

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

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# **Water Services Regulation Authority**

## **Resource Accounts 2008-09**

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## **Resource Accounts 2008-09**

**(For the year ended 31 March 2009)**

*Ordered by the House of Commons to be printed 16 July 2009*

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## Annual Report

### Resource Accounts: Water Services Regulation Authority

#### Foreword

These accounts cover the operation of the Water Services Regulation Authority (Ofwat) for the period 1 April 2008 to 31 March 2009. They have been prepared on an accruals basis in accordance with the Government Financial Reporting Manual (FRM). The report summarises the main objectives and outputs for the year.

#### Ofwat's aims and objectives

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

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

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

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

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

Our main objectives in the period 1 April 2008 to 31 March 2009 were:

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

## Review of Ofwat's activities

Our latest annual report will be published on 16 July 2009 (HC582). It is available on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk), or by contacting The Stationery Office on: 0870 600 5522.

Our key outputs for 2008-09, as reported in our annual report, are listed below.

### 1. Protecting consumers

- We fined Severn Trent Water Ltd £35.8 million (3.0% of turnover) and Thames Water Utilities Ltd £9.7 million (0.7% of turnover) for irregularities in their customer service data. The investigation into leakage data that Severn Trent Ltd supplied was subject to Serious Fraud Office prosecution. On 1 July 2008, the company was fined £2.0 million at the Central Criminal Court. We fined Tendring Hundred Water Services Ltd £42.0 thousand (0.3% of turnover) for misreporting of information following an accounting error.
- The companies made further improvements to control leakage and improve security of supply. Thames Water Utilities Ltd delivered against the legally binding undertaking to renew 424 km of mains in 2008-09 at the owner's expense.
- We continued to publish comparisons of companies' performance in our annual industry reports and to require improvements where performance was inadequate.
- We began piloting new service measures to focus companies on improving the consumer experience and getting things right first time.
- Following consultation, we updated our approach to charging policy. This was to enable companies to bring forward more innovative tariffs – to minimise bad debt, for example – and to give customers more incentive to use water efficiently. We contributed to Anna Walker's review of household charging and metering for water and sewerage services.
- We dealt with almost 1,750 disputes and complaints between April 2008 and March 2009, obtaining rebates or compensation of more than £4.0 million for customers.

### 2. Promoting value

- As part of the 2009 periodic review of price limits (PR09), we received the companies' draft business plans. Together with other stakeholders, we carried out a large consumer survey to explore consumers' views on those plans. Following our analysis of the plans we published 'Capital expenditure for 2010-15: Ofwat's view on companies' draft business plans'.
- We set up a Markets Division, with responsibility for implementing our competition strategy. We researched household consumers' attitudes to competition and contributed to Professor Martin Cave's review of competition in the water and sewerage sectors. We worked with Defra on legislative proposals to strengthen competition in the sector.

### 3. Safeguarding the future

- We continued to play an active role in the Government-led Water Saving Group, working with other members to develop water efficiency targets for 2010-11.
- We published our regulatory approach to climate change.
- We worked with Defra and Welsh Assembly Government (WAG) on their new long-term water strategies.
- We continued to support the implementation of the Water Framework Directive through participation in stakeholder and implementation meetings.

## Sustainability Report

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

In April 2008, we published 'Ofwat's strategy – taking a forward look'. One of our seven key strategic priorities is 'taking a long-term view of sustainability'. The main elements of our policy are listed below.

- We encourage the companies to take responsibility for the wider social and environmental impacts of their activities. They must meet today's consumer needs, without prejudicing future generations.
- In October 2007, we asked each company to set out its long-term plan for the next 25 years. These strategic direction statements show how the water and sewerage sectors are thinking and acting to secure long-term, sustainable water and sewerage services.
- We published 'Water today, water tomorrow – Ofwat and sustainability' in March 2009. This document set out our updated approach to sustainability. We also held a 'Sustainable water' event in London in March 2009 to discuss with key decision makers how to deliver sustainable water and sewerage services.
- We continue to work on embedding sustainable development and climate change action at the heart of policy, encouraging the companies to take sensible and measured steps that benefit and secure services over the long term.
- We published our first sustainable development action plan (SDAP) in our 2007-08 forward programme. We aim to reduce our own environmental impact by:
  - promoting a public transport discount scheme for employees;
  - recycling paper and other products;
  - reducing the number of printed documents we produce in favour of primarily web-based publications;
  - enabling home/remote working; and
  - investing in energy efficient information technology.

During 2008-09, we compared our sustainable development processes with other regulators. We found that our approach is broadly similar to others, and that there were useful lessons to be learned (for example, with recycling). We will assess how we can apply these lessons to our work in 2009-10.

## Management Commentary

### Financial commentary

The financial highlights for Ofwat are summarised below.

### Operating costs summary

	2008-09 £000	2007-08 £000
<b>Income</b>		
Deferred income prior year	1,319	1,841
Licence fees received	17,551	12,578
Other income	100	111
	<u>18,970</u>	<u>14,530</u>
<b>Expenditure</b>		
Administration costs	(14,900)	(13,237)
	<u>4,070</u>	<u>1,293</u>
Licence fee income deferred to the following period	(4,114)	(1,319)
Net operating cost	<u>(44)</u>	<u>(26)</u>

Ofwat is funded by fees charged to the regulated companies. Fees are recovered annually from appointed companies and licensed suppliers. Our fee income is subject to the constraints set out in the appointed companies' licence conditions. Our budget is subject to negotiation with HM Treasury. Other income is made up from charges related to the service level agreements held with the Consumer Council for Water (CCWater).

The operating budget set at the start of the year was £17.9 million. This included an estimate of £0.5 million to cover our costs relating to the Thames Tideway project. At the beginning of the financial year, we recovered £17.4 million in general licence fees. During the year, a £0.2 million special fee was recovered from Thames Water Utilities Ltd in respect of our Thames Tideway expenditure. This was less than the original £0.5 million estimate of costs because of changes to the timing of the project, with work rephased to 2009-10.

Excluding our work on the Thames Tideway project, we underspent against budget by £2.8 million. This was because of the following factors.

- Companies which had received enforcement penalties did not appeal our decision; this meant that a large element of our legal budget and contingency was not required.
- No companies made any Competition Act 1998 appeals, which meant elements of the legal budget were not required.
- Some consultancy projects were rephased to 2009-10.

The underspend will be carried forward and can be used to offset future licence fees or as a contingency to meet unexpected major cost pressures.

Compared with 2007-08, our operating expenditure increased by 13%. This was because we implemented our new strategy in April 2008. Important cost drivers were:

- the periodic review of price limits (PR09); and
- establishing a new Markets Division to take forward our competition strategy.

In April 2008, we received £20.7 million from Southern Water Ltd in respect of the fine issued in February 2008. This sum was paid over to the Consolidated Fund cancelling the creditor outstanding at 31 March 2008 (note 14a). During the year we collected further fines of:

- £9.7 million from Thames Water Utilities Ltd;
- £35.8 million from Severn Trent Water Ltd; and
- £42.0 thousand from Tendering Hundred Water Services Ltd.

These amounts had all been paid to the Consolidated Fund at 31 March 2009.

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

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

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

The Resource Budget is the means by which the Government plans and controls the expenditure of resources to meet its objectives. During the financial year, Ofwat disposed of tangible fixed assets at a loss of £1.0 thousand resulting in administration operating costs being incurred outside of the administration budget. This arose because of an unintended consequence of an HM Treasury classification change relating to the disposal of assets in 2006-07.

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

	2008-09 £000	2007-08 £000
<b>Net Resource Outturn (Estimates)</b>	44	26
Net Operating Cost (Accounts)	44	26
Resource Budget Outturn (Budget) of which:	43	17
Departmental Expenditure Limits (DEL)	(1)	(9)
Annually Managed Expenditure (AME)	44	26

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

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

## International Financial Reporting Standards (IFRS)

In compliance with HM Treasury's requirements a full restatement of Ofwat's balance sheet at 31 March 2008 on an IFRS basis was submitted for the National Audit Office's (NAO) dry-run audit. In December 2008, NAO issued its audit report stating that no specific recommendations arose from the work completed. The notional cost of this service is £3.5 thousand, which has been met by a non-cash adjustment to the General Fund.

Ofwat is required to produce a full set of shadow IFRS financial statements for the year ended 31 March 2009, which NAO are required to audit by 31 December 2009. Full IFRS accounts will be produced for the year ended 31 March 2010.

## Financial instruments

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

## Going concern

Our balance sheet at 31 March 2009 shows negative taxpayers' equity of £6.5 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the Consolidated Fund. This is primarily made up of the accumulated underspend and the pension provision for the retired Directors General of Water Services. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the specified year, nor retained in excess of that need. All unspent monies, including those derived from Ofwat's income, are surrenderable to the Consolidated Fund.

In common with other government departments, the future financing of our liabilities is met by future grants of supply and the application of future income, both to be approved annually by Parliament. There is no reason to

believe that future approvals will not be forthcoming. We confirm our funding for 2009-10 has been approved. The accounts for 2008-09 have been prepared on a going concern basis.

### **Roles and responsibilities**

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

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

### **Chief Executive**

Regina Finn

Former Commissioner at the Commission for Energy Regulation (Dublin) 2005-06. Non-executive director of Northern Ireland Energy Holdings from 1 November 2008.

### **Non-executive directors**

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

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

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

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

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

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

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

Non-executive board member of the Office of Rail Regulation. Trustee and Council Member of the Regulatory Policy Institute. Senior Financial Adviser to Ofgem (1997-2008). Former Corporate Finance Adviser to Ofwat (2000-05).

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

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

Gillian Owen, 2-3 days a month.

Independent Consultant and Senior Research Fellow at the Centre for Management Under Regulation (Warwick University), and Policy and Regulation Adviser to the Renewable Energy and Energy Efficiency Partnership. Member of the Fuel Poverty Advisory Group and former member of the Competition Commission.

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

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

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

### **Audit Committee**

Our financial controls and risk management systems and reports are scrutinised by the Audit Committee. Members of the committee in 2008-09 were Peter Bucks (Chairman), Penny Boys and Richard Kennett

(Independent member). Richard Kennett is a chartered accountant with extensive experience in audit, business and risk management, and is a member of the Audit Committee of the Health Professions Council.

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

### Equal opportunities policy

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

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

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

During the year, we carried out 59 separate recruitments, which in some cases sought more than one member of staff. Everyone was recruited through open competition, with the exception of 2 casual staff.

### Employee involvement

We attach great importance to managing, developing and training staff. Ofwat is an accredited Investors in People organisation. In November 2008, we held a successful employee event at which directors and colleagues shared ideas on the key issues affecting our work. We have a staff committee, which is consulted on a range of issues. We have a recognition agreement with the trade unions that represent Ofwat staff, namely PCS, Prospect and FDA.

During the year, senior management and Ofwat team leaders completed the Institute of Leadership and Management (ILM) level 5 award in leadership.

### Sickness absence

Our policy is to reduce employee absence and we rely on early intervention by line managers conducting a return to work interview after each period of absence.

Human Resources advisors inform line managers when the following trigger points have been reached for an individual to allow them to consider whether further action or support is required:

- three periods of absence in a rolling period of 6 months; and
- four periods of absence in a rolling period of 12 months.

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

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

	2008-09			2007-08		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Days lost	809	917	1,726	835	1,289	2,124
Percentage lost			4.0%			5.3%

A long-term absence is any absence running over a consecutive period of 21 working days or more.

**Payment of suppliers**

We achieved 97.6% against the Government target for paying agreed invoices within 30 days of receipt during 2008-09. The corresponding figure for 2007-08 was 99.4%.

We are committed to achieving the Government's pledge to ease the cash flow problems faced by small firms through the payment of invoices in 10 days.

**Protected personal data related incidents**

We have in place an Information Risk Policy (IRP) and related procedures to manage the risk of protected personal data related incidents.

There have been no protected personal data related incidents in 2008-09.

**Internal audit**

KPMG Audit LLP (KPMG) provide our internal audit services. The service provides an independent appraisal service for management by measuring and auditing the adequacy, reliability and effectiveness of management and financial control systems. KPMG make recommendations based on the appraisal of each system reviewed. During the year, no remuneration was paid to KPMG for non-audit work.

**External audit**

Our external auditor is the Comptroller and Auditor General (C&AG), who is required to audit the financial statements under the Government Resources and Accounts Act 2000, and report to Parliament on this examination.

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

The notional cost of this service is £42.5 thousand, which has been met by a non-cash adjustment to the General Fund. The notional cost of the IFRS Trigger Point 2 audit fee was £3.5 thousand.

**The future**

In March 2009, we published 'Ofwat forward programme 2009-10 to 2011-12'. This document sets out our priorities for guiding how we will develop economic regulation of the water and sewerage sectors in England and Wales over the long term. It also sets out how we will deliver our aim of protecting consumers, promoting value and safeguarding the future. This includes:

- setting prices for the five-year period 2010-15 (PR09);
- developing new market and competition policy, influencing significant legislative changes to enable that policy to be delivered (through the draft Flood and Water Management Bill), and developing new market mechanisms;
- developing and implementing new regulatory policy and tools to address the sustainability of the water and sewerage sectors, including new initiatives around climate change, innovation and customer charging; and
- ongoing effective and efficient monitoring and enforcement of duties and obligations in the water and sewerage sectors.

## Remuneration Report

### Management team

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

Regina Finn*	Chief Executive
Keith Mason*	Director of Regulatory Finance
Cathryn Ross* (from 8 September 2008)	Director of Markets
Huw Brooker	Director of Legal Services
George Day (from 9 June 2008)	Director of Network Regulation
Andrew Dunn	Director of Consumer Protection
Roger Dunshea	Director of Operations
Fiona Pethick (until 12 October 2008)	Director of Corporate Affairs
Rob Ashley (from 24 September 2008)	Interim Director of External Affairs
George Day (until 8 June 2008)	Joint Interim Director of Network Regulation
Paul Hope (until 8 June 2008)	Joint Interim Director of Network Regulation

\* denotes board member.

During the year, Corporate Affairs was renamed External Affairs.

### Service contracts

Remuneration of members of the management team (with the exception of Rob Ashley and Paul Hope) is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body.

With the exception of George Day and Cathryn Ross, all are permanent members of staff. George Day is employed on a fixed term contract from 9 June 2008 until 8 June 2011. Cathryn Ross is employed on a fixed term contract from 8 September 2008 until 7 September 2011. The notice period for all members of the management team does not exceed six months.

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

Each member of the management team participates in a bonus scheme which is in line with the Senior Salaries Review Body recommendations. The bonus is paid on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

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.

Details of remuneration are included in the tables below.

### Interim directors

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

During the financial year, it was necessary to employ the services of an externally appointed Interim Director of External Affairs – Rob Ashley.

### Staff remuneration

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

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

**Non-executive directors**

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

**Remuneration Committee members**

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

Jane May (Chair);  
Philip Fletcher CBE;  
Penny Boys CB (until July 2008); and  
Michael Brooker (from September 2008).

**Pension liabilities**

The main pension scheme for Ofwat staff is the Principal Civil Service Pension Scheme (PCSPS). This is a defined benefit, unfunded scheme. The payment of benefits from the scheme is borne by the Civil Service Superannuation Vote. The pension liabilities arising from Ofwat's employees' membership of the PCSPS are not provided for in these accounts in accordance with HM Treasury's instructions and as described on page 15.

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

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

**Senior managers' remuneration**

The following information was subject to audit.

	Salary £000	2008-09 Benefits in kind (to nearest £100)	Salary £000	2007-08 Benefits in kind (to nearest £100)
<b>Regina Finn</b> Chief Executive	160-165	-	140-145	-
<b>Keith Mason</b> Director of Regulatory Finance	110-115	-	105-110	-
<b>Cathryn Ross</b> Director of Markets (from 8 September 2008)	60-65 (full year equivalent 110-115)	-	-	-
<b>Huw Brooker</b> Director of Legal Services	100-105	-	95-100	-
<b>George Day</b> Director of Network Regulation (from 9 June 2008) Interim Director of Network Regulation (until 8 June 2008)	90-95	-	0-5 (full year equivalent 70-75)	-
<b>Andrew Dunn</b> Director of Consumer Protection	85-90	-	80-85	5,300
<b>Roger Dunshea</b> Director of Operations	100-105	-	95-100	-
<b>Fiona Pethick</b> Director of Corporate Affairs (until 12 October 2008)	50-55 (full year equivalent 85-90)	-	85-90	-
<b>Melinda Acutt</b> Director of Network Regulation (until 3 January 2008)	-	-	55-60 (full year equivalent 90-95)	5,400
<b>Fiona Butcher*</b> Interim Director of Legal Services (18 June 2007 – 8 February 2008)	-	-	35-40 (full year equivalent 100-105)	5,500
<b>Paul Hope</b> Joint Interim Director of Network Regulation (until 8 June 2008)	10-15 (full year equivalent 65-70)	-	0-5 (full year equivalent 65-70)	-

The following information was subject to audit.

<b>Third party payments</b>	<b>2008-09</b>	<b>2007-08</b>
<b>Provision of interim manager services</b>	<b>Payment</b>	<b>Payment</b>
	<b>£000</b>	<b>£000</b>
<b>Walker Cox Ltd</b>	-	260-265
Jonathan Hodgkin*		
Interim Director of Network Regulation (6 March 2007 – 14 March 2008)		
<b>Sand Resources Ltd</b>	120-125	-
Rob Ashley*		
Interim Director of External Affairs (from 24 September 2008)		

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

### Non-executive members of the Authority remuneration

The following information was subject to audit.

	<b>Salary £000</b>	<b>2008-09</b>	<b>Salary £000</b>	<b>2007-08</b>
		<b>Benefits in</b>		<b>Benefits in</b>
		<b>kind (to</b>		<b>kind (to</b>
		<b>nearest</b>		<b>nearest</b>
		<b>£100)</b>		<b>£100)</b>
<b>Philip Fletcher CBE</b>	105-110	1,200	100-105	2,200
Chairman				
<b>Penny Boys CB</b>	20-25	2,600	15-20	3,600
Non-executive Director				
<b>Michael Brooker</b>	20-25	1,200	15-20	1,000
Non-executive Director				
<b>Peter Bucks</b>	20-25	2,400	15-20	2,400
Non-executive Director				
<b>Jane May</b>	20-25	1,500	15-20	800
Non-executive Director				
<b>Gillian Owen</b>	20-25	1,200	15-20	600
Non-executive Director				

### Independent member of the Audit Committee remuneration

The following information was subject to audit.

	<b>Salary £000</b>	<b>2008-09</b>	<b>Salary £000</b>	<b>2007-08</b>
		<b>Benefits in</b>		<b>Benefits in</b>
		<b>kind (to</b>		<b>kind (to</b>
		<b>nearest</b>		<b>nearest</b>
		<b>£100)</b>		<b>£100)</b>
<b>Richard Kennett</b>	0-5	500	0-5	-
Independent Member (from 1 February 2008)			(full year equivalent 0-5)	

#### Salary

"Salary" covers both pensionable and non-pensionable amounts and includes gross salary, performance pay or bonuses, overtime, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

*Benefits in kind*

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HM Revenue and Customs. Items that fell into this category were subsistence and travel arrangements for the non-executive members of the Authority.

**Senior managers' pension benefits**

The following information was subject to audit.

	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2009 and related lump sum £000	CETV at 31 March 2009 £000	CETV at 31 March 2008* £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
<b>Regina Finn</b> Chief Executive	0-2.5: lump sum -	0-5: lump sum -	55	30	17	-
<b>Keith Mason</b> Director of Regulatory Finance	0-2.5: lump sum 0-5	15-20: lump sum 55-60	369	323	16	-
<b>Cathryn Ross</b> Director of Markets (from 8 September 2008)	0-2.5: lump sum 5-10	10-20: lump sum 30-35	124	95	26	-
<b>Huw Brooker</b> Director of Legal Services	0-2.5: lump sum -	10-15: lump sum -	151	121	17	-
<b>George Day</b> Director of Network Regulation (from 9 June 2008) Joint Interim Director (until 8 June 2008)	5-7.5: lump sum -	15-20: lump sum -	208	129	65	-
<b>Andrew Dunn</b> Director of Consumer Protection	0-2.5: lump sum -	0-5: lump sum -	51	25	21	-
<b>Roger Dunshea</b> Director of Operations	0-2.5: lump sum 0-5	30-35: lump sum 95-100	631	583	2	-
<b>Fiona Pethick</b> Director of Corporate Affairs (until 12 October 2008)	0-2.5: lump sum 0-5	25-30: lump sum 75-80	452	415	4	-
<b>Paul Hope</b> Joint Interim Director of Network Regulation (until 8 June 2008)	0-2.5: lump sum 0-5	10-15: lump sum 35-40	155	145	10	-

\* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

### Civil Service Pensions

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

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

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age.

Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

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

### Cash Equivalent Transfer Value (CETV)

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

### Real increase in CETV

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

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

Under Section 5 of the Government Resources and Accounts Act 2000, Ofwat is required to prepare resource accounts for each financial year, in conformity with HM Treasury direction, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to the objectives, recognised gains and losses and cash flows for the financial year.

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

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

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

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

## Statement on Internal Control

### Scope of responsibility

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

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

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

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Ofwat for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. Assurance is provided to the accounting officer by each budget holder (directors and team leaders) who have signed a statement of internal control covering the period from 1 April 2008 to 31 March 2009.

### Capacity to handle risk

#### The Board, Audit Committee and Management Team

The Board recognises the importance of leadership to create an environment where risk management is effective. The Board, Audit Committee and Management Team regularly review the strategic risk register and current priority risks from the operational risk register. In addition, the Audit Committee receives presentations on a rolling basis from each director on their management of risk in their division. Risk assessment is embedded into the work of the office. Senior managers, and their staff, are committed to managing risk. To strengthen its oversight we have an independent member to our Audit Committee, who is not a Board member.

### The risk and control framework

#### The Board

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

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

Two key risks were addressed during the year. These are:

- the current legislative framework does not promote competition in the water and sewerage sectors. We have started to address this risk by setting up a Markets Division and developing new competition policies; and
- the periodic review of price limits 2009 (PR09). The price review entered an important phase with the receipt of the companies' draft business plans. We met this risk by auditing the project management and processes underpinning decisions on future capital investment.

Our internal audit plan covered the following:

- financial systems;
- corporate governance;
- capital expenditure incentive scheme (CIS);
- information security statement;
- dispute and complaint handling;
- PR09 business plan analysis; and
- data compliance/capture – Accountability Framework review.

All reports were satisfactory with the exception of dispute and complaint handling and data compliance/capture – Accountability Framework review which received a weak opinion. Action is in hand to address these two areas of concern.

### **Information security statement**

Ofwat holds a range of information covering commercial and personal data. We have in place an Information Risk Policy (IRP) and related procedures. The Audit Committee and Internal Audit have reviewed the IRP. We have completed a review of the Government's Security Policy Framework. This has been reported to the Cabinet Office in our Annual Security Report in June 2009.

### **Review of effectiveness**

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

We consult on and publish our forward programme. This sets out our high level objectives for the coming financial year plus a look forward to the following two years. This forward programme drives divisional plans and ultimately each member of staff's objectives. The Management Team reviews monthly the progress of key projects. The Management Team and the Board review progress on the strategy quarterly. We have in place a process of individual performance review for staff. The resource requirements for Ofwat are assessed regularly against the forward programme and developing priorities. The non-executive directors also provide me with an independent view of our performance. On 16 July 2009, Ofwat will lay its annual report for 2008-09 before Parliament.

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

KPMG operate to standards defined in the Government's Internal Audit Standards and submit regular reports, which include an independent opinion by the Head of Internal Audit on the adequacy and effectiveness of our systems of internal control together with recommendations for improvement. The opinion of the Head of Internal Audit is that Ofwat has adequate and effective risk management, control and governance processes to manage the achievement of its objectives.

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

I certify that I have audited the financial statements of the Water Services Regulation Authority for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, the information which comprises the Foreword, Sustainability Report and Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

### **Basis of audit opinion**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2009 and the net cash requirement, net resource outturn, net operating cost, net operating costs applied to departmental strategic objectives, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information which comprises the Foreword, Sustainability Report and Management Commentary included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## Report

I have no observations to make on these financial statements.

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

14 July 2009

**Statement of Parliamentary Supply**

for the year ended 31 March 2009

**Summary of Resource Outturn 2008-09**

	Estimate			Outturn			2008-09 £000	2007-08 £000
	Note	Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Outturn
							Net Total outturn compared with Estimate: saving/ (excess)	Net Total
Request for Resources								
1: Regulation of the Water Industry	2	17,947	(17,899)	48	14,900	(14,856)	44	26
Total resources		17,947	(17,899)	48	14,900	(14,856)	44	26
Non-operating cost A in A		-	-	-	-	-	-	-

**Net cash requirement 2008-09**

	Note	Estimate	Outturn	2008-09 £000	2007-08 £000
				Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Net cash requirement	4	609	109	500	1,428

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

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

	Note	Forecast 2008-09 £000		Outturn 2008-09 £000	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
Total	5	-	20,300	45,542	68,798

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

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

**Operating Cost Statement**

for the year ended 31 March 2009

<b>Administration costs:</b>			<b>2008-09</b>	<b>2007-08</b>
<b>Request for resources 1:</b>			<b>£000</b>	<b>£000</b>
	<u>Note</u>	<u>Staff costs</u>	<u>Other costs</u>	<u>Income</u>
Staff costs	7	8,992	-	8,250
Other administration costs	8	-	5,908	4,987
Operating income	9	-	(14,856)	(13,211)
<b>Totals</b>		<b>8,992</b>	<b>5,908</b>	<b>(14,856)</b>
<b>Net operating cost</b>	3		<b>44</b>	<b>26</b>

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

## Statement of Recognised Gains and Losses

for the year ended 31 March 2009

	Note	2008-09 £000	Restated 2007-08 £000
Net gain on revaluation of tangible fixed assets	17	8	10
Experience (loss)/gain	15(b)	(69)	(23)
Effect of change in mortality assumptions	15(b)	-	(163)
Effect of change in demographic and financial assumption	15(b)	205	-
Effect of change in real discount rate	15(b)	-	202
<b>Recognised gains and losses for the financial year</b>		<b>144</b>	<b>26</b>

2007-08 restated to exclude net operating costs.

**Balance Sheet**

as at 31 March 2009

	Note	2009 £000	Restated 2008 £000
<b>Fixed assets</b>			
Tangible assets	10	706	663
Intangible assets	11	112	117
Debtors falling due after more than one year	12	<u>25</u>	<u>7</u>
		843	787
<b>Current assets</b>			
Debtors	12	882	20,807
Cash at bank and in hand	13	<u>2,986</u>	<u>498</u>
		3,868	21,305
Creditors (amounts falling due within one year)	14	<u>(8,725)</u>	<u>(23,133)</u>
<b>Net current liabilities</b>		<b><u>(4,857)</u></b>	<b><u>(1,828)</u></b>
<b>Total assets less current liabilities</b>		<b><u>(4,014)</u></b>	<b><u>(1,041)</u></b>
Provision for liabilities and charges	15(a)	<u>(90)</u>	-
<b>Total net liabilities excluding pension liabilities</b>		<b><u>(4,104)</u></b>	<b><u>(1,041)</u></b>
Pension liabilities	15(b)	<u>(2,370)</u>	<u>(2,526)</u>
<b>Total net liabilities including pension liabilities</b>		<b><u>(6,474)</u></b>	<b><u>(3,567)</u></b>
<b>Taxpayer's equity:</b>			
General Fund	16	(6,503)	(3,609)
Revaluation Reserve	17	29	<u>42</u>
		<b><u>(6,474)</u></b>	<b><u>(3,567)</u></b>

2008 Debtors balance restated to show debtors falling due after more than one year

Regina Finn  
Accounting Officer

7 July 2009

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

## Cash Flow Statement

for the year ended 31 March 2009

	Note	2008-09 £000	2007-08 £000
Net cash inflow/(outflow) from operating activities	18(a)	3,028	(439)
Capital expenditure and financial investment	18(b)	(151)	(491)
Receipts due to the Consolidated Fund which are outside the scope of the Departments activities		65,812	-
Payments of amounts due to the Consolidated Fund		(66,310)	(502)
Financing	18(d)	109	1,428
<b>Increase in cash for the period</b>		<b>2,488</b>	<b>(4)</b>

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

## Statement of Net Operating Costs by Departmental Strategic Objectives for the year ended 31 March 2009

	2008-09			2007-08		
	Gross	Income	Net £000	Gross	Income	Net £000
Objective 1	4,023	-		4,368	-	
Objective 2	7,599	-		5,560	-	
Objective 3	3,278	-		3,309	-	
<b>Net operating costs</b>	<b>14,900</b>	<b>(14,856)</b>	<b>44</b>	<b>13,237</b>	<b>(13,211)</b>	<b>26</b>

The department's objectives were as follows:

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

*Note:*

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

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

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

## Notes to the Departmental Resource Accounts

### 1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2008-09 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

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

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Ofwat for the purpose of giving a true and fair view has been selected. Ofwat's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their present value to the business by reference to their valuation in existing use.

#### 1.2 Fixed assets

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

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

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

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

#### 1.3 Depreciation and amortisation

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

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

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

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

#### 1.4 Leases

Ofwat had no finance leases as at 31 March 2009 (31 March 2008: nil). Rentals due on operating leases are charged over the lease term on a straight-line basis or on the basis of actual rental payable where this fairly reflects usage.

### 1.5 Research and development

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets those criteria specified in SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

Ofwat had no research and development activity in 2008-09 (2007-08:nil).

### 1.6 Operating income

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

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

### 1.7 Fines and penalty income

Income recovered from fines and penalties is not recorded as income in the operating cost statement. It is recognised as a payment due to the Consolidated Fund at the date the legal notice is served.

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

### 1.8 Administration and programme expenditure

Administration costs are recorded in the operating cost statement. They include the costs of running Ofwat, as determined under the administration cost-control regime. There was no programme expenditure between 1 April 2008 and 31 March 2009 (2007-08: nil).

### 1.9 Capital charge

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

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

### 1.10 Pensions

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

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

### 1.11 Value added tax

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

**1.12 Provisions**

Owat provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. 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.

Discount rates of 2.5% per annum apply for pension liabilities and 2.2% for other provisions.

**1.13 Contingent liabilities**

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

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

**1.14 Going concern**

Our balance sheet at 31 March 2009 shows negative taxpayers' equity of £6.5 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirements. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the specified year nor retained in excess of that need. All unspent monies, including those derived from the department's income, are surrenderable to the Fund. We confirm our funding for 2009-10 has been approved.

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

The accounts for 2008-09 have been prepared on a going concern basis.

## 2 Analysis of net resource outturn by section

						2008-09		2007-08
						£000	£000	£000
	Outturn					Estimate	Net total compared with Estimate	Prior-year outturn
	Admin	Other current	Grants	Gross expenditure	A in A	Net Total	Net Total	
RFR1: Regulation of the Water Industry								
Section A	14,856	-	-	14,856	(14,856)	-	1	1
Section B	-	(86)	130	44	-	44	47	3
<b>Total</b>	<b>14,856</b>	<b>(86)</b>	<b>130</b>	<b>14,900</b>	<b>(14,856)</b>	<b>44</b>	<b>48</b>	<b>4</b>
<b>Resource Outturn</b>	<b>14,856</b>	<b>(86)</b>	<b>130</b>	<b>14,900</b>	<b>(14,856)</b>	<b>44</b>	<b>48</b>	<b>4</b>

Section A - Water Services Regulation Authority.

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

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

In accordance with the requirement of HM Treasury, to ensure parity between those departments who pay into the multi-employer schemes and those that run their own unfunded by-analogy schemes, we are required to record certain transactions within AME (net total £44,320).

The provision liability attracts a cost of capital credit (£85,680), the rate of which is set at 3.5% real. This is recorded as other current costs.

The accounts record the increase in the liability due to the unwinding of the discount rate (interest on pension scheme liabilities (£130,000)) which is recorded as grant expenditure. The discount rate is based on AA corporate bond rates, which is advised separately, and a 2.75% inflation assumption.

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

## 3 Reconciliation of outturn to net operating cost and against Administration Budget

### 3(a) Reconciliation of net resource outturn to net operating cost

	2008-09		2007-08	
	£000	£000	£000	£000
	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	44	48	4	26
<b>Net operating cost</b>	<b>44</b>	<b>48</b>	<b>4</b>	<b>26</b>

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

	2008-09 £000	2007-08 £000
	<u>Budget</u>	<u>Outturn</u>
Gross Administration Budget	17,900	14,856
Income allowable against the Administration Budget	<u>(17,899)</u>	<u>(14,856)</u>
<b>Net outturn against final Administration Budget</b>	<b><u>1</u></b>	<b><u>-</u></b>

**4 Reconciliation of resources to cash requirement**

		2008-09 £000		2008-09 £000
	Note	Estimate	Outturn	Net total outturn compared with estimate: saving (excess)
Resource Outturn	3	48	44	4
Capital				
Acquisition of fixed assets	10,11	380	235	145
Accruals adjustments				
Non-cash items	8	(349)	(295)	(54)
Changes in working capital other than cash		375	(3,011)	3,386
Use of provision	15(b)	155	150	5
Excess cash to be surrendered to the Consolidation Fund	18(d)	<u>-</u>	<u>2,986</u>	<u>(2,986)</u>
<b>Net cash requirement</b>		<b><u>609</u></b>	<b><u>109</u></b>	<b><u>500</u></b>

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

		2008-09 £000			
	Note	Income	Forecast Receipts	Income	Outturn Receipts
Excess cash surrenderable to the Consolidated Fund	13	-	-	-	2,986
Other amounts collectable on behalf of the Consolidated Fund *		-	20,300	45,542	65,812
<b>Total income payable to the Consolidated Fund</b>		<b><u>-</u></b>	<b><u>20,300</u></b>	<b><u>45,542</u></b>	<b><u>68,798</u></b>

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

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

	Note	2008-09 £000	2007-08 £000
Operating Income	9	14,856	13,211
Income authorised to be appropriated in aid	9	<u>(14,856)</u>	<u>(13,211)</u>
<b>Operating Income payable to the Consolidated Fund</b>		<b><u>-</u></b>	<b><u>-</u></b>

## 7 Staff numbers and related costs

Staff costs comprise of:

	2008-09			2007-08	
	£000			£000	
	Total	Permanently employed staff	Others	Non-exec directors	Total
Wages and salaries	7,051	6,675	151	225	6,548
Social Security costs	547	523	-	24	432
Other pension costs	1,394	1,394	-	-	1,271
<b>Sub Total</b>	<b>8,992</b>	<b>8,592</b>	<b>151</b>	<b>249</b>	<b>8,251</b>
Less recoveries in respect of outward secondments	-	-	-	-	(1)
<b>Total Net Costs*</b>	<b>8,992</b>	<b>8,592</b>	<b>151</b>	<b>249</b>	<b>8,250</b>

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

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

For 2008-09, employer's contributions of £1,359,955 were payable to the PCSPS (2007-08: £1,188,651) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of benefits accruing during 2008-09 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £12,124 (2007-08: £8,040) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,102, 0.8% (2007-08: £1,177, 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were £1,414 (2007-08: £5,991). Contributions prepaid at that date were nil (2007-08:nil).

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

### Average number of people employed

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

	2008-09			2007-08	
	Total	Permanently employed staff	Others	Non-exec directors	Total
Objective 1	58.8	57.4	1.1	0.3	71.8
Objective 2	105.5	102.8	2.4	0.3	86.3
Objective 3	38.8	38.0	0.5	0.3	39.1
<b>Total</b>	<b>203.1</b>	<b>198.2</b>	<b>4.0</b>	<b>0.9</b>	<b>197.2</b>

**8 Other Administration Costs**

	<b>2008-09</b>	<b>2007-08</b>
	<b>£000</b>	<b>£000</b>
	<b>Outturn</b>	<b>Outturn</b>
Rentals under operating leases:		
Accommodation	752	851
Office equipment	95	45
	<u>847</u>	<u>896</u>
Non cash items:		
Depreciation	122	125
Amortisation	58	73
Loss on disposal of fixed assets	1	9
Cost of Capital charges	(176)	(139)
Increase in legal costs (CAT) provision	90	-
Increase in early departure provision	-	1
Interest costs	130	115
External Auditors' remuneration	46	38
Permanent diminution of fixed assets	24	44
	<u>295</u>	<u>266</u>
Other expenditure:		
Consultancy services	2,799	2,019
Training	236	98
Travel and subsistence	171	144
Taxation charges	9	47
Rates	165	175
Computer hire and maintenance	208	150
Other hire and maintenance	28	28
Seminars, meetings and conferences	126	105
Minor items and stationery	80	95
Publications	72	51
Books and periodicals	94	109
Postal services and couriers	14	20
Telecommunications	62	65
Recruitment costs	257	125
Office Consumables	53	58
Accommodation expenses	134	154
Accommodation upgrade	-	178
Internal Audit fees	49	44
Other	209	160
	<u>4,766</u>	<u>3,825</u>
<b>Total</b>	<u><b>5,908</b></u>	<u><b>4,987</b></u>

The notional cost of the external auditors' remuneration in 2008-09 includes:

- Resource Accounts audit charge of £42,500
- IFRS Trigger Point 2 audit charge of £3,500

## 9 Income

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

	2008-09 £000	2007-08 £000
	<u>Outturn</u>	<u>Outturn</u>
<b>RFR1</b>		
Licence fees	17,551	12,578
Licence fees received in advance - prior year	1,319	1,841
Licence fees received in advance - current year	(4,114)	(1,319)
Publications sales	-	3
CCWater administration support fees	87	95
Miscellaneous	13	13
<b>Total</b>	<u>14,856</u>	<u>13,211</u>

Ofwat is mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCWater's operating costs. In 2008-09, we collected £6.1 million; £5.5 million was transferred to the Department for Environment, Food and Rural Affairs and £0.6 million to the Welsh Assembly Government. In accordance with HM Treasury guidance, we do not record these transactions in our financial statements.

Ofwat provides support services to CCWater under Service Level Agreements (SLAs). These agreements cover service provisions of Library and Information Services, Finance and Human Resources. An amount of £87,219 plus VAT was received from the provision of service from 1 April 2008 to 31 March 2009.

The Library and Information Services and Finance SLAs were extended from 30 September 2007 to 31 March 2011. The Human Resources SLA was extended from 30 September 2008 to 31 March 2009.

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

	£	£	£
<b>Service provided</b>	<u>Amount received</u>	<u>Actual cost of provision of service</u>	<u>Surplus (deficit)</u>
Library and Information Services	5,791	5,791	-
Finance	37,753	37,753	-
Human Resources	43,675	43,675	-
	<u>87,219</u>	<u>87,219</u>	<u>-</u>

A review of the actual cost of services provided to CCWater was undertaken at 31 March 2009. This confirmed the changed activity level resulting from CCWater's appointment of a Human Resources Manager and as a result the Human Resources (HR) SLA charge for the year was adjusted. CCWater have entered into a new HR SLA effective from 1 April 2009.

**10 Tangible fixed assets**

Tangible fixed assets consist of furniture and fittings, office machinery and telecommunications, leasehold improvements and IT equipment. Assets under construction are communication switches relating to the upgrade of the telephone system. The communication switches were operative from April 2009.

	£000	£000	£000	£000	£000	£000
	Furniture fixtures and fittings	Office machinery & Telecomms	Leasehold Improvements	Assets under construction	IT equipment	Total
<b>Cost or valuation</b>						
At 1 April 08	397	235	255	-	1,723	2,610
Additions	38	9	22	58	47	174
Disposals	(89)	(53)	-	-	(206)	(348)
Revaluation	18	2	-	-	(20)	-
<b>At 31 March 2009</b>	<b>364</b>	<b>193</b>	<b>277</b>	<b>58</b>	<b>1,544</b>	<b>2,436</b>
<b>Depreciation</b>						
At 1 April 08	234	216	25	-	1,472	1,947
Charged in year	26	6	24	-	67	123
Disposals	(90)	(53)	-	-	(204)	(347)
Revaluation	11	-	-	-	(4)	7
<b>At 31 March 2009</b>	<b>181</b>	<b>169</b>	<b>49</b>	<b>-</b>	<b>1,331</b>	<b>1,730</b>
<b>Net book value at 31 March 2009</b>	<b>183</b>	<b>24</b>	<b>228</b>	<b>58</b>	<b>213</b>	<b>706</b>
<b>Net book value at 31 March 2008</b>	<b>163</b>	<b>19</b>	<b>230</b>	<b>-</b>	<b>251</b>	<b>663</b>
<b>Asset Financing:</b>						
Owned	183	24	228	58	213	706
<b>Net book value at 31 March 2009</b>	<b>183</b>	<b>24</b>	<b>228</b>	<b>58</b>	<b>213</b>	<b>706</b>

**11 Intangible fixed assets**

Intangible fixed assets comprise of purchased software licences.

	£000	£000
	Purchased software licences	Total
<b>Cost or valuation</b>		
At 1 April 08	307	307
Additions	61	61
Disposals	(2)	(2)
Revaluation	(9)	(9)
<b>At 31 March 2009</b>	<b>357</b>	<b>357</b>
<b>Amortisation</b>		
At 1 April 08	190	190
Charged in year	58	58
Disposals	(2)	(2)
Revaluation	(1)	(1)
<b>At 31 March 2009</b>	<b>245</b>	<b>245</b>
<b>Net book value at 31 March 2009</b>	<b>112</b>	<b>112</b>
<b>Net book value at 31 March 2008</b>	<b>117</b>	<b>117</b>

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

	2008-09 £000	Restated 2007-08 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	252	197
Deposits and advances	29	25
Other debtors*	-	20,270
HM Revenue and Customs (VAT)	70	28
Prepayments and accrued income	531	287
	<u>882</u>	<u>20,807</u>
<b>Amounts falling due after one year:</b>		
Prepayments and accrued income	25	7
	<u>25</u>	<u>7</u>

\*Other debtors for 2007-08 represents the £20.27 million fine due from Southern Water Ltd.  
2007-08 Debtors balance restated to show debtors falling due after more than one year

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

	2008-09 £000	2007-08 £000
Balances with other central government bodies	90	52
Payments due from CCWater	1	-
Balances with local authorities	165	15
Intra-government balances	256	67
Balances with bodies external to government	651	20,747
<b>Total debtors at 31 March 2009</b>	<u>907</u>	<u>20,814</u>

**13 Cash at bank and in hand**

	2008-09 £000	2007-08 £000
Balance at 1 April 2008	498	502
Net change in cash balance:	2,488	(4)
<b>Balance at 31 March 2009</b>	<u>2,986</u>	<u>498</u>
The following balances are held at:		
Office of HM Paymaster General (OPG)	2,985	497
Commercial banks and cash in hand	1	1
<b>Balance at 31 March 2009</b>	<u>2,986</u>	<u>498</u>

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

	2008-09 £000	Restated 2007-08 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	421	58
Other creditors	145	119
Accruals	815	670
Licence Fee deferred income	4,114	1,319
Deferred income	29	32
Other tax and social security	215	167
Consolidated Fund extra receipts due to be paid to the Consolidated Fund - receivable*	-	20,270
Excess cash due to be paid to the Consolidated Fund	2,986	498
	<u>8,725</u>	<u>23,133</u>

\*Represents the £20.27 million fine due from Southern Water Ltd.  
2007-08 balances restated to reclassify expenditure from trade creditors to other creditors

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

	<u>2008-09</u> <u>£000</u>	<u>2007-08</u> <u>£000</u>
Balances with other central government bodies	3,401	21,212
Balances with local authorities	148	4
Payments due to CCWater	-	-
Intra-government balances	<u>3,549</u>	<u>21,216</u>
Balances with bodies external to government	<u>5,176</u>	<u>1,917</u>
<b>Total creditors at 31 March 2009</b>	<u>8,725</u>	<u>23,133</u>

**15 Provisions for liabilities and charges****15(a) Provisions**

	<u>2008-09</u> <u>£000</u>	
	<u>Legal costs</u> <u>CAT</u>	<u>Total</u>
Balance at 1 April 2008	-	-
Provided in year	<u>90</u>	<u>90</u>
<b>Balance at 31 March 2009</b>	<u>90</u>	<u>90</u>

In the 2006-07 Resource Accounts we reported that in the appeal by Albion Water Ltd against Ofwat and Dŵr Cymru Cyfyngedig, Welsh Water, the Competition Appeals Tribunal (CAT) awarded costs against Ofwat totalling £0.3 million. This appeal concerned the supply of water to the Shotton Paper Works. The final substantive judgement was heard in November 2008 and a decision issued in April 2009, after which costs were to be determined.

A claim for costs has been received and our liability estimated at £90.0 thousand.

**15(b) Pension liabilities**

	<u>2008-09</u> <u>£000</u>	<u>2007-08</u> <u>£000</u>
Balance at 1 April 2008	2,526	2,571
<b>Analysis of the amount charged to the Operating Cost Statement</b>		
Interest costs	130	115
<b>Benefits paid</b>		
Benefits paid	(150)	(144)
<b>Analysis of the amount recognised in the SRGL</b>		
Experience loss/(gain)	69	23
Effect of change in discount rate	-	(202)
Effect of change in mortality assumptions	-	163
Effect of change in financial assumption	(205)	-
<b>Balance at 31 March 2009</b>	<u>2,370</u>	<u>2,526</u>

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

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

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2009.

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

- mortality rates for pensioners are assumed to follow standard mortality tables (PA92-06); and
- all members are married, with wives being three years younger than their husbands.

The main financial assumptions (used to assess liabilities at 31 March 2009) are as follows:

- the net discount rate is assumed to be 3.20%;
- the gross discount rate is assumed to be 6.04% a year (31 March 2008:5.3%), although this assumption has a minor impact on the value of the liability; and
- in nominal terms, these assumptions imply price inflation of 2.75% a year.

### Analysis of actuarial loss

	2008-09 £000	2007-08 £000	2006-07 £000
Experience losses/(gains) arising on the scheme liabilities	69	23	(109)
Changes in assumptions underlying the present value of scheme liabilities	-	163	-
Per statement of Recognised Gains and Losses	69	186	(109)

### History of experience losses

	2008-09	2007-08	2006-07	2005-06
Experience losses/(gains) arising on the scheme liabilities Amount (£000)	69	23	(109)	80
Percentage of the present value of the scheme liabilities	2.9%	0.9%	(4.2)%	3.1%
Total amount recognised in the statement of recognised gains and losses Amount (£000)	(136)	(16)	259	251
Percentage of the present value of the scheme liabilities	(5.7)%	(0.6)%	10.1%	9.9%

## 16 General Fund

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

	2008-09 £000	2007-08 £000
Balance at 1 April 2008	(3,609)	(4,429)
Net Parliamentary Funding		
Drawn Down	109	1,428
Net Transfer from Operating Activities		
Net operating cost	(44)	(26)
Excess cash repayable to Consolidated Fund	(2,986)	(498)
Non cash charges		
Cost of capital	(176)	(139)
Auditors remuneration	46	38
Actuarial loss	136	(186)
Change in discount rate	-	202
Transfer from Revaluation Reserve	21	1
<b>Balance at 31 March 2009</b>	<b>(6,503)</b>	<b>(3,609)</b>

**17 Revaluation Reserve**

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

	2008-09 £000	2007-08 £000
Balance at 1 April 2008	42	33
Arising on revaluation during the year (net)	8	10
Transferred to general fund of realised element of Revaluation Reserve	(21)	(1)
<b>Balance at 31 March 2009</b>	<b>29</b>	<b>42</b>

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

	Note	2008-09 £000	Restated 2007-08 £000
Net operating cost	3	44	26
Adjustments for non-cash transactions	8	(295)	(266)
(Decrease)/increase in debtors	12	(19,907)	20,427
Less movements in debtors relating to items not passing through the OCS		20,270	(20,266)
Decrease/(increase)/decrease in creditors		14,408	(19,834)
Less movements in creditors relating to items not passing through the OCS	14	(17,698)	20,197
Use of provisions	15(b)	150	155
<b>Net cash (inflow)/outflow from operating activities</b>		<b>(3,028)</b>	<b>439</b>

2007-08 restated to analyse gross cash flows not passing through the OCS which were previously reported net.

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

	Note	2008-09 £000	2007-08 £000
Intangible fixed asset additions		61	106
Tangible fixed asset additions		90	385
<b>Net cash outflow from investing activities</b>	18(c)	<b>151</b>	<b>491</b>

**18(c) Analysis of capital expenditure and financial investment by Request for Resources**

	Note	Capital expenditure £000	Net total £000
RF1: Regulation of the Water Industry	10,11	235	235
Net movement in debtors/creditors		(84)	(84)
<b>Total 2008-09</b>		<b>151</b>	<b>151</b>
<b>Total 2007-08</b>		<b>491</b>	<b>491</b>

**18(d) Analysis of financing**

	Note	2008-09 £000	2007-08 £000
From the Consolidated Fund (Supply) - current year	16	109	1,428
Advance from the Contingencies Fund		3,500	2,870
Repayment to the Contingencies Fund		(3,500)	(2,870)
<b>Net financing</b>		<b>109</b>	<b>1,428</b>

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

	Note	2008-09 £000	2007-08 £000
Net cash requirement		(109)	(1,428)
From the Consolidated Fund (Supply) - current year	16	109	1,428
Amounts due to the Consolidated Fund - received in a prior year and	13	(498)	(502)
Excess cash to be surrendered to the Consolidated Fund	14(a)	2,986	498
<b>Increase/(decrease) in cash</b>		<b>2,488</b>	<b>(4)</b>

**19 Capital commitments**

At 31 March 2009 there were no capital commitments (31 March 2008:nil).

**20 Commitments under operating leases**

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

	2008-09 £000	2007-08 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings:</b>		
Expiry within 1 year	-	-
Expiry after 1 year but not more than 5 years	61	-
Expiry thereafter	746	751
	<b>807</b>	<b>751</b>
<b>Other</b>		
Expiry within 1 year	-	2
Expiry after 1 year but not more than 5 years	90	81
Expiry thereafter	-	-
	<b>90</b>	<b>83</b>

**21 Financial Instruments**

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

*Liquidity risk*

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

*Interest rates and foreign currency risks*

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

*Fair values*

There is no material difference between the book values and the fair values of Ofwat's financial assets and liabilities at 31 March 2009.

**22 Contingent liabilities**

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

As at 31 March 2009 there were no contingent liabilities requiring disclosure.

**23 Related party transactions**

Ofwat transferred £5.5 million to the Department for Environment, Food and Rural Affairs and £0.6 million to Welsh Assembly Government in respect of CCWater's operating costs for 2008-09.

Ofwat holds Service Level Agreements with CCWater for providing support services; £87,219 was invoiced and received during the financial year. This figure excludes VAT payable to HM Revenue and Customs.

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

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

**24 Post balance sheet events**

On 1 July 2009 Ofwat entered into a two year sublet for 413 square metres of floor space, part of the 15<sup>th</sup> floor at Centre City Tower, Birmingham. The sub let arrangement is an 18 month rent free deal; the cost in year one is £58,278 and in year two, £94,077. The financial statements were authorised for issue by the Accounting Officer on the 14 July 2009.

The financial statements do not reflect events after this date.



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