fulfilled.

We have continued to focus on leadership and the development of our leaders across Ofwat and better defining our professions and career pathways. Our work on Equality, Diversity and Inclusion is set out in Appendix 9.

We have continued to prioritise the outcomes in our strategy to respond to the changing internal and external landscape. We have made significant progress in transforming our resourcing approach, responding to the 'great resignation', and continuing to fill vacancies in an ever competitive recruitment market alongside supporting people with the cost-of-living crisis. At the same time, we have continued to deliver on our People Strategy, focussing on leadership, diversity and inclusion, and embedding our ways of working.

This is the fourth time we have used the Civil Service People Survey to find out how people feel about working at Ofwat. Our response rate remains strong at **81%** (207 people responded). Generally, the results are positive given the background of challenges we have been facing over the last 12 months.

There is a downward trend in the results across the wider Civil Service (CS), however Ofwat is still outperforming the CS average across 9 of the 10 core themes and has sustained performance in many areas.

- Our PERMA Index score remains at 74% which measures how people are flourishing at work and is based around the five dimensions: positive emotion, engagement, relationships, meaning and accomplishment. Higher PERMA Index scores represent higher levels of flourishing and engagement at an individual or team level.
- Our Proxy Stress Index score is 24% where a score of 100% indicates operating in a highly stressful environment and a score of 0% the opposite.
- We achieved an 85% score for Inclusion and Fair Treatment which is still 4% above the CS average.
- When working from home, respondents have reported that colleagues are good at keeping in touch formally/informally, an increase of 15%.
- People have clear work objectives, an increase of 6%.

- People are comfortable speaking to more senior colleagues about their actions and impact, an increase of 9%.
- People are still interested in their work, maintaining a score of 83%, and we have seen a small increase in the My Team Score, achieving a score of 89%.

We have identified areas of focus and have plans in place as part of the People Strategy to improve our engagement score (although this still exceeds the CS average), continuing with our pay and reward project, promoting our learning and development offer to our people and improving our approach to managing change.

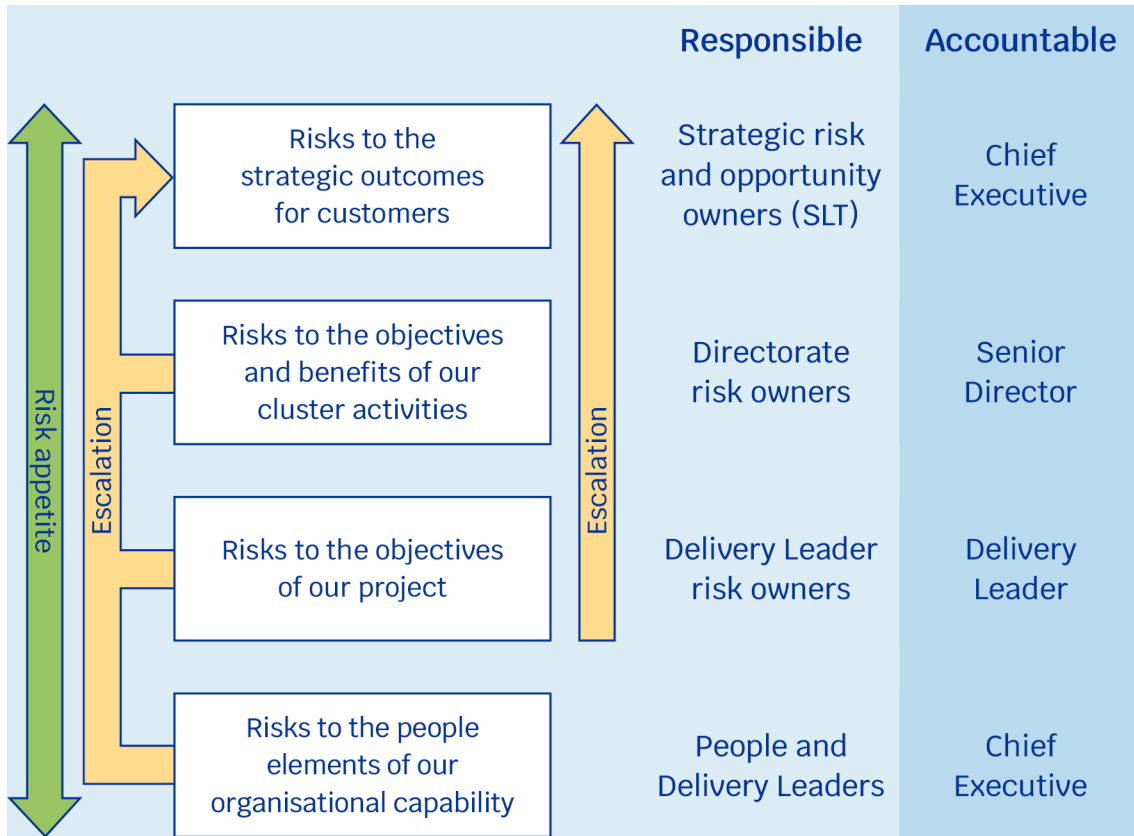
In IT, we have refreshed our IT strategy focusing on four updated themes: Resilient Infrastructure, Secure Ofwat, Digital Workplace and Digital Projects and Services. The IT roadmap has been implemented at pace, adapting to the need to further develop our remote working tools and maintain business continuity. We have migrated services to the cloud and provided support to the IT aspects of our data strategy to improve our efficiency, effectiveness and regulatory outcomes. We have further developed links with the Transforming Government Security Cluster for cyber security knowledge sharing.

Continuous Improvement (CI) is a key enabler to help us plan for and reach our goals by introducing live tools and techniques to help colleagues implement all kinds of improvements in their roles. Training Modules follow the CI Pillars of **Value** in the work we do, **Operating Rhythm** – scheduling and prioritising, **Opportunities** and problem solving and then **Sustainability** for lasting change. Our CI programme has enabled Ofwat to become a Lean Accredited training provider endorsed through Cardiff University, where 33 colleagues are now Level 1 qualified, with a further two trainers at Level 2. We have established an improvement framework agreement with 6 teams of external experts working with Ofwat to complete 20 separate step-change projects last year, changing processes and transforming how we work.

Risk management

Our risk management framework is designed to meet the standards in HM Treasury's Orange Book. Our Senior Leadership Team oversees our response to the strategic challenges faced by Ofwat as a whole. A member of the SLT acts as an owner for each risk, and responsibility is assigned for each of the mitigating actions. In addition, individual risks within our projects, teams and Clusters are escalated from delivery directors to the SLT and reflected in the strategic risk register as appropriate.

Ofwat’s risk framework



Our approach is supported by an assurance framework, which underpins the monitoring and management of risk, shown below using the three lines of defence model.

	Board		
	Senior Leadership Team		ARAC
	Managers First line of defence	Risk management (governance team and ARAC) Second line of defence	Internal Audit Third Line of Defence
Key activities	<ul style="list-style-type: none"> Identifying, rating, managing, monitoring and reporting risks Managing compliance obligations and key controls and reporting breaches Managing compliance staff in high-risk areas (finance, legal etc) 	<ul style="list-style-type: none"> Design risk and compliance control frameworks Monitor adherence to framework Provide advice and guidance Assess quality of processes and control environment Training and awareness of relevant people 	<ul style="list-style-type: none"> Review framework design and implementation Provide independent oversight of first and second lines Conduct core compliance testing on rolling annual basis
Outcomes	Satisfactory control of risk and compliance obligations Effective monitoring and reporting	Design and monitoring of risk and compliance controls Confirmation of risk and compliance controls	Assurance and oversight through system and process audits

Assurance controls for risk management

Our risk framework is key to supporting the ambitions in our strategy, helping us to plan and prioritise, and strengthening our ability to be agile to emerging challenges. Risk and opportunity management is integrated into all our work and we continue to build on what we have in place to take our approach to a greater level of maturity. The Audit and Risk Assurance Committee receives risk review presentations on key areas of risk identified on a regular basis and from the owners of particular strategic risks and opportunities.

The scenarios we face are generally complicated and ambiguous, with no simple, definitive solutions, and the risk environment continues to evolve rapidly. We have sought to ensure that our risk management framework has developed to support whole system thinking and good risk-based decision making, encouraging constructive challenge, and promoting collaboration, innovation and agility. The framework also aims to enable a proportionate approach. We prioritise mitigating actions that we expect to have the greatest impact, and taking account of what we are able to control.

Also during the year we refreshed our strategic risks in order to provide greater clarity and greater external focus, with risks that focus more directly on the risks and challenges the sector faces, as well as how this impacts on our role as regulator, and to ensure that our strategic risks continue to flow from the outcomes we aim to achieve to meet our strategy.

Risk appetite

Our risk appetite is dynamic and is reflected in the Board's consideration of the effectiveness of risks and opportunities management. It is taken into account in assessing and managing risks and taking decisions. We continue to feel there is more to do to fully embed this into all our decision-making.

The Board has agreed that Ofwat's risk appetite should generally be 'Open'. This means that we are prepared to be innovative in our regulatory approaches and in our engagement with external stakeholders and open to taking well thought through risks where the long-term rewards for customers are expected to be greater than any short term negative impacts. Where we accept risks, we ensure we fully understand the risks so that a good judgement can be made. Nevertheless, we recognise that in a complex environment, risk appetite needs to be considered on a case by case basis. For example, we have a minimalist appetite for risks that could cause significant damage to good customer outcomes and we do what we are reasonably able to do to mitigate the likelihood or impact of these things happening. We are not averse to taking risks ourselves (even to our reputation) if it appears we can bring benefit or prevent harm to customers and the environment. We also take a more cautious approach to risks to our own efficiency, probity and standing as a well-run public body and as such we maintain good controls over matters such as spending and data handling.

Risk overview

Our strategic risks are those that can obstruct our ability to achieve great outcomes for present and future customers and the environment, focusing on activities that will make the greatest difference and on managing their delivery well. Through a focused and effective management response, we can also ensure that we manage ourselves well in meeting our legal, financial, ethical and public accountability responsibilities.

The key outcomes we focused on were as follows:

Sector achieves and sustains necessary step changes in performance: customers, environment and resilience		
Transforming company performance:	Meeting long term challenges	Acting in long term interests of customers, society and environment
Efficient water and wastewater services that are, on an enduring basis: <ul style="list-style-type: none"> • Reliable • High quality • Offer value • Affordable 	Sector plans and has capacity – infrastructure and assets, resources, people and leadership – to meet needs of future customers and the environment	Sector fully leverages opportunities to create value for customers, communities and the environment Water companies are purpose-driven, with culture and strategy aligned to public service with trusted relationships with customers and communities

Ofwat is an effective, authoritative, purpose-led regulator

Culture – A highly performing great place to be. Collaborative, empowered, systems thinkers, focused on outcomes

Ways of working – Adaptive, agile, data driven, well governed and effective

People – Right skills and capabilities to deliver our strategy, diverse and inclusive, culture aligned to our SAILOR values

Stakeholders – Effective communicators, with robust and mature relationships, maintaining trust and authority

Digital/IT/Facilities and systems – Reliable, innovative, secure, resilient digital services

Resources – Adequately and efficiently financed, with the right skills and capabilities to delivery our strategy

We manage the risks impacting our outcomes in an integrated way across our portfolio as they are inter-dependent. We have drawn out key points in our description below, and other activity to manage and mitigate risks throughout the year is described in our Performance Report.

Performance: Customers, environment and resilience

Risk	Mitigating actions
Company purpose, strategy and culture: not aligned with delivery of this essential service, and with customer and community expectations	<ul style="list-style-type: none"> • Taking further steps to address performance related executive pay within the sector, including through our PR24 methodology • Publication of financial resilience licence modifications providing for greater alignment of dividends to performance for customers and the environment • Developed and launched new competitions as part of our innovation fund model
Customers and stakeholders: companies do not deliver effectively for customers / stakeholders, meeting the full spectrum of their needs.	<ul style="list-style-type: none"> • Working to better protect vulnerable customers and on affordability, including developing work on customer-focused licence condition • Published new charging rules, providing flexibility to trial new charging structures • Incorporated the customer voice into all our engagement and strategy development and delivery.
Environment: Failure to understand impact of the sector on the environment or to anticipate and plan for environmental challenges (population growth, climate change/biodiversity loss) leading to pollution, water quality issues and ineffective wastewater systems	<ul style="list-style-type: none"> • Within RAPID, progressing 18 strategic water resources solutions to enable these schemes to be "shovel ready" in the 2025-30 period • Ongoing development of modelling and analytical capacity to support national strategic water resource planning • Close participation in development of guidance for national water resource planning to develop a more outcomes-oriented approach • Reviewing company and regional draft water resource management plans and company drainage and wastewater management plans to ensure they are focused on the long term and incorporate an appropriate adaptive planning approach
Financial and Operational Resilience: companies do not effectively identify and manage key risks to resilience of systems and services and do not have adequate financial and management resources and systems of governance, planning and internal control to deliver for current and future customers and the environment	<ul style="list-style-type: none"> • Operational resilience: development of approach to provide greater insight into performance • Working with other regulators and stakeholders to consider how best to gather and use insights to transform sector performance, including data analytics • Continued pressure on industry to be better at coping with extreme weather, supply chain and other external events, including through our work with the National Drought Group (NDG) to prepare proactively for risks of dry weather in summer 2023, with associated operational and communications coordination.

Ofwat is an effective, authoritative, purpose-led regulator

Risk	Mitigating actions
We do not use effectively the full range of our regulatory tools, or adapt or evolve them quickly enough, to deliver positive sector outcomes	<ul style="list-style-type: none"> • Publication of PR24 final methodology and ongoing engagement with the sector on the level of ambition we expect in company plans to transform sector performance • Progressing our investigations into companies' compliance with their obligations with respect to management of wastewater treatment works • Ongoing engagement with OEP (Office for Environmental Protection⁹) investigation into potential breaches of environmental law in the regulation of combined sewer overflows (CSOs) in England • Keeping sight of other opportunities to strengthen the regime e.g. greater alignment amongst sector regulators on cost of capital and working with government to enable the specified infrastructure regulatory regime to have broader application • Developing our Welsh strategy to ensure focus on better alignment with Welsh Government objectives

⁹ The OEP was set up in 2021 to protect and improve the environment by holding government and other public authorities to account. It scrutinises environmental improvement plans and targets; monitors the implementation of environmental law and advises government on environmental law; and can take enforcement action for failure to comply with environmental law.

	<ul style="list-style-type: none"> • Customer research (delivered by Ofwat and in partnership with CCW) helping us to keep track of customer concerns and to scope which regulatory tools are best placed to address customer needs
<p>We do not have the right information and insights, or use them effectively, to support delivery of positive outcomes for customers and the environment through our regulatory interventions</p>	<ul style="list-style-type: none"> • Increased our data capability • Developing evaluation activity including approach to PR24 and overall impact of Ofwat • Developing approach to evaluation/monitoring of key metrics and success factors critical to test whether interventions have desired effect • Developed public service delivery dashboard enabling users to sort data relating to a particular metric, company or year, viewing trends over time
<p>We do not have effective external relationships and credibility to influence others to achieve positive outcomes for customers / environment and to deal effectively with matters outside our control</p>	<ul style="list-style-type: none"> • Deepening relationship with Welsh Government and Defra at working level to develop regulatory regime further in collaboration with partner regulators • Programme of external engagement for Chair and CE, alongside Non-Executive Directors, and Senior Leadership Team, to build relationships, knowledge and insight • Working in partnership with CCW and other consumer groups, e.g. on bills, affordability and on customer focused communications • Developing refreshed approach to communications and stakeholder engagement, integrated with Ofwat policy development
<p>We do not have robust, adaptive and agile systems, ways of working and behaviours, that enable our people to thrive and to perform at their best and that protect our assets</p>	<ul style="list-style-type: none"> • Framework for Success now used as part of our recruitment process and embedded into our development conversations • Continuing to embed our approach to hybrid working across Ofwat • Delivering the second year of our three year EDI action plan
<p>We do not have sufficient resources (financial/skills), or we do not deploy these at the right time or in the right areas, in the best way to deliver our strategy</p>	<ul style="list-style-type: none"> • Implementation of new finance system • Improving our security monitoring capability and fine tuning our security tools • Relunched governance working group focusing on sharing best practice and formalising feedback loops • Embedding Strategic Resourcing Group for pipeline of external and vacancy spend to minimise underspend and deliver value for money

Management of conflicts of interest and business appointments rules

Our Code of Conduct sets out our policy on the declaration and management of conflicts of interest applicable to all staff and on the application of the business appointments rules. For all staff, there is scrutiny of the declaration of any business interests or potential conflicts and appropriate action is taken to manage any potential issues in the context of our policy work and in our recruitment and procurement activities. All our people are required to comply with the Civil Service Management Code. Any outside appointments during employment are approved and assessed by reference to the Code. No members of the Senior Leadership Team hold any company directorships or other significant interests that conflict with their management responsibilities.

On leaving office for roles that may give rise to potential issues with respect to conflicts of interest, we work with individuals and future employers to ensure appropriate measures are in place. We have proactively reminded our people of the need to consider carefully the application of the business appointment rules in advance of accepting an offer of employment and refreshed our internal processes to support the process and our People Leader community in managing it.

Information assurance

We hold a range of information assets, the majority of which is policy and commercial information with a small amount of personal information. We have an information and technology security policy and related procedures in place to ensure that such assets are properly safeguarded and associated risks are well managed, including our dealings with third party suppliers.

We have a Senior Information Risk Owner, Senior Security Advisor (shared with other regulators within the central government Cluster Security Group 5) and Deputy Security Advisor, as well as Information Asset Owners for all our clusters. Our Security and Information Assurance Group (SIAG) provides governance of our security, information risk and information assurance measures. It met twice during 2022-23.

Training and security

Ofwat continues to engage with the Transforming Government Security Programme (TGSP) and utilises the resources available through the Government Security Group Centres of Excellence, as well as the costed vetting service. Ofwat has implemented a number of the free active cyber defence initiatives from NCSC and continues to assess the services on offer.

We subscribe to an e-learning security platform which complements the well-established induction and training materials in place for new starters on security and information governance and we have been working to develop our security culture on an ongoing basis. This has included security training at Board and Senior Director level.

Quality assurance of analytical models

We have well-established arrangements for the quality assurance of analytical models. Current arrangements include:

- **A standardised approach to excel modelling** – Excel models are normally built following the FAST modelling standard (flexible, appropriate, structured, transparent). This reduces the risk of error and makes the review of models easier. Modellers should diverge from this standard only in exceptional circumstances. All staff in Ofwat have access to training on how to model using the FAST standard.
- **Quality assurance manual and training** – a quality assurance manual based on modelling best practice is available to staff. This provides a central resource which provides advice on activities to ensure analytical quality, and provides tools and processes to ensure high quality modelling. Internal training courses are also available on how to carry out quality assurance on models.
- **External review** – external review is an important part of our approach to quality assurance. We use advisers to carry out external audit or review of particularly

important or contentious models. Where possible we publicly consult on the analytical models we use.

During the next financial year, we will continue our work to review the quality assurance of our analytical models, including reviewing of both our processes and how these are being followed in practice and considering any improvements we might make.

Data quality

We use a wide range of financial and other data and information both to facilitate oversight of the performance of our functions and to inform our regulatory decisions. The Board considers that this information is generally of good quality and we continue to seek new ways to present management information in a clear way.

We have continued to develop our internal-facing tools to enable us to monitor progress against the customer outcomes in our strategy.

We will continue to build on our data quality and our efforts to focus on the insights we are able to glean from the data and information we have, so that we can better assess the impacts of our activity and ensure we and the sector are best placed to achieve the customer outcomes we seek efficiently and effectively.

Whistleblowing

Whistleblowing is the term used when a worker raises concerns about improper practices in their workplace. It is also referred to as a “public interest disclosure”. Ofwat has a responsibility for whistleblowing matters relating to the water sector in England and Wales.

As set out in the Prescribed Persons Order 2014¹⁰, Ofwat, as a Prescribed Person, has a responsibility to provide workers with a mechanism to make their public interest disclosure to an independent body, where the worker does not feel able to disclose the concern directly to their employer, and the Prescribed Person might be in a position to take some form of further action on the disclosure.

If a worker within the water sector has information or concerns about the water company they work for, they can contact us about it. To be covered by whistleblowing law and its associated employment rights, the disclosure must be a “qualifying disclosure”. This is any disclosure of information that, in the reasonable belief of the worker making the disclosure, is made in the public interest and may show that one or more of the following is happening, has happened or is likely to happen in the future:

- a criminal offence
- a breach of a legal obligation

¹⁰ The Public Interest Disclosure (Prescribed Persons) Order 2014

- a miscarriage of justice
- a danger to someone’s health and safety
- damage to the environment and/or
- a deliberate attempt to conceal any of the above.

When we receive information from a worker in the water sector, we will consider whether the information falls within the above definition of a qualifying disclosure. If so, we will decide what, if any, further action or investigation is needed. This can include us speaking to the relevant water company, internal and external subject matter experts and/or the worker referring the matter to us (if possible) to understand the issue further and to decide what, if any, steps we can take to resolve or take the matter forward as appropriate.

As a Prescribed Person, Ofwat has a duty to report annually on the number of qualifying disclosures made to us and a summary of the action taken in respect of these. This duty aims to increase transparency in the way that whistleblowing disclosures are dealt with and to reassure whistleblowers that their disclosures are taken seriously. This section of this annual report fulfils that duty for the 2022-23 reporting year.

The table below shows the number of qualifying disclosures made to Ofwat in 2022-23 and the resulting actions we have taken. Where disclosures and/or our initial enquiries do not provide sufficient evidence to warrant further action by us, or the approach does not constitute a qualifying disclosure, we nevertheless use the information as general intelligence about the sector and/or the company concerned. This enables us to monitor whether similar concerns are raised by others that could help build an evidence base sufficient for future action.

In relation to the matters listed below, having considered the matters carefully, including the nature of the disclosure, our ability to find out more information about it, and with input from internal subject matter experts, we concluded in four cases that it was not appropriate for us to pursue the matters with the companies concerned. Where appropriate we shared the information provided by the whistleblowers with relevant teams within Ofwat, as intelligence for other streams of work. We are seeking further information from the whistleblower in one case, as the whistleblower has only provided a brief summary of concerns. When we have received further information from them, we will consider if it is appropriate for us to contact the company concerned to pursue the matter further. In three cases, we contacted the company concerned regarding the complaint to seek further information and assurance regarding the matter. In five of the cases below, we are continuing to review the information provided by the whistleblower. Where needed and if appropriate we will contact the company/companies concerned to pursue these further. In addition, we continue to investigate a whistleblower complaint received in January 2022.

Whistleblower contacts 2022-23

Metric	Details of what is being measured	Total Number
Whistleblower contacts	Number of qualifying disclosures of information made by water sector workers to Ofwat.	13
	Number of qualifying disclosures where Ofwat took further steps to investigate the matter (these steps included taking internal subject matter expert advice on the issue and/or speaking with the worker making the disclosure to gather more information).	13
	Number of qualifying disclosures where Ofwat contacted the company concerned to seek further information and assurances regarding the matter.	3
	Number of qualifying disclosures where, following its initial assessment Ofwat decided to open a formal investigation with a view to it taking enforcement or other regulatory action against the company concerned.	0

Complaints to the Parliamentary and Health Service Ombudsman

We have not been made aware of any complaints referred to the Parliamentary and Health Service Ombudsman (PHSO) about Ofwat during this reporting period. We are aware of one customer who advised us they were referring a complaint against us to the PHSO, and we notified the PHSO of this in July 2022. We do not believe this complaint was progressed as we did not receive a subsequent request for information from the PHSO.

Accounting Officer's review of effectiveness

As Accounting Officer, I am personally responsible and accountable to Parliament for Ofwat as an organisation, its management, use of public money and stewardship of public assets. My review of the effectiveness of the system of internal controls was informed by assurance from Senior Directors responsible for all of our activity and people leadership that they have acted in accordance with their delegations and the operation of our governance framework.

My review also drew on independent assurance from our internal and external auditors, the Audit and Risk Assurance Committee and the assurance reports and reviews undertaken to inform our returns to government.

During 2022-23, we continued to review and monitor our governance arrangements with a view to ensuring that they were as streamlined as possible and that they remained proportionate and fit for purpose. We have taken on board the recommendations made in our internal audit reports and are progressing the agreed actions. We also introduced a new finance system during the year. Whilst the implementation was successful, our ability to extract timely accounting information from the system needs to be improved. This has not impacted the integrity of our accounting information, but the full suite of financial reports will be developed during the first half of 2023-24.

The internal control system has been in place for the year under review and up to the date of approval of the annual report and accounts.

Based on the above and my review of the evidence provided, I am assured that we have an effective framework for risk management, governance and internal control. We will continue to look at how we can reinforce our internal systems, particularly in relation to the management of information and data. We are also conscious of the changing external risk environment and we will refresh our internal arrangements to ensure that we are best able to manage these risks effectively in the coming year.



David Black
Accounting Officer

18 July 2023

Remuneration and staff report

Remuneration report

Senior Leadership Team

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

Senior Leadership Team member	Position	Grade
David Black ^{μ*}	Chief Executive	SCS 3
Aileen Armstrong ^{μ*}	Senior Director	SCS 2
Jenny Block ^μ	General Counsel and Board Secretary	SCS 2
Lisa Commane ^{μ*}	Senior Director	SCS 2
Claire Forbes ^μ	Senior Director	SCS 1
Emma Kelso ^μ	Senior Director	SCS 2
Keith Mason ^μ	Senior Director	SCS 2
John Russell ^{μ*}	Senior Director	SCS 2
Paul Hickey [#]	Managing Director, RAPID	N/A

^μ Members of SLT who are members of the Senior Civil Service

* Denotes Board member

Paul Hickey was invited by the Chief Executive to join SLT meetings, acting in an observer capacity to the extent decisions were sought.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the members of staff covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Senior manager remuneration policy

With the exception of non-Senior Civil Servants, Senior Leadership Team members' remuneration is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body (SSRB). Decisions regarding SCS pay and bonuses are made by the People Committee.

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 SSRB's recommendations. The bonus is paid based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

For the 2022-23 financial year, our 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

Our salaries are set on the basis of recruiting and retaining high-calibre staff within the framework of controlling public sector expenditure and the pay framework set by the Government.

A non-consolidated bonus may be awarded to staff whose performance is exceptional in line with the criteria set by Ofwat. All bonus nominations received are put forward for decision to the Pay Review Group (PRG). The PRG consists of a sub-set of members of the SLT and Director of People. The role of the group is to determine how to allocate the bonus pot in line with Ofwat's agreed criteria, ensuring fairness and consistency.

The annual bonus budget is determined as part of the annual Pay Framework approved by the Permanent Secretary for Defra.

Non-Executive Directors' remuneration policy

The Chair and Non-Executive Directors are remunerated in line with Cabinet Office guidance.

Senior managers' remuneration

Senior management remuneration 2022-23

The following information is subject to audit.

The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension value can increase as well as decrease, depending on changes in pay, extra service or inflation.

The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

	Salary £000		Bonus payments £000		Benefits in kind (to nearest £100)		Pensions benefits (to nearest £1000)		Total £000	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
David Black* Chief Executive	160-165	150-155	-	5-10	800	-	62,000	59,000	220-225	220-225
Rachel Fletcher** Chief Executive	-	0-5 (full year equivalent 165- 170)	-	-	-	-	-	10,000	-	10-15 (full year equivalent 175- 180)
Aileen Armstrong Senior Director	130-135	125-130	10-15	10-15	1,500	1,600	22,000	34,000	165-170	170-175
Jenny Block General Counsel and Board Secretary	125-130	125-130	5-10	5-10	1,400	1,600	50,000	49,000	185-190	180-185
Lisa Commane Senior Director	135-140	130-135	10-15	0-5	-	-	53,000	52,000	195-200	190-195
Claire Forbes*** Senior Director (0.9 FTE)	105-110	105-110	5-10	10-15	-	-	41,000	41,000	150-155	155-160
Emma Kelso*** Senior Director (0.7 FTE)	90-95	85-90	5-10	5-10	-	-	7,000	23,000	100-105	115-120
Keith Mason Senior Director	120-125	120-125	-	-	-	-	(53,000) ****	-	65-70	120-125
John Russell*** Senior Director (0.8 FTE)	105-110	125-130	10-15	0-5	-	-	(22,000) ****	30,000	90-95	160-165
Alena Kozakova** Chief Economist	-	70-75 (full year equivalent 125- 130)	-	5-10	-	-	-	26,000	-	100-105 (full year equivalent 155- 160)

* David Black was appointed Chief Executive on 20 April 2022, having served as Interim Chief Executive since April 2021.

** Rachel Fletcher left employment on 9 April 2021 and Alena Kozakova left employment on 15 October 2021.

*** Claire Forbes, Emma Kelso and John Russell are employed on part-time contracted hours.

**** Taking account of inflation, the CETV funded by the employer has decreased in real terms.

Third party payments 2022-23

The following information is subject to audit.

	2022-23 Payment	2021-22 Payment
	£000	£000
Environment Agency Paul Hickey*, Managing Director, RAPID	150-155	125-130

* Paul Hickey was on secondment from the Environment Agency from 20 January 2020 to 31 March 2023. The costs shown in this table represent total costs including Pension, National Insurance and Tax recharged to Ofwat by the Environment Agency.

Non-Executive Directors' remuneration 2022-23

The following information is subject to audit.

	Salary £000		Benefits in kind*** (to nearest £100)		Total £000	
	2022-23	2021-22	2022-23	2021-22	2022-23	2021-22
Iain Coucher* Chair	90-95 (full year equivalent 120-125)	-	-	-	90-95 (full year equivalent 120-125)	-
Jonson Cox** Chair	30-35 (full year equivalent 125-130)	125-130	1,200	4,200	30-35 (full year equivalent 125-130)	130-135
Alison Munro Non-Executive Director	15-20	15-20	200	200	15-20	15-20
Mark Bayley Non-Executive Director	15-20	15-20	200	300	15-20	15-20
Nicola Bruce Non-Executive Director	15-20	15-20	400	200	15-20	15-20
David Jones Non-Executive Director	15-20	15-20	2,600	1,500	20-25	20-25
Seema Kennedy Non-Executive Director	15-20	15-20	800	600	20-25	15-20
Jonathan Kini Non-Executive Director	15-20	15-20	-	-	15-20	15-20
Catherine Waddams** Non-Executive Director	-	0-5 (full year equivalent 15-20)	-	-	-	0-5 (full year equivalent 15-20)

* Iain Coucher started his term on 1 July 2022

** Chair and Non-Executive Director term end dates: Jonson Cox – 30 June 2022; Catherine Waddams – 30 April 2021

*** Non-Executive Director travel, subsistence and accommodation expenses are deemed Benefits in Kind as these are reimbursed by Ofwat.

Independent Members' remuneration

The following information is subject to audit.

Independent Committee Members' remuneration 2022-23

	Salary £000		Benefits in kind (to nearest £100)	
	2022-23	2021-22	2022-23	2021-22
Vanessa Howlison Independent Member, ARAC	5-10	5-10	-	-

Salary

Salary includes gross salary, overtime and any allowance that is subject to UK taxation. This report is based on accrued payments made by Ofwat and 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 included subsistence and travel arrangements.

Bonuses

Senior Civil Service bonuses are based on performance levels, assessed as part of the appraisal process. All other bonuses are awarded in line with our staff remuneration policy.

Fair Pay Disclosures

The following information is subject to audit.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

The banded full year equivalent remuneration of the highest paid director in Ofwat in the financial year 2022-23 was £165,000-170,000 (2021-22: £160,000-165,000), an increase of 3% (salary increase 6%; bonus decrease 100%).

The table below shows the ratios of the mid-point of the banded remuneration of the highest paid director, to the pay and benefits figures of the employees whose pay and benefits are on the 25th, 50th and 75th percentiles of Ofwat employees:

	25th Percentile (Lower Quartile) Pay Ratio	50th Percentile (Median) Pay Ratio	75th Percentile (Upper Quartile) Pay Ratio
2022-23	4.4:1	3.3:1	2.4:1
2021-22	4.6:1	3.4:1	2.4:1

The 2022-23 total pay and benefits and the salary component of total pay and benefits, of the employees on the 25th, 50th and 75th percentiles are shown below:

	25th Percentile (Lower Quartile) £	50th Percentile (Median) £	75th Percentile (Upper Quartile) £
Total pay and benefits	37,740	50,000	69,033
Salary component of total pay and benefits	37,740	50,000	69,033

The average percentage change from 2021-22 in the salary and allowances of Ofwat employees taken as a whole was an increase of 10%, and in performance pay and bonuses payable, an increase of 10%. The median remuneration of the workforce increased by 5% and Ofwat grew by 6%, compared to 2021-22, as we focus on building resources and making progress towards the delivery of the next price review (PR24).

In 2022-23, none (2021-22: none) of Ofwat's employees received remuneration in excess of the highest paid Senior Director. Employee remuneration ranged from £20,000 to £170,000.

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

We are developing our approach to pay and reward further during 2022-23 as part of the continued implementation of our People Strategy.

Senior managers' pension benefits

The following information is subject to audit.

Senior management remuneration 2022-23

	Accrued pension at pension age as at 31 March 2023 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2023	CETV at 31 March 2022	Real increase in CETV
	£000	£000	£000	£000	£000
David Black Chief Executive	30-35	2.5-5	421	357	33
Aileen Armstrong Senior Director	40-45 Lump sum: 75-80	0-2.5 Lump sum: 0	730	650	2
Jenny Block General Counsel and Board Secretary	20-25	2.5-5	268	216	30
Lisa Commame Senior Director	15-20	2.5-5	185	144	23
Claire Forbes Senior Director	20-25	0-2.5	296	251	23
Emma Kelso* Senior Director	35-40	0-2.5	557	506	-5
Keith Mason* Senior Director	45-50 Lump sum: 130-135	0 Lump sum: 0	980	952	-52
John Russell* Senior Director	50-55 Lump sum: 90-95	0 Lump sum: 0	874	812	-32

* Taking account of inflation, the CETV funded by the employer has decreased in real terms.

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.

CETV figures are calculated using the guidance on discount rates for calculating unfunded public service pension contribution rates that was extant at 31 March 2023. HM Treasury published updated guidance on 27 April 2023; this guidance will be used in the calculation of 2023-24 CETV figures.

Pension liabilities

Pension arrangements for our staff are provided through the Civil Service pension arrangements. Pension liabilities arising from our employees' membership of the Civil Service pension arrangements are not provided for in these accounts, in accordance with HM Treasury's instructions.

A full provision has been made in the accounts for liabilities arising in respect of the ‘by-analogy’ pension schemes for two former Directors General, as required by HM Treasury (note 13). Claims are made on the Exchequer to cover the pension costs that relate to their employment other than with Ofwat.

The roles of the Chair and Non-Executive Directors are non-pensionable.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or alpha, which provides benefits on a career average basis with a normal pension age equal to the member’s State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and 13 years and five months from their normal pension age on 1 April 2012 switched into alpha sometime between 1 June 2015 and 1 February 2022. Because the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, it is expected that, in due course, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Transfer Values shown in this report – see below). All members who switch to alpha have their PCSPS benefits ‘banked’, with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for members of staff show pension earned in PCSPS or alpha – as appropriate. Where the member of staff has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) 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 4.6% and 8.05% for members of classic, premium, classic plus, nuvos and alpha. 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. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. 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 an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). 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 0.5% 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, 65 for members of nuvos, and the higher of 65 or State Pension Age for members of alpha. (The pension figures quoted for members of staff show pension earned in PCSPS or alpha – as appropriate. Where the member of staff has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk.

Cash Equivalent Transfer Value

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.

Staff report

Analysis of Ofwat’s staff costs for 2022-23

The following information is subject to audit.

	2022-23 £000				2021-22 £000
	Permanent and Fixed Term employed staff	Other staff	Non-Executive Directors	Total	Total
Wages and salaries	14,214	884	222	15,320	14,490
Social security costs	1,771	-	24	1,795	1,578
Other pension costs	3,848	-	-	3,848	3,603
Sub total	19,833	884	246	20,963	19,671
Less recoveries in respect of outward secondments	(77)	-	-	(77)	(76)
Total net costs	19,756	884	246	20,886	19,595

Other staff costs include the cost of agency workers and secondees. Other expenditure incurred in respect of specialist contractors and interim managers is disclosed as contingent labour expenditure in note 4 to the accounts.

Pension contributions

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as **alpha** – are unfunded multi-employer defined benefit schemes but Ofwat is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the PCSPS as at 31 March 2016. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation www.civilservicepensionscheme.org.uk.

For 2022-23, employers’ contributions of £3.8m were payable to the CSOPS and PCSPS (2021-22 £3.6m) at one of four rates in the range 26.6% to 30.3% 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 2022-23 to be paid when the member retires and not the benefits paid this period to existing pensioners.

Employees can opt to open a partnership pension account, or a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £3,458, 0.5% of pensionable pay (2021-22: £3,620), 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 relevant employees.

Average number of whole-time equivalents in each Cluster

The following information is subject to audit.

Cluster	2022-23				2021-22
	Permanent & FTC employed staff	Others	Non-Executive Directors	Total	Total
Corporate Enablers	40.77	-	0.20	40.97	43.84
Future Assets & Resources*	-	-	-	-	12.33
Company Performance & Price Reviews	79.20	-	0.20	79.40	64.84
Policy & Outcomes	52.48	1.00	0.20	53.68	45.59
Regulatory Enablers	60.49	-	0.20	60.69	63.42
RAPID	18.99	-	0.20	19.19	18.91
Total	251.93	1.00	1.00	253.93	248.93

* The Future Assets & Resources cluster merged into the Policy & Outcomes cluster during the year.

Civil Service and other compensation scheme exits

The following information is subject to audit.

There have been no redundancy or other departure costs paid in 2022-23 (2021-22 £9,769).

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 about our highly paid and/or senior off-payroll engagements.

All of our existing off-payroll engagements have at some point been subject to a risk-based assessment to determine whether the contract is within the scope of IR35.

Highly paid off-payroll worker engagements as at 31 March 2023, earning £245 per day or greater

Of which, number that have existed:	No of existing engagements as at 31 March 2023
Less than 1 year	2
for between 1 and 2 years	-
for between 2 and 3 years	-
for between 3 and 4 years	-
for 4 years or more	-

All off-payroll engagements, between 1 April 2022 and 31 March 2023 for more than £245 per day

Of which:	No. of temporary off-payroll workers engaged during the year ended 31 March 2023
Not subject to off-payroll legislation	-
Subject to off-payroll legislation and determined as in-scope of IR35	18
Subject to off-payroll legislation and determined as out-of-scope of IR35	4
No. of engagements reassessed for compliance or assurance purposes during the year	-
Of which no. of engagements that saw a change to IR35 status following review	-

Consultancy expenditure

Our expenditure on other consultancy and professional services in 2022-23 was £5.7m, per note 4 of the accounts (2021-22: £4.5m).

We continue to use professional services support to obtain access to specialists who provide professional or legal advice in relation to the delivery of our portfolio of work, as well as those that provide specialist delivery support where it is not economical to maintain this expertise in-house.

Sickness absence

Our policy is to reduce employee absence and we rely on early intervention by our People Leaders conducting a return to work interview after each period of absence to mitigate and manage this effectively. People Leaders are supported by systems that 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; or
- four periods of absence in a rolling period of twelve months.

Health Assured 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 statistics

	2022-23			2021-22		
	Short term	Long term	Total	Short term	Long term	Total
Days lost	572	542	1,114	413	543	956
Average working days lost per person			4.26			3.72

A long-term absence is any absence running over a consecutive period of 14 calendar days or more. Ofwat’s average working days lost of 4.26 days per person is lower than the Civil Service average in 2021-22 of 7.9 days (the 2022-23 figure is not available at the time of reporting). The impact of a few instances of longer-term absence will be more pronounced given that we are a small organisation. However, we have continued with our efforts to proactively address casework to ensure all of our people are supported to attend work on a regular basis. Wellbeing has remained a key focus in 2022-23 and a review of Ofwat’s attendance management policy is planned for 2023-24.

Employee involvement

For the fourth year running, we have used the Civil Service People Survey to find out how people feel about working at Ofwat and to assess our progress. The survey is run by the Cabinet Office and enables us to benchmark our results with 105 other Civil Service organisations, including other economic regulators and Defra.

The world of work is continuously changing for people and expectations growing of what people expect from work. 2022 has been a challenging year for Ofwat as we have continued to prioritise and respond to the changing internal and external landscape.

Despite the challenges we have faced like the impact of the ‘great resignation’ we have achieved an overall positive set of results in our 2022 People survey. The results as detailed on page 63 indicate that whilst we have more work to do we continue to move in the right direction to make Ofwat a great place to be and work.

Learning and development

We have continued to embed our learning and development framework and to focus on our people. Working with our Learning Partners we have continued to promote learning and development opportunities and connect with our Clusters and Heads of Professions to understand the learning needs of our people. Our core programme of learning and development has continued to focus on wellbeing and resilience interventions, supplemented by tailored support to Leaders through our People Leader briefings, our Extended Leadership Team (ELT) forum, providing formal and informal opportunities for learning including our ‘inside out programme’. We have also launched LinkedIn training offering our people on demand a wide range of courses aimed at all levels,

including professional development, project management as well as IT and technical courses.

We have continued to develop our internal skills base via training in lean and agile techniques and introduced new ways of facilitating, such as the use of Liberating Structures. Our Ofwat Essentials offer continues to be valued, with a growing range of modules covering a variety of areas including ‘performance monitoring’, ‘introduction to water’, ‘Ofwat culture module’ and ‘casework and enforcement’. Also, we continue to support and rely on our own internal coaching cohort.

Equal opportunities policy

We recruit staff on merit through fair and open competition, in line with the [Civil Service recruitment principles](#) governed by the Civil Service Commission. This ensures fair and open competition, 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 Commission to ensure that we comply with the guidance set out in the recruitment principles.

During the year we carried out over 71 separate recruitment campaigns, both external and internal to the organisation, which in some cases sought to fill multiple roles. We also ran a graduate recruitment programme.

Staff composition

Details of our staff composition by gender and ethnic group is available in Appendix 8.



David Black
Accounting Officer

18 July 2023

Parliamentary accountability and audit report

Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Water Services Regulation Authority (Ofwat) to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament has voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SOPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and an analysis of income payable to the Consolidated Fund (note 4).

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different to, IFRS. Estimates are the mechanism by which Parliament authorises departmental spending, and are presented using the public sector budgeting framework. Through the Estimates process, Parliament is required to vote limits for different categories of budgetary spend. For Ofwat, these are the:

- Net Resource Departmental Expenditure Limit (RDEL) requirement;
- Net Capital Departmental Expenditure Limit (CDEL) requirement; and
- Net Cash Requirement (NCR) for the Estimate as a whole.

Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in Chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament.

Summary tables – mirrors part 1 of the Estimates

Summary table 2022-23. All figures presented in £000's

Types of spend	SOPS note	Outturn		Estimate		Voted Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2021-22
		Voted	Total	Voted	Total		
Departmental Expenditure Limit							
Resource	1.1	173	173	1,021	1,021	848	(900)
Capital	1.2	3,009	3,009	3,075	3,075	66	485
Total		3,182	3,182	4,096	4,096	914	(415)
Total Budget							
Resource	1.1	173	173	1,021	1,021	848	(900)
Capital	1.2	3,009	3,009	3,075	3,075	66	485
Total Budget Expenditure		3,182	3,182	4,096	4,096	914	(415)

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

The variance between outturn and estimate on our resource Departmental Expenditure Limit (DEL) relates to unrequired contingency budget, which is held as a precaution in line with Ofwat's financial risk assessment and to cover any unexpected end of year audit adjustments.

Capital DEL represents Parliamentary Supply provided to us for capital items. The variance between capital DEL outturn and estimate relates to unrequired contingency budget for possible end of year audit adjustments.

Further details of the main variances between our budgets and outturn can be found in the financial commentary on page 38.

Net cash requirement 2022-23, all figures presented in £000's

Item	SOPS note	Outturn	Estimate	Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2021-22
Net cash requirement	3	3,080	7,831	4,751	(1,083)

The variance between outturn and estimated net cash requirement is £4.8 million. During the year we drew £5.1 million as cash from the Consolidated Fund for working capital balances, to fund pension payments in respect of the retired Directors General pension scheme, additional National Insurance employer contributions and for capital purchases. Our residual cash balance at the end of the year includes licence fees collected late in the year. The balance on working capital at year end will be returned to the Consolidated Fund.

Administration costs 2022-23, all figures presented in £000's

Item	SOPS note	Outturn	Estimate	Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2021-22
Administration costs	1.1	173	1,021	848	(900)

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Notes to the Statement of Outturn against Parliamentary Supply, 2022-23 (£000's)

SOPS1: Outturn detail, by Estimate line

SOPS1.1: Analysis of resource outturn by Estimate line

Type of spend (Resource)	Resource Outturn			Estimate			Voted Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2021-22
	Administration			Total	Virements	Total including virements		
	Gross	Income	Net total					
Spending in Departmental Expenditure Limit (DEL):								
Voted expenditure:								
Ofwat - Water Services Regulation Authority	32,568	(32,395)	173	1,021	-	1,021	848	(900)
Total spending in DEL	32,568	(32,395)	173	1,021	-	1,021	848	(900)

The £1.02 million estimate represents Parliamentary supply provided to us in relation to the retired Directors General pension scheme, additional National Insurance employer contributions and spend on professional services.

SOPS1.2: Analysis of capital outturn by Estimate line

Type of spend (Capital)	Resource Outturn			Estimate			Voted Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2021-22
	Administration			Total	Virements	Total including virements		
	Gross	Income	Net total					
Spending in Departmental Expenditure Limit (DEL):								
Voted expenditure:								
Ofwat - Water Services Regulation Authority	3,009	-	3,009	3,075	-	3,075	66	485
Total spending in DEL	3,009	-	3,009	3,075	-	3,075	66	485

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require Parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further

information on virements is provided in the Supply Estimates Manual, available on gov.uk.

The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

SOPS2: Reconciliation of outturn to net operating expenditure

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS.

Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements. As the total resource outturn in the SOPS is the same as net operating expenditure in the SOCNE, no reconciliation is required.

SOPS3: Reconciliation of net resource outturn to net cash requirement

	SOPS note	Outturn total	Estimate	Outturn compared with Estimate: saving (excess)
Resource Outturn	1.1	173	1,021	848
Capital Outturn	1.2	3,009	3,075	66
Adjustments to remove non-cash items:				
Depreciation and amortisation		(597)	(740)	(143)
New provisions and adjustments to previous provisions		(18)	(160)	(142)
Other non-cash items		(75)	(73)	2
Adjustments to reflect movements in working capital balances and lease liabilities:				
Increase/(decrease) in receivables		3,853	-	(3,853)
(Increase)/decrease in payables, including lease payables		(3,420)	4,278	7,698
Use of provisions		155	430	275
Net cash requirement		3,080	7,831	4,751

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

SOPS4: Amounts of income to the Consolidated Fund

SOPS4.1: Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics).

Item	Note	Outturn total		Prior year, 2021-22	
		Accruals	Cash basis	Accruals	Cash basis
Excess cash surrenderable to the Consolidated Fund	11	-	-	4,336	4,336
Total income payable to the Consolidated Fund		-	-	4,336	4,336

Note 11 to the Accounts shows the £2.1m being the amounts issued from the Consolidated Fund for supply in 2022-23 but not spent at year end. This is not classed as Ofwat's income.

Parliamentary Accountability Disclosures

The following information (apart from long-term expenditure trends) was subject to audit.

Regularity of expenditure: Expenditure of Ofwat was applied for the purposes intended by Parliament.

We do not have anything to report for 2022-23 in respect of:

- Losses and special payments;
- Long-term expenditure trends; or
- Fees and charges.

Details of Ofwat's licence fees are classed as levies and are disclosed on page 38.

On occasion, we may be subject to formal legal challenge including by way of judicial review. Following the date of signature of last year's accounts, Wild Justice launched judicial review proceedings. These were dismissed at the permission stage and permission to seek leave to appeal to the Court of Appeal against that judgment was refused. In February 2023, Northumbrian Water brought judicial review proceedings against Ofwat with respect to aspects of our in-period ODI determination made in November 2022, and the outcome is at yet unknown.



David Black
Accounting Officer

18 July 2023

The certificate and report of the comptroller and auditor general to the house of commons

Opinion on financial statements

I certify that I have audited the financial statements of the Water Services Regulation Authority (Ofwat) for the year ended 31 March 2023 under the Government Resources and Accounts Act 2000. The financial statements comprise Ofwat's:

- Statement of Financial Position as at 31 March 2023;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of Ofwat's affairs as at 31 March 2023 and its net operating expenditure for the year then ended; and
- have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2023 and shows that those totals have not been exceeded; and
- the income and expenditure 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.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom (2022). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I am independent of Ofwat in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that Ofwat's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Ofwat's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Ofwat is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which requires entities to adopt the going concern basis of accounting in the preparation of the financial statements where it is anticipated that the services which they provide will continue into the future.

Other information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's certificate and report thereon. The Accounting Officer is responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my certificate, I do not express any form of assurance conclusion thereon.

My responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters

In my opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and is in accordance with the applicable legal requirements.

Matters on which I report by exception

In the light of the knowledge and understanding of Ofwat and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Reports.

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 by Ofwat or returns adequate for my audit have not been received from branches not visited by my staff; or
- I have not received all of the information and explanations I require for my audit; or
- the financial statements and the parts of the Accountability Report subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited is not in agreement with the accounting records and returns; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for:

- maintaining proper accounting records;
- providing the C&AG with access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- providing the C&AG with additional information and explanations needed for his audit;
- providing the C&AG with unrestricted access to persons within Ofwat from whom the auditor determines it necessary to obtain audit evidence;
- ensuring such internal controls are in place as deemed necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- ensuring that the financial statements give a true and fair view and are prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- ensuring that the annual report, which includes the Remuneration and Staff Report, is prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- assessing Ofwat's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Ofwat will not continue to be provided in the future.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations, including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I:

- considered the nature of the sector, control environment and operational performance including the design of Ofwat's accounting policies.
- inquired of management, Ofwat's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Ofwat's policies and procedures on:
 - identifying, evaluating and complying with laws and regulations;
 - detecting and responding to the risks of fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Ofwat's controls relating to Ofwat's compliance with the Government Resources and Accounts Act 2000 and Managing Public Money;
- inquired of management, Ofwat's head of internal audit and those charged with governance whether:
 - they were aware of any instances of non-compliance with laws and regulations;
 - they had knowledge of any actual, suspected, or alleged fraud,
- discussed with the engagement team, IT auditors and internal pension specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within Ofwat for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions and bias in management estimates. In common with all audits under ISAs (UK), I am required to perform specific procedures to respond to the risk of management override.

I obtained an understanding of Ofwat's framework of authority and other legal and regulatory frameworks in which Ofwat operates. I focused on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of Ofwat. The key laws and regulations I considered in this context included Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2022 and relevant employment law, pensions legislation and tax legislation.

Audit response to identified risk

To respond to the identified risks resulting from the above procedures:

- I reviewed the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- I enquired of management, the Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- I reviewed minutes of meetings of those charged with governance and the Board; and internal audit reports; and
- in addressing the risk of fraud through management override of controls, I tested the appropriateness of journal entries and other adjustments; assessed whether the judgements on estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

I also communicated relevant identified laws and regulations and potential risks of fraud to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my certificate.

Other auditor's responsibilities

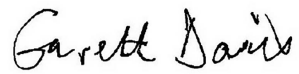
I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement.

I am 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.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control I identify during my audit.

Report

I have no observations to make on these financial statements.



Gareth Davies
Comptroller and Auditor General

19 July 2023

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Part 3

Financial
statements

Statement of Comprehensive Net Expenditure

For the 12 months ended 31 March 2023

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the values of non-current assets and other financial instruments that cannot yet be recognised as income or expenditure.

	Note	2022-23 £000	2021-22 £000
Licence fees		(32,316)	(29,353)
Other income		(79)	(80)
Total operating income	2	(32,395)	(29,433)
Staff costs	3	20,963	19,671
Purchase of goods and services	4	9,934	7,706
Rentals under operating leases	4	967	862
Depreciation and amortisation	4	597	297
Other non-cash expenditure	4	107	(3)
Total operating expenditure		32,568	28,533
Net operating expenditure/(income)*		173	(900)
Other comprehensive net expenditure			
Items which will not be reclassified to net operating expenditure:			
Actuarial loss/(gain) on pension scheme liabilities	13.3	(2)	(1,138)
Comprehensive net expenditure/(income)*		171	(2,038)

* We received Parliamentary funding for expenditure relating to the retired Directors General pension scheme, additional National Insurance employer contributions and spend on professional services. In accordance with HM Treasury guidance, we do not recognise this funding in the table above (SOPS1.1: Analysis of resource outturn by Estimate line on page 93 illustrates Parliamentary funding).

The notes on pages 109 to 125 form part of these accounts.

Statement of Financial Position

As at 31 March 2023

This statement presents the financial position of Ofwat. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of the entity.

	Note	31 March 2023 £000		31 March 2022 £000	
Non-current assets:					
Property, plant and equipment	5	675		619	
Intangible assets	6	109		170	
Right-of-use assets	15	2,519		-	
Trade & other receivables	10	36		80	
Total non-current assets			3,339		869
Current assets:					
Trade & other receivables	10	5,125		1,228	
Cash and cash equivalents	9	2,051		4,336	
Total current assets			7,176		5,564
Total assets			10,515		6,433
Current liabilities:					
Trade and other payables	11	(7,052)		(8,480)	
Provisions	12	(215)		(215)	
Lease liabilities	15	(530)		-	
Total current liabilities			(7,797)		(8,695)
Total assets less current liabilities			2,718		(2,262)
Non-current liabilities:					
Pension liabilities	13	(1,079)		(1,218)	
Lease liabilities	15	(2,134)		-	
Total non-current liabilities			(3,213)		(1,218)
Total assets less total liabilities			(495)		(3,480)
Taxpayers' equity and other reserves:					
General Fund			(495)		(3,480)
Total equity			(495)		(3,480)

The notes on pages 109 to 125 form part of these accounts.



David Black
Accounting Officer

18 July 2023

Statement of Cash Flows

For the 12 months ended 31 March 2023

The Statement of Cash Flows shows the changes in cash and cash equivalents of Ofwat during the reporting period. The statement shows how Ofwat generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of service costs and the extent to which these operations are funded by way of income from the recipients of services provided by Ofwat. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to Ofwat's future public service delivery.

	Note	2022-23 £000	2021-22 £000
Cash flows from operating activities			
Net operating (expenditure)/income		(173)	900
Adjustments for non-cash transactions	4	704	294
(Increase)/decrease in trade and other receivables	10	(3,853)	209
Increase/(decrease) in trade and other payables	11, 15	(1,428)	1,486
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		2,408	(1,137)
Use of provisions	12, 13	(155)	(306)
Net cash (outflow)/inflow from operating activities		(2,497)	1,446
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(235)	(393)
Purchase of intangible assets	6	(44)	(92)
Net movement in capital receivables (payables)		(122)	122
Net cash outflow from investing activities		(401)	(363)
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		5,131	3,253
Advances from the contingencies fund		7,000	6,000
Payments to the contingencies fund		(7,000)	(6,000)
Capital element of payments in respect of leases	15	(182)	-
Net cash inflow from financing activities		4,949	3,253
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		2,051	4,336
Payment of amounts due to the Consolidated Fund		(4,336)	(3,320)
Net (decrease)/increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(2,285)	1,016
Cash and cash equivalents at the beginning of the period	9	4,336	3,320
Cash and cash equivalents at the end of the period	9	2,051	4,336

The notes on pages 109 to 125 form part of these accounts.

Statement of changes in taxpayers' equity

For the 12 months ended 31 March 2023

This statement shows the movement in the year on the different reserves held by Ofwat, analysed into 'general fund reserves' (i.e., those reserves that reflect a contribution from the Consolidated Fund). The General Fund represents the total assets less liabilities of a department, to the extent that the total is not represented by other reserves and financing items.

	Note	General Fund £000	Total Reserves £000
Balance at 1 April 2021		(4,495)	(4,495)
Changes in taxpayers' equity for 2021-22			
Net Parliamentary Funding		3,253	3,253
Comprehensive Net Income for the year		2,038	2,038
Notional Auditors' Remuneration	4	60	60
Amounts issued from Consolidated Fund but not spent at year end	9	(4,336)	(4,336)
Balance at 31 March 2022		(3,480)	(3,480)
Changes in taxpayers' equity for 2022-23			
Net Parliamentary Funding		5,131	5,131
Comprehensive Net Expenditure for the year		(171)	(171)
Notional Auditors' Remuneration	4	76	76
Amounts issued from Consolidated Fund but not spent at year end	9	(2,051)	(2,051)
Balance at 31 March 2023		(495)	(495)

The notes on pages 109 to 125 form part of these accounts.

1. Notes to the departmental accounts

1.1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2022-23 Government Financial Reporting Manual (FRM) issued by HM Treasury. The accounting policies contained in the FRM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRM permits a choice of accounting policy, we have selected the policy we judge to be most appropriate to our particular circumstances for the purposes of giving a true and fair view. 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.

1.2 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified where materially significant to account for the revaluation of property, plant and equipment, intangible assets and certain financial assets and liabilities.

1.3 Property, plant and equipment

Items of property, plant and equipment (Note 5) and right-of-use assets (Note 15.1) have been stated at fair value using depreciated historic cost as a proxy and they 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 damaged equipment that is beyond economical repair is disposed of. Items include furniture and fittings, office machinery and telecommunications equipment, leasehold improvements and ICT equipment.

All individual items must exceed a capitalisation threshold of £2,500 for inclusion as property, plant and equipment. Where items operate co-dependently with one another and are unable to operate individually, they are treated as a single asset.

Since 1 April 2018, our policy is to group purchases of property, plant and equipment assets when the total purchase value is in excess of £0.1m.

Depreciation is provided at rates calculated to provide for the write down of an item of property, plant or equipment by equal instalments over its estimated useful life. Property, plant and equipment lives are in the following range.

Estimated useful lives of property, plant and equipment classes

Asset classification	Asset life
Leasehold improvements	Term remaining on lease
Furniture and fittings	7 years
ICT equipment	3-5 years
Office machinery and telecommunications	5 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 ICT equipment will operate without them. All individual items must exceed a capitalisation threshold of £2,500 for inclusion as an intangible asset.

Operating software is included with the cost of the tangible asset it supports. Software licences and bespoke software are amortised over the term of the licence or the useful economic life from the date the asset is brought into service, whichever is shorter.

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

1.5 Financing

We are primarily resourced by licence fees. Licence fees are charged to companies that we regulate in the water and wastewater sectors. The licence fees levied in relation to monopoly companies are subject to a cap governed by Condition N of statutory undertakers' Instruments of Appointment under the Water Industry Act 1991. Additional licence fees are payable by certain companies for specific work on the Thames Tideway Tunnel project, which had its own cap in this financial year, and a licence fee is paid by water supply and sewerage licensees.

1.5.1 Operating income

The FReM's definition of a contract under IFRS 15 Revenue from Contracts with Customers includes legislation and regulations which enable an entity to obtain revenue that is not classified as a tax by the Office of National Statistics. This definition captures the majority of our income streams.

Revenue from contracts with customers relates directly to Ofwat's operating activities. It comprises licence fees and other income. We do not have one specific performance obligation for each contract. Instead the performance obligation represents Ofwat carrying out its duties throughout the year. Revenue is therefore accounted for systematically over the period that the related costs are expensed.

Since our costs are primarily recovered through licence fees and invoiced in advance based on estimated costs, any licence fee income that materially exceeds actual levels

of operating costs is returned to appointed water companies and Tideway through credit notes in relation to the following year's licence fees with immaterial values surrendered to the Consolidated Fund.

We are mandated to collect licence fees from the appointed water companies and licensed suppliers in the business retail market in respect of CCW's operating costs.

This income is then transferred to the Department for Environment, Food and Rural Affairs (see note 16). We also collect contributions from appointed companies and transfer these to the Innovation Fund partner for the delivery of the innovation competitions (see note 16).

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

1.6 Cash

Cash is primarily generated through licence fees. At the end of a financial year, any cash remaining in our bank account (Government Banking Service) is paid over to the Consolidated Fund. As we do not receive income from companies at the start of the financial year, a sum is borrowed from the Government Contingencies Fund and repaid later.

1.7 Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. Our prepayment policy is to prepay invoices £10,000 and over. A provision for impairment of trade receivables is established when evidence supports the view that we will not be able to collect all amounts due in accordance with the original terms of the receivables.

1.8 Fines and penalty income

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 HMT Consolidated Fund at the date the final legal notice is served. The income is collected by us and surrendered to the HMT Consolidated Fund within 30 days of receipt.

1.9 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).

Following the adoption of IFRS 16 'Leases' from 1 April 2022, Ofwat has recognised all existing operating leases as finance leases, except for those which are exempt either by having less than 12 months to run from 31 March 2022 or are considered low value (less than £5,000).

1.10 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). We recognise the expected cost of this scheme on a systematic 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.

The retired Directors General are covered by 'by-analogy' pension schemes. These were established to meet the pension requirements of the Directors General and this was first put into place when the Director General was appointed in 1989 by the Secretary of State for the Environment under Section 5 of the Water Act 1989. The 'by-analogy' pension schemes offer similar benefits to the PCSPS. However, unlike the PCSPS, a pension liability is included in the accounts as required by International Accounting Standard (IAS) 19.

1.11 Value-added tax

Most of our activities are outside the scope of value added tax (VAT). 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.

1.12 Provisions

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 real discount rate for pension liabilities changed from (1.30)% real per annum to 1.70% real per annum from 31 March 2023.

1.13 Contingent liabilities

As well as contingent liabilities disclosed in accordance with IAS37, we disclose (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 Managing Public Money.

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 is noted separately. Contingent liabilities that are not required to be disclosed by IAS37 are stated at the amounts reported to Parliament.

1.14 Going concern

The Statement of Financial Position at 31 March 2023 shows negative taxpayers' equity of £0.5 million (31 March 2022: £3.5 million).

Under the Government Resources and Accounts Act 2000, and similar to other Government departments, we are required to surrender all cash balances to HM Treasury at the end of each financial year. This results in a corresponding deduction against reserves and in negative taxpayers' equity, and means we are unable to retain cash or reserves to offset our liabilities. The future financing of liabilities will be met by future grants of supply and the application of future income. This is approved annually by Parliament, and there is good reason to believe these future approvals will continue. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Our budget for 2023-24 was agreed via our Main Estimate, presented to the House of Commons on 18 May 2023.

1.15 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 unused leave entitlements at the end of the financial year.

1.16 Accounting estimates

The most material accounting estimate we make with significant judgement relates to pensions. Each year we commission an actuarial valuation by the Government Actuary's Department in relation to the by-analogy pension scheme. The demographic assumptions are consistent with those used elsewhere in central government for resource accounting purposes and with those adopted in previous years.

Note 13.2 to these accounts provides further information on the main demographic assumptions and sensitivity analysis.

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

1.17 Adoption of new and revised accounting standards

IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases are now accounted for on balance sheet for lessees. The standard replaced IAS 17 'Leases' and related interpretations and was effective for Government departments for annual periods beginning 1 April 2022 (with limited options for early adoption from 1 April 2019 and 1 April 2021).

2. Statement of operating costs by Clusters

At the start of 2020 Ofwat moved away from a rigid programme structure to encourage greater focus on outcomes, collaboration and agility across closely interconnected

areas of work. A Cluster structure was created and the tables below illustrate Ofwat's statement of operating costs on that basis.

For the 12 months ended 31 March 2023

Cluster	2022-23 £000	2021-22 £000
Corporate Enablers	8,190	7,124
Future Assets & Resources*	-	1,883
Company Performance & Price Reviews	9,092	6,909
Policy & Outcomes	6,790	4,667
Regulatory Enablers	5,591	5,308
RAPID	2,587	2,347
Thames Tideway Project Regulation	318	295
Total expenditure	32,568	28,533
Total income	(32,395)	(29,433)
Net operating expenditure/(income)	173	(900)

* The Future Assets & Resources cluster merged into the Policy & Outcomes cluster during the year.

Total income has been recognised over the period that the related costs are expensed.

3. Staff costs

	2022-23 £000	2021-22 £000
Wages and salaries	15,320	14,490
Social security costs	1,795	1,578
Other pension costs	3,848	3,603
Total	20,963	19,671

4. Expenditure

	2022-23 £000	2021-22 £000
Purchase of goods and services:		
Consultancy services*	5,659	4,543
Contingent labour	1,130	869
Training	242	263
Travel and subsistence	260	79
Taxation charges	6	9
Rates	155	227
Information Technology	1,049	836
Other hire and maintenance	28	15
Seminars, meetings and conferences	46	30
Publications, books and periodicals	162	130
Telecommunications	187	160
Recruitment costs	426	213
Office consumables	51	74
Accommodation expenses	130	77
Internal Audit fees	58	27
Records management	22	16
Other	323	138
	9,934	7,706
Rentals under operating leases:		
Accommodation	967	823
Office equipment	-	28
IT equipment	-	11
	967	862
Non cash items:		
Depreciation	492	221
Amortisation	105	76
Loss on disposal of assets	(1)	2
Addition/(release) of provisions	-	(95)
Interest on leases	14	-
Other finance costs	18	30
External Auditors' remuneration	76	60
	704	294
Total	11,605	8,862

* See Consultancy Expenditure on page 87 for further details

5. Property, plant and equipment

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

2022-23	Furniture & Fittings	Office Machinery & Telecoms	Leasehold Improvements	Information Technology	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2022	131	14	1,012	1,232	2,389
Additions	-	-	-	235	235
Disposals*	-	(6)	(562)	(216)	(784)
At 31 March 2023	131	8	450	1,251	1,840
Depreciation					
At 1 April 2022	120	14	901	735	1,770
Charged in year	8	-	92	80	180
Disposals*	-	(6)	(562)	(217)	(785)
At 31 March 2023	128	8	431	598	1,165
Carrying amount at 31 March 2023	3	-	19	653	675
Carrying amount at 31 March 2022	11	-	111	497	619
Asset Financing:					
Owned	3	-	19	653	675
Carrying amount at 31 March 2023	3	-	19	653	675

* During the 2022-23 year we identified assets no longer in use that needed to be disposed of. This was a result of an asset verification exercise as part of our new Finance system migration, and relocation of our London office.

2021-22	Furniture & Fittings	Office Machinery & Telecoms	Leasehold Improvements	Information Technology	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 1 April 2021	131	14	1,012	899	2,056
Additions	-	-	-	393	393
Disposals	-	-	-	(60)	(60)
At 31 March 2022	131	14	1,012	1,232	2,389
Depreciation					
At 1 April 2021	105	14	758	730	1,607
Charged in year	15	-	143	63	221
Disposals	-	-	-	(58)	(58)
At 31 March 2022	120	14	901	735	1,770
Carrying amount at 31 March 2022	11	-	111	497	619
Carrying amount at 31 March 2021	26	-	254	169	449
Asset Financing:					
Owned	11	-	111	497	619
Carrying amount at 31 March 2022	11	-	111	497	619

6. Intangible assets

Intangible assets consist of purchased software licences.

2022-23	Purchased software licences	Total
	£000	£000
Cost or valuation		
At 1 April 2022	684	684
Additions	44	44
Disposals*	(201)	(201)
At 31 March 2023	527	527
Amortisation		
At 1 April 2022	514	514
Charged in year	105	105
Disposals*	(201)	(201)
At 31 March 2023	418	418
Carrying amount at 31 March 2023	109	109
Carrying amount at 31 March 2022	170	170

* During the 2022-23 year we undertook an asset verification exercise as part of our new Finance system migration, which identified intangible assets no longer in use that needed to be disposed of e.g. software.

2021-22	Purchased software licences	Total
	£000	£000
Cost or valuation		
At 1 April 2021	592	592
Additions	92	92
At 31 March 2022	684	684
Amortisation		
At 1 April 2021	438	438
Charged in year	76	76
At 31 March 2022	514	514
Carrying amount at 31 March 2022	170	170
Carrying amount at 31 March 2021	154	154

7. Capital and other commitments

7.1 Operating leases

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

	2022-23 £000	2021-22 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	559	471
Later than one year and not later than five years	2,179	-
Later than five years	138	
Total	2,876	471
Other		
Not later than one year	-	44
Later than one year and not later than five years	-	34
Total	-	78

A key change arising from the adoption of IFRS 16 'Leases' on 1 April 2022 is that rentals under Ofwat's previous operating leases are now accounted for on the statement of financial position in 2022-23 as per note 15. The amounts in 2022-23 are variable lease payments not included in lease liabilities.

IAS17 operating lease commitments at 31 March 2022 were £549,000 (buildings £471,000 and other £78,000). Of this £471,000 (buildings) were treated as short term on initial application of IFRS16 as set out in note 15.1. The remaining amount of £78,000 (other) represents the IFRS16 lease liability at 1 April 2022.

8. Financial instruments

Ofwat is not exposed to the same degree of financial risk as 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 organisation in undertaking its activities.

8.1 Liquidity risk

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

8.2 Interest rates and foreign currency risks

All 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.

8.3 Fair values

There is no material difference between the book values and the fair values of Ofwat's financial assets and liabilities at 31 March 2023.

9. Cash and cash equivalents

Any cash held at 31 March 2023 by Ofwat must be surrendered to the Consolidated Fund per note 1.6.

	2022-23 £000	2021-22 £000
Balance at 1 April	4,336	3,320
Net change in cash and cash equivalent balances	(2,285)	1,016
Balance at 31 March	2,051	4,336
The following balances at 31 March were held at:		
Government Banking Services (GBS)	2,051	4,336
Total	2,051	4,336

10. Trade receivables and other assets

	2022-23 £000	2021-22 £000
Amounts falling due within one year		
Trade receivables*	4,679	367
Deposits and advances	25	17
HM Revenue and Customs (VAT)	151	230
Prepayments and accrued income	270	614
Total	5,125	1,228
Amounts falling due after more than one year:		
Prepayments and accrued income	36	80
Total	36	80

* The increase in trade receivables is due to the timing of our licence fees income being invoiced. This was invoiced during March 2023 hence the greater number still to be collected as at 31 March 2023.

11. Trade payables and other liabilities

	2022-23 £000	2021-22 £000
Amounts falling due within one year		
Trade payables	527	690
Other payables	398	379
Other taxation and social security	417	430
Accruals	3,655	2,628
Deferred income	-	17
HM Revenue and Customs (VAT)	4	-
Amounts issued from the consolidated fund for supply but not spent at year end	2,051	4,336
Total	7,052	8,480

12. Provisions for liabilities and charges

Provisions	2022-23 £000		2021-22 £000
	Dilapidations Provision	Total	Total
Balance at 1 April	215	215	419
Provisions utilised in the year	-	-	(109)
Provisions not required written back	-	-	(95)
Balance at 31 March	215	215	215

Analysis by type	2022-23 £000		2021-22 £000
	Dilapidations Provision	Total	Total
Amounts falling due within one year	215	215	215
Amounts falling due after more than one year	-	-	-
Total	215	215	215

Analysis of expected timing of discounted flows	2022-23 £000		2021-22 £000
	Dilapidations Provision	Total	Total
Not later than one year	215	215	215
Balance at 31 March	215	215	215

The dilapidations provision is in relation to our old London office lease. Negotiations with the landlord are still continuing with the aim to conclude in the next 12 months.

13. Pensions Liabilities

13.1 Pensions Liabilities

Pensions liabilities	2022-23 £000	2021-22 £000
Balance at 1 April	1,218	2,523
Interest cost	18	30
Benefits paid	(155)	(197)
Actuarial loss/(gain)	(2)	(1,138)
Balance at 31 March	1,079	1,218

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 until there are no members remaining in the scheme. 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.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) as at 31 March 2023. The liability decreased from 31 March 2022 to 31 March 2023. This was primarily due to the increase in the discount rate used over the period.

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

- Mortality improvements to 2016 are based on historic population experience for those years. Improvements since 2016 are based on improvements underlying 2020-based UK principal population projections by the Office for National Statistics.
- All members are assumed to have a spouse or eligible partner from the date their pension is assumed to be paid. Male members are assumed to be three years older than their partners and female members are assumed to be two years younger than their partners.

The main financial assumptions used to assess liabilities at 31 March 2023 are as follows:

- The gross discount rate is assumed to be 4.15 % a year (31 March 2022: 1.55%).
- The consumer price index (CPI) is assumed to be 2.40% (31 March 2022: 2.90%).
- Net (of CPI) discount rate is assumed to 1.70% (31 March 2022: -1.30%).

13.2 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 increase in liabilities of approximately 2.0%, or £26,000.
- Increasing the CPI inflation assumption by 0.5% would result in a corresponding decrease in liabilities of approximately 2.0%, or £25,000.
- Increasing assumed life expectancies in retirement to equal those of people one year younger would result in a corresponding decrease in liabilities of approximately 5.0%, or £56,000.

The opposite changes in assumptions 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.

13.3 Analysis of actuarial (gains)/losses

Analysis of actuarial (gains)/loss	2022-23 £000	2021-22 £000
Experience (gains)/losses arising on the scheme liabilities	180	(1,159)
Changes in assumptions underlying the present value of scheme liabilities	(182)	21
Actuarial (gains)/loss	(2)	(1,138)

13.4 History of experience losses

History of experience losses	2022-23 £000	2021-22 £000	2020-21 £000	2019-20 £000
Experience (gains)/losses arising on the scheme liabilities				
Amount	180	(1,159)	26	40
Percentage of the present value of the scheme liabilities	16.7%	(95.2)%	1.0%	1.6%
Total amount recognised in Statement of Taxpayers' Equity				
Amount	(2)	(1,138)	126	124
Percentage of the present value of the scheme liabilities	(0.2)%	(93.4)%	5.0%	4.9%

14. Contingent liabilities disclosed under IAS37

On occasion, we may be subject to formal legal challenge including by way of judicial review.

During 2022-23, Wild Justice launched judicial review proceedings. These were dismissed at the permission stage and permission to seek leave to appeal to the Court of Appeal against that judgment was refused.

In February 2023, Northumbrian Water brought judicial review proceedings against Ofwat with respect to aspects of our in-period ODI determination made in November 2022, and the outcome is currently unknown.

15. Leases

Following the adoption of IFRS 16 'Leases' from 1 April 2022, Ofwat has recognised all leases as finance leases, except for those which are exempt either by having less than 12 months to run from 31 March 2022 or are considered low value (less than £5,000) as per the practical expedients in adopting IFRS 16.

The finance lease right of use asset is recognised as an asset and a corresponding lease liability at the net present value (NPV) of future lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

A discount rate of 0.95% has been applied in the calculations of interest on lease liabilities. As at 31 March 2023, Ofwat was committed to making the following payments in respect of finance leases:

15.1 Right-of-use assets

Right-of-use assets	2022-23 £000			
	Buildings	Information technology	Office machinery and telecoms	Total
Initial adoption of IFRS 16 on 1 April 2022	-	55	46	101
Additions to right-of-use assets	2,730	-	-	2,730
Depreciation charged in year	(259)	(22)	(31)	(312)
At 31 March 2023	2,471	33	15	2,519

On 1 April 2022, Ofwat recognised two finance leases: a lease for a video conferencing system used in our Birmingham office and a lease in relation to multi-functional devices (MFDs) used in our offices.

During 2022-23, we entered into a new lease in relation to our existing Birmingham office and a lease for a new London office. The previous leases were not recognised because they had less than 12 months to run on 1 April 2022 so we took the practical expedient available under IFRS 16.

15.2 Lease liabilities

Lease liabilities	2022-23 £000
Buildings	
Not later than one year	515
Later than one year and not later than five years	2,144
Later than five years	16
Less interest element	(60)
Present value of obligations	2,615
Other	
Not later than one year	38
Later than one year and not later than five years	11
Later than five years	-
Less interest element	-
Present value of obligations	49
Total present value of obligations	2,664
Current portion	530
Non-current portion	2,134

The new London office lease commenced in August 2022 for a term of 6 years. The Birmingham office lease commenced in November 2022, when the previous lease expired, for a term of 5 years.

The MFD lease has a term of 5 years and is due to end in October 2023. The video conferencing lease has a term of 3 years and is due to end in September 2024.

15.3 Elements in the Statement of Comprehensive Net Expenditure

	2022-23 £000
Variable lease payments not included in lease liabilities	332
Expense related to short-term leases	635

15.4 Cash outflow for leases

	2022-23 £000
Total cash outflow for leases	182

16. Related party transactions

16.1 Defra/CCW (third party assets)

We are mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCW's operating costs. This income is then transferred to the Department for Environment, Food and Rural Affairs. In accordance with HM Treasury guidance, we do not record these transactions in our financial statements.

We transferred £6.3 million to Defra in respect of CCW's operating costs in 2022-23 (2021-22: £6.0 million), with £0.7m cash collected but not transferred as at 31 March 2023. This is not recorded in our financial statements or cash balances (Note 9).

16.2 Innovation Fund (third party assets)

As part of PR19, Ofwat allowed appointed companies to collect from their customers a combined total of £200 million to be used to facilitate and deliver innovation in the water sector during the current price review period (2020-25). Ofwat does not hold this £200m, rather it is maintained by appointed companies. Part of the money collected from customers will be used to pay for the Innovation Fund partner Ofwat has procured to help deliver the innovation competitions. We are mandated to collect contributions from appointed companies and transfer these to the Innovation Fund partner for the delivery of the competitions.

In 2022-23 we transferred £2.2 million (2021-22: £1.5 million) to the Innovation Fund partner, with £0.1m cash collected but not transferred as at 31 March 2023. This is not recorded in our financial statements or cash balances (Note 9).

16.3 Other

We also have a small number of immaterial transactions with other government departments.

Senior managers' remuneration is disclosed in the Remuneration and staff report. There are no undisclosed related party transactions between Ofwat and any of our Directors.

17. Events after the reporting period

The Accounting Officer duly authorised the issue of these financial statements on the date of the Comptroller and Auditor General's audit certificate. The financial statements do not reflect events after this date.

Part 4

Appendices

The appendices are not subject to audit.

A1 Progress on projects described in Ofwat’s Forward Programme 2022-23

Below we highlight our progress against the work we outlined in Ofwat's Forward Programme 2022-23. The status shown reflects progress against the commitments in the forward programme during the year as a whole. Our teams have delivered the majority of our Forward Programme milestones.

What we said	Status
April to June 2022	
Publish any recommendations following the RAPID Regulatory and Commercial Framework consultation	Met
Publish guidance on our Direct Procurement for Customers Framework	Met
Evaluate the innovation fund’s pilot period and consult on future plans	Met
Progress the recommendations of our initial assessment of companies’ compliance with Flow to Full Treatment requirements of their environmental permits	Met
July to September 2022	
PR24 – consult on our draft methodology for setting the revenue limits, performance commitments and incentive framework (‘price controls’) for regional water and wastewater companies	Met
Business retail – consult on proposals relating to the business retail price caps	Met
Support the development of draft regional water resource plans	Met
Publish and lay our annual accounts 2021-22 before the UK Parliament and the Senedd to account for our work and expenditure during the year, including explaining how we have contributed to delivering the strategic priorities and objectives set for us by the UK and Welsh Governments	Met
October to December 2022	
Business retail – publish decisions relating to the business retail price caps (implementation from April 2023)	Met
Publish in-period determinations for the 17 largest companies so that any incentive payments due can be recovered in the 2023-24 charging year	Met
Publish annual league tables on companies’ service to their customers: the customer service measure of experience (C-MeX) to their residential customers and developer services measure of experience (D-MeX) to their developer customers	Met
Publish final Regulatory Accounting Guidelines 2022-23 to ensure that the annual performance report is prepared consistently and in line with our overall regulatory reporting framework	Met
Publish our Water Company Performance Report (previously known as Service Delivery Report) and Monitoring Financial Resilience Report	Met
Following our consultation, publish our final methodology for setting the price controls for water companies from 2025-30	Met
Complete the review of industry progress on open data	Met, with publication of our review in June 2023

<p>Gate two assessment of the RAPID programme strategic water supply infrastructure projects on the standard track and gate three assessment of the projects on the accelerated track</p>	<p>Ongoing</p> <p>The gate two assessments for those strategic water supply infrastructure projects on the standard track are complete.</p> <p>The gate three assessments of the projects on the accelerated track are delayed until Q4 2023/24, as per a request from the water companies, which we have accepted.</p>
<p>Respond to draft WRMP consultations</p>	<p>Met, with responses to the final two draft WRMPs provided on 24 May 2023, which were previously delayed due to their ongoing consultations; we responded to all other draft WRMPs during the financial year.</p>
<p>January to March 2023</p>	
<p>Publish final forward programme for 2023-24</p>	<p>Met</p>

A2 Performance against stated levels of service

This appendix covers our performance in dealing with customers' enquiries and complaints and in responding to requests for information under freedom of information and data protection legislation.

We do not generally deal with individual customers' enquiries and complaints about water companies. The Consumer Council for Water (**CCW**) is the statutory consumer body for the water sector in England and Wales and is the primary contact for complaints customers may have about their water company. Nevertheless, we receive a significant number of contacts from customers and stakeholders each year. We also have a statutory role to investigate and decide on [particular types of customer disputes](#), and to make decisions on whether to grant water supply licences and/or sewerage licences for retailers in the business retail market (collectively and individually referred to as **WSSLs**) and new appointments and variations of appointments (**NAVs**).

[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, including Ofwat. They place a number of obligations on us and also set out exemptions to rights of access. Detailed information on the FOIA and EIR is available from the Cabinet Office and the Information Commissioner's Office (**ICO**). You can view the performance of participating bodies on their website. Ofwat also responds to Subject Access Requests (SARs) to meet its responsibilities under the [Data Protection Act 2018](#).

We have standards of service timescales within which we aim to complete our customer-facing work. Below we set out how we performed against them during 2022-23. Where we have fallen materially short of our targets we have identified actions to improve our performance in 2023-24.

Where a stakeholder is unhappy about how we have handled a complaint or case, whether as part of our casework or information governance, they can ask us to review what we did in line with our [complaints process](#). In 2022-23 we received four requests for internal reviews.

Metric	Details of what is being measured	Total number	Target	2022-23 Actual
Information requests				
FOI/EIR requests	Enquiries responded to within the 20-day deadline	190: 136 FOIs, 54 EIRs (7 FOIs received during 2022-23 were still ongoing at the end of the financial year; these were subsequently dealt with within the 20-day deadline)	100%	97% (131 FOI, 52 EIR)
SARs	Enquiries responded to within the deadline	1	100%	100%
General enquiries				
General enquiries	Enquiries responded to within ten working days of receipt	824	95%	99% (815)
Disputes and complaints about water and wastewater services				
General complaints – Ofwat has no legal role¹¹	Complaints where Ofwat has no legal role, responded to within ten working days of receipt	1,776	95%	99% (1763)
Complex complaints – Ofwat has no role	Complaints acknowledged within ten working days of receipt	51	95%	86% (44)
	Complaints responded to within 20 working days of receipt	45	95%	76% ¹² (34)
Complaints – Ofwat may/does have a role – Preliminary Assessment¹³	Complaints acknowledged within ten working days of receipt	15	95%	100% (15)
	Complaints responded to within 20/40 working days of receipt	13	95%	69% ¹⁰ (9)
Internal Reviews	Reviews conducted within the deadline	2	100%	0%

11 When we receive a customer complaint, we consider if it falls within the scope of our legal powers. Many of the customer complaints we receive are not issues we have legal powers to address, but rather matters on which CCW can provide assistance, including by trying to mediate a resolution for the customer.

12 Some complex complaint issues can take longer to respond to because they require us to gather more information from the customer and water company concerned and to seek advice from internal or external subject matter experts to inform our decision. We have completed lessons learnt exercises on complaints where we have not met our target levels of service to understand which areas of our process have taken longer to complete and contributed to us missing our service levels. This year we have introduced a new investigation toolkit as an internal guide to support our staff in these areas, equipping them to complete timely, high-quality assessments, and we have seen a small improvement in response times since last year, however there are still improvements to be made. The team has completed case handling training in the final quarter of this year and we will be focusing on improving our response times in the coming year.

13 We have a legal duty to investigate some types of dispute a customer may have with their water company. For other types, legislation provides us with discretion as to whether it is appropriate for us to investigate.

Metric	Details of what is being measured	Total number	Target	2022-23 Actual
Investigations we carry out				
Customer disputes cases¹⁴	Formal cases closed within our service standard timeframes (including those cases closed prior to final decision/ determination due to informal resolution or withdrawal by the customer)	0 (we opened two new cases in 2022-23, these remain open and within our target service level)	100%	Not applicable
Licensing				
NAV applications¹⁵	NAV applications for which we completed our initial checks within five working days of receipt	469	100%	94% (439)
	NAV application decisions made within 85 working days of receipt	448	100%	97% (436)
WSSL applications¹⁶	WSSL applications (including self-supply) for which we completed our initial checks within five working days of receipt	3	100%	100% (3)
	WSSL application decisions made within 45/60 working days of receipt	2	100%	100% ¹⁷ (2)
WSSL Revocations	Number of WSSL revocations completed ¹⁸	2	N/A	N/A

¹⁴ Further information on what we can investigate, and our target timescales, can be found on our website - <https://www.ofwat.gov.uk/regulated-companies/investigations/how-we-investigate/>

<https://www.ofwat.gov.uk/wp-content/uploads/2016/09/Our-timeframes-for-handling-cases.pdf>

¹⁵ Further information on new appointments and variations can be found on our website -

<https://www.ofwat.gov.uk/regulated-companies/markets/nav-market/getting-a-new-appointment/>

¹⁶ Further information on water supply and sewerage licences and our processing timescales can be found on our website - <https://www.ofwat.gov.uk/regulated-companies/markets/business-retail-market/water-supply-sewerage-licences/>

¹⁷ The application decisions we made in 2022-23 remain more complex in nature, compared to previous years. These required significant follow-up information and assessment. In the 2022-23 period we refused an application for a WSSL as the application did not demonstrate the competencies we assess against. The WSSL Licences we have refused are set out at [WSSL Applications Refused – Ofwat](#).

¹⁸ We revoked two WSSL licences in 2022-23, both at the request of the licensees. Details of the revoked licences are set out at [https://www.ofwat.gov.uk/regulated-companies/markets/business-retail\[1\]market/water-supply-sewerage-licences/licence-revocation/](https://www.ofwat.gov.uk/regulated-companies/markets/business-retail[1]market/water-supply-sewerage-licences/licence-revocation/)

A3 List of impact assessments carried out during 2022-23

For the major decisions we have undertaken, our assessment of the impacts of our proposals, and final decisions, as against other options is embedded within our decision documents, with summaries in annexes where appropriate (for example in the PR24 final methodology and financial resilience decision).

A4 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 below.

Report on progress

Area of work	Reducing regulatory burdens
Development of strategic resources and Ofwat oversight	<p>The Regulators' Alliance for Progressing Infrastructure Development (RAPID) was set up to be a cross-regulatory unit focused on facilitating timely and co-ordinated development of large-scale water resources infrastructure schemes. RAPID provides a single point of contact and co-ordination across the three water regulators in England to ensure the timely and efficient resolution of regulatory issues affecting strategic infrastructure development.</p> <p>RAPID continues to work collaboratively with the water industry to develop proportionate approaches, including through use of 'stage gate' submissions. Working alongside the industry we have co-designed templates that meet our requirements for each specified activity in a succinct way and are actively learning lessons at each gate. We continue to use a risk-based approach to reporting, providing common reporting pro formas, revising these following company feedback and using cross-company groups to share good practice. Throughout this activity, we are considering how we can adapt the regulatory regime to make it operate more effectively, and also exploring how regulatory burdens might be reduced.</p>
PR24 and beyond	<p>In our final methodology, we have:</p> <ul style="list-style-type: none"> • Sought to rationalise the number of reconciliation mechanisms with the aim of reducing unnecessary complexity and regulatory burden. • Reduced complexity as we have removed some developer services from the scope of our price controls. (For English water companies at PR24, water site-specific developer services will be removed from the water network plus price control at PR24, and we have removed wastewater site-specific developer services from the wastewater network plus price control at PR24). • Reduced reporting as we have encouraged companies to reduce the number of bespoke performance commitments and focused on a set of common performance commitments that are important to customers and the environment and also reflect our duties.
Regulatory reporting and monitoring	<p>In December 2022 we published the Monitoring Financial Resilience report and the Water Company Performance report (previously known as the Service Delivery report); the information in these reports provides transparency for customers, and wider stakeholders, to see how water companies are performing on the issues that matter to them. In February 2022 we consulted on companies' annual regulatory reporting obligations for the 2022-23 reporting year, which highlighted proposed changes to the reporting requirements for the Annual Performance Report (APR). In carrying out the consultation, we were conscious of the need to balance the burden on companies with making sure we have the right information to hold companies to account to help ensure that they are providing the service that their customers expect.</p> <p>Going forwards, we will continue to focus on striking the right balance between limiting burdens on companies and making sure we have the right information to hold companies to account</p>
Innovation	<p>We are continuing to help companies and innovators navigate the broader water sector regulatory landscape and address any perceived regulatory barriers, through a joint innovation query portal Streamline, working alongside Drinking Water Inspectorate and the Environment Agency. This enables regulators to provide coordinated support to a range of innovators.</p>
Licensing and enforcement	<p>Since 2019-20, the casework and enforcement team has been using a case management system to help deliver our customer enquiries and licensing services to customers more efficiently and consistently. The system and linked customer portal have made it a smoother process for customers and businesses submitting complaints and regulatory information to us. In 2022-23, the system continues to reduce regulatory burdens on users of our services. In addition, following a series of recommendations from 2021-22, we have since further streamlined the process for business applicants submitting "new appointment and variation" (NAV) licence applications to us and, in doing so, reduced administrative burdens for businesses and Ofwat.</p>

A5 Directions given by the Secretary of State under section 27(3) of the Water Industry Act 1991

None.

A6 Final and provisional orders made and penalties imposed

None.

A7 Reference of cases or issues to the Competition and Markets Authority

None.

A8 Staff composition 2022-23

Staff recruitment (by gender and ethnic group)

Year	Level and salary range	Band 1 £17,829 to £24,492	Band 2 £24,493 to £33,850	Band 3 £33,851 to £50,615	Band 4 £50,616 to £77,422	Band 5 £77,423 to £116,134	Total
2022-23	Full-time equivalent staff appointed	0	17	19	13	3	52
	Proportion of women (%)	0	65	42	47	67	52
	Proportion from ethnic minorities (%)	0	53	42	19	0	37
2021-22	Full-time equivalent staff appointed	0	26	18	12	3	59
	Proportion of women (%)	0	58	72	33	67	58
	Proportion from ethnic minorities (%)	0	38	22	8	0	25
2020-21	Full-time equivalent staff appointed	0	8	8	15	2	33
	Proportion of women (%)	0	75	38	56	0	53
	Proportion from ethnic minorities (%)	0	25	0	0	50	9
2019-20	Full-time equivalent staff appointed	6	13	13	9	1	42
	Proportion of women (%)	33	77	62	44	100	60
	Proportion from ethnic minorities (%)	0	15	9	13	0	10

All figures are rounded to the nearest whole number.

Staff in post

Type	31 March 2023	31 March 2022	31 March 2021	31 March 2020
Employed staff headcount	261	255	243	240
Agency staff and consultancy headcount	9	16	10	8

Employed staff information

Area	31 March 2023	31 March 2022	31 March 2021	31 March 2020
*Full-time equivalent staff	251	246	234	232
Proportion of women (%)	49	52	52	50
Proportion from ethnic minorities (%)	22	21	16	15
Proportion disabled (%)	5	3	3	3
Members of the Senior Civil Service	8	8	10	10
Number of fixed-term and casual contracts	32	31	19	32
Number of staff working part-time	37	34	33	28
Staff turnover (%)	18	20	9	16

*FTE figure is rounded up to the nearest whole number.

Staff training attendance (by ethnic group)

Ethnic group ⁽¹⁾	2022-23		2021-22		2020-21		2019-20	
	Number of training days	%	Number of training days	%	Number of training days	%	Number of training days ⁽²⁾	%
White								
Other ethnic groups								
Unknown								
Total number of training days								

1. We did not collect information on training days by ethnic group

2. No information on training days was captured by Ofwat in 2019-20, 2020-21, 2021-22 or 2022-23 (the previous Civil Service Learning site has been decommissioned and we are not able to access old records).

Staff by gender

Area	31 March 2023	31 March 2022	31 March 2021	31 March 2020
Employed staff headcount	261	255	243	240
Number of women	128	133	126	123
Number of men	133	122	117	116
Number unspecified				1

Senior Directors by gender*

Area	31 March 2023	31 March 2022	31 March 2021	31 March 2020
Employed headcount	7	7	9	10
Number of women	5	5	6	6
Number of men	2	2	3	4

* These figures exclude the role of the Chief Executive.

Members of Senior Civil Service by gender

Area	31 March 2023	31 March 2022	31 March 2021	31 March 2020
Employed headcount	8	10	10	10
Number of women	5	7	7	7
Number of men	3	3	3	3

A9 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 and to have due regard to the need to:

- eliminate discrimination;
- advance equality of opportunity; and
- foster good relations between different people.

The equality duty is supported by specific duties set out in regulations. 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. We set out below how we have complied with this duty in 2022-23 in our external and internal activities.

External

Our corporate strategy, Time to Act, together, sets out our clear expectations that the water sector must act to ensure that customers' diverse needs, and particularly those in vulnerable circumstances, are properly met. Alongside other members of the UK Regulators' Network (UKRN), we signed up to the [UKRN D&I pledges](#) to drive change and raise standards for Equality, Diversity and Inclusion (EDI) within the sector we regulate. Initiatives undertaken during the year include:

- Ensuring EDI was a key consideration in the development of proposals for a new customer licence condition. The proposals set out our aim to achieve high standards of customer service and support for the full diversity of customer needs across the water sector.
- Reviewing what C-MeX data we collect to give us greater insight into the experience of different groups.
- Taking account of EDI in the evaluation of our Innovation Fund.
- New 'Your water, your say' open meetings, hosted by water companies as part of PR24 planning, which will help to deepen companies' understanding of local communities and amplify different voices.
- Continuing our own research, and working in partnership with CCW, to understand customers' needs and experiences better, including on issues such as affordability.
- Encouraging companies to consider the balance of skills, experience, independence and knowledge of their boards to ensure diversity and how stakeholder needs are addressed. We do this through our board leadership, transparency and governance principles.

As an organisation, we help advance equality of opportunity through access to information. Our website complies with government guidance on accessibility, and we introduced new functionality which enables our website to be translated into 12 different languages, including Welsh. In line with the Equality Act we also make reasonable adjustments for disabled customers who would otherwise face difficulties contacting us to raise an enquiry or complaint. We have a Welsh language scheme and use a scoring system to objectively identify which material needs to be published in Welsh or bilingually. For more information, please see Appendix A11.

Internal

Equality, Diversity and Inclusion (EDI) is one of the themes in our People Strategy which will help to make Ofwat a Great Place to Be. In 2021, we launched our first EDI strategy, Being Ourselves. Over the last year we have continued to implement the four pillars of our EDI strategy: Educate, Evolve, Engage and Equip.

Educate

- Supporting the creation of staff networks for conversation and community around those who have, and are allies for, protected characteristics.
- Continuing to host guest speakers to talk about different aspects of EDI, as well as periodically hosting our popular 'Elephant in the Room' sessions, which enable open conversations about EDI issues.
- Conducting a range of EDI training, for example on the impact of the menopause, to support colleagues in the workplace.
- Continuing to equip our People Leaders will be essential to embedding EDI into our DNA.

Evolve

- Building our external EDI profile, including more information on our website and on social media.
- Publishing data on our gender and ethnicity pay gaps.

Engage

- Strengthening our 'Being Ourselves' champions with a new chair appointed from within the champions group.
- Participating in the water sector Women's Network to discuss areas of shared interest for women working in the sector.
- Continuing to build external partnerships and some of these are reflected in the events that we share internally and the speakers that contribute to our 'Outside In' sessions.

- EDI is now a regular topic of discussion with water companies and other stakeholders within the sector.

Equip

- Introducing transparent interviews: sharing some interview questions with candidates in advance.
- Commencing work on our Employer Value Proposition (EVP) project to help us refresh the way that we promote roles externally and help us tell stories internally about Ofwat's culture.
- Flexible working, part-time and job-share options are standard now in candidate packs, contributing to increasing attraction of our roles to people with caring responsibilities, people with disabilities, both older and younger candidates.

We have looked at the responses to the questions in the Inclusion and Fair Treatment section of the annual People Survey 2022. The key results are:

- 85%: said that Ofwat supports inclusion and fair treatment.
- 89% said Ofwat respects individual differences such as culture, background or ideas.
- 92% said they are treated with respect by the people they work with.

A10 Trade Union Time

We are required to report on Trade Union time pursuant to the [Trade Union \(Facility Time Publication Requirements\) Regulations 2017](#).

Relevant union officials

The total number of employees who were relevant union officials during the relevant period is set out below.

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
4	3.8

Percentage of time spent on facility time

We set out below the number of employees who were relevant union officials employed during the relevant period and the percentage of their working hours spent on facility time.

Percentage of time	Number of employees
0-0.99%	
1-50%	4
51%-99%	
100%	

Percentage of pay bill spent on facility time

We set out below the percentage of Ofwat's total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

Total cost of facility time	£8.6k
Total pay bill	£20,887K
Percentage of the total pay bill spent on facility time	0.04%

Paid trade union activities

We set out below the number of hours spent by employees who were relevant union officials during the relevant period on paid trade union activities as a percentage of total paid facility time hours.

Time spent on paid trade union activities as a percentage of total paid facility time hours	0%
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A11 Welsh language report

Under the Welsh Language Act 1993, every public body providing services to the public in Wales has to prepare a scheme that sets out how it will provide those services in Welsh.

Ofwat's [Welsh Language Scheme](#) describes how we will give effect, as far as we are able, to the principle established by the Welsh Language Act, that the Welsh and English languages should be treated equally.

Our scheme covers the services that we provide to the public in Wales. It was prepared under section 21 of the Welsh Language Act, and in accordance with guidelines issued by the Welsh Language Commissioner under section 9 of the Act. It came into effect on 27 September 2007.

This Appendix outlines the progress that Ofwat has made during the 2022-23 financial year in delivering public services in accordance with our Welsh Language Scheme. It also identifies areas for improvement.

Our Welsh Language Scheme

Our Welsh Language Scheme is available in both Welsh and English on our website. We are able to print hard copies of the scheme on request in either language.

During 2022-23, we trialled and adopted a new tool to make our website instantly available in the Welsh language. We introduced the 'ReciteMe' tool in January 2023 and will report on its usage in next year's annual report.

We will continue to use human translation where a publication needs to be available in a hard copy or downloadable format, for example, our annual report and accounts.

We also publish social media posts in Welsh to highlight relevant news and publications.

Internal arrangements

The Welsh Language Scheme as it relates to Ofwat is administered by our Communications team. The measures in the Welsh Language Scheme carry the full authority, support and approval of our organisation.

While we have not prepared a detailed action plan, we take our commitment to the scheme very seriously. For example, during 2022-23, we continued to use only qualified translators to help us deliver against the scheme. The translators we use are members of the Association of Welsh Translators and Interpreters.

Monitoring

We monitor our progress in using the Welsh language through self-assessment, as agreed with the Welsh Language Commissioner.

Reviewing and amending the scheme

Following the successful implementation of our new 'ReciteMe' tool, we now aim to seek approval for a revised Welsh Language Scheme in 2023-24.

Communicating with the Welsh-speaking public in 2022-23

Correspondence

In accordance with our scheme, if someone writes to us in Welsh, then we will reply in Welsh. We received one email written in Welsh during 2022-23.

Telephone communications

During 2022-23, we did not receive any telephone enquiries in Welsh.

Public meetings

We held no public meetings in Wales or in England during 2022-23.

Meetings with the public in Wales

Since establishing our Wales office we have built our visibility and engagement in Wales. This includes hearing directly from customers through various engagements organised by companies as well as through working closely with the customer champions for both Dŵr Cymru and Hafren Dyfrdwy. Insights gained from this engagement are invaluable when considered alongside the collaborative customer research that has been conducted for PR24 as well as other specific research that we have completed over the year. We work closely with all key stakeholders in Wales through a range of fora, including the Wales PR24 Forum, Wales Better River Quality Taskforce and the Wales SAC Rivers oversight group.

Other dealings with the public in Wales

We have not conducted research exclusively in Wales during 2022-23.

Where we have carried out customer research we have included booster samples to allow us to report separately for Wales. This includes surveys on the cost of living, and trust and perceptions. We have published datasets for Wales and, for some reports, translated the findings into Welsh.

From January 2023 all our reports can now be viewed in the Welsh language.

Our public face

Publicity campaigns and advertising

We did not carry out any publicity campaigns wholly or mainly in Wales during 2022-23. Nor did we place any advertisements in English language papers published wholly or mainly in Wales.

Publications

From January 2023 our website and publications have been available instantly in the Welsh language online. Where a hard copy or downloadable format is needed, we will continue to have our publications separately translated.

Ofwat Welsh language social media statistics 2022-23

We increased our number of twitter posts in the Welsh language in 2022-23, but the number of our LinkedIn posts decreased.

	2022-23	2021-22
Social media platform	Number of posts in Welsh language	Number of posts in Welsh language
Twitter	58	51
LinkedIn	32	51

Website

We have continued to maintain the '[Cymraeg](#)' section of the Ofwat website.

The 'Cymraeg' section provides Welsh-speaking users with information and links to the websites of companies that operate wholly or mainly in Wales: Dŵr Cymru and Hafren Dyfrdwy Cyfyngedig.

Below we set out the number of views each of the three pages in the 'Cymraeg' section received in 2022-23 and the average length of time users spent on them. We have included information for the previous two years for comparison.

We have now introduced a new tool to allow instant translation of our website and publications into the Welsh language. From next year we will report on the usage of the new tool instead of visits to the 'Cmyraeg' section of our website.

Ofwat 'Cymraeg' website section: usage statistics 2022-23, 2021-22 and 2020-21

Pages	2022-23		2021-22		2020-21	
	Page views	Average length of time on page	Page views	Average length of time on page	Page views	Average length of time on page
Amdanom ni	8	39 seconds	25	28 seconds	57	23 seconds
Cysylltu â ni	12	4 seconds	25	24 seconds	61	9 seconds
Cyhoeddiadau	10	1 minute 41 seconds	47	2 minutes 21 seconds	78	30 seconds

We will take into account any specific guidance from the Welsh Language Commissioner as part of any overall long-term development plan for the website.

Official notices, public notices and staff recruitment notices

During 2022-23, we published no official notices or public notices relating to issues that relate wholly or mainly to Wales. The staff recruitment notices we published in Welsh are set out below.

Press releases and contact with the media

During 2022-23 (and up to January 2023) we issued 11 press releases in the Welsh language (compared to seven in 2020-21). These were issued to Welsh language press and broadcast media.

Since January 2023, all of our press notices are now available to view instantly in the Welsh language using our new website tool.

Implementing the scheme

Staffing and recruitment

We do not generally ask job applicants to provide information about their Welsh language skills. When recruiting senior roles we do extend our reach to be inclusive and ensure all of the recruitment materials are translated in Welsh.

In 2023 we have advertised our Senior Director, Price Reviews vacancy in Welsh and English. Similarly, we advertised our four further Senior Director vacancies (Sector Performance, Casework, Enforcement & Customers and Major Projects and Markets) in Welsh and English.

In our 2023 Graduate Development Programme recruitment we continued to increase our outreach to graduates to include Welsh Universities specifically Cardiff, Swansea, Aberystwyth and Bangor.

Information and communications technology

We have had no need to provide information and services in Welsh in 2022-23 in relation to the information and communications technology (ICT) products or services that we have designed or purchased.

We enable the Welsh language pack for Microsoft Office products for a small number of users.

A12 Common Core Tables

Departmental spending table, 2017-18 to 2024-25, all figures presented in £000's

	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Plans	2024-25 Plans
Resource DEL:								
Ofwat - Water Services Regulation Authority	(396)	(888)	(410)	(344)	(900)	173	160	160
Total Resource DEL	(396)	(888)	(410)	(344)	(900)	173	160	160
of which:								
Staff costs	15,562	17,672	21,083	19,951	19,671	20,963	28,566	26,863
Purchase of goods and services	7,933	10,728	11,194	7,779	7,706	9,934	22,079	23,229
Income from sales of goods and services	(266)	(258)	(113)	(105)	(80)	(79)	-	-
Net public service pensions (b)	180	190	29	196	197	155	151	154
Rentals	812	856	892	858	862	967	-	-
Depreciation (a)	212	253	249	306	297	597	1,043	1,139
Take up of provisions	-	-	-	419	-	-	-	-
Release of provision	(18)	-	-	-	(95)	-	(215)	-
Unwinding of the discount rate on pension scheme liabilities	79	966	71	44	30	18	150	160
Release of provisions covering payments of pension benefits	(180)	(190)	(1,093)	(196)	(197)	(155)	(151)	(154)
Other resource	(24,710)	(31,105)	(32,722)	(29,596)	(29,291)	(32,227)	(51,463)	(51,231)
Resource AME:								
Ofwat - Water Services Regulation Authority	-	-	-	-	-	-	-	-
Total Resource AME	-	-	-	-	-	-	-	-
Total Resource Budget	(396)	(888)	(410)	(344)	(900)	173	160	160
Capital DEL:								
Ofwat - Water Services Regulation Authority	338	121	181	120	485	3,009	860	650
Total Capital DEL	338	121	181	120	485	3,009	860	650
Capital AME:								
Ofwat - Water Services Regulation Authority	-	-	-	-	-	-	-	-
Total Capital AME	-	-	-	-	-	-	-	-
Total Capital Budget	338	121	181	120	485	3,009	860	650
Total Departmental Spending (c)	(270)	(1,020)	(478)	(530)	(712)	2,585	(23)	(329)
of which:								
Total DEL	(270)	(1,020)	(478)	(530)	(712)	2,585	(23)	(329)

*DEL – Departmental Expenditure Limit; AME – Annually Managed Expenditure

a) Includes impairments.

b) Pension schemes reported under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.

c) Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

Administration budgets table, 2017-18 to 2024-25, all figures presented in £000's

	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022-23 Outturn	2023-24 Plans	2024-25 Plans
Resource DEL:								
Ofwat - Water Services Regulation Authority	(396)	(888)	(410)	(344)	(900)	173	160	160
Total administration budget	(396)	(888)	(410)	(344)	(900)	173	160	160
of which:								
Staff costs	15,562	17,672	21,083	19,951	19,671	20,963	28,566	26,863
Purchase of goods and services	7,933	10,728	11,194	7,779	7,706	9,934	22,079	23,229
Income from sales of goods and services	(266)	(258)	(113)	(105)	(80)	(79)	-	-
Net public service pensions	180	190	29	196	197	155	151	154
Rentals	812	856	892	858	862	967	-	-
Depreciation	212	253	249	306	297	597	1,043	1,139
Take up of provisions	-	-	-	419	-	-	-	-
Release of provision	(18)	-	-	-	(95)	-	(215)	-
Unwinding of the discount rate on pension scheme liabilities	79	966	71	44	30	18	150	160
Release of provisions covering payments of pension benefits	(180)	(190)	(1,093)	(196)	(197)	(155)	(151)	(154)
Other resource	(24,710)	(31,105)	(32,722)	(29,596)	(29,291)	(32,227)	(51,463)	(51,231)

**Ofwat (The Water Services Regulation Authority)
is a non-ministerial government department.
We regulate the water sector in England and Wales.**

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