

July 2018

Trust in water

Water Services Regulation Authority (Ofwat)

Annual report and accounts 2017-18

For the period 1 April 2017 to 31 March 2018

HC 1105



www.ofwat.gov.uk

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

Accounts presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000

Accounts presented to the House of Lords by Command of Her Majesty

Ordered by the House of Commons to be printed on 19 July 2018

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About this document

This document sets out our annual report and accounts for the period 1 April 2017 to 31 March 2018.

It includes a description of the work we carried out during the year to fulfil our statutory responsibilities.

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

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

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

Contents

Part 1

**Our performance
report**

3

Part 2

**Our accountability
report**

28

Part 3

**Financial
statements**

82

Part 4

Appendices

106

Part 1

Our performance report

Part 1: Our performance report

Overview

Chair's foreword

Our role at Ofwat is to hold the water sector to account. The last year has seen good progress. Our 'totex' regime for efficiencies is delivering results that will benefit customers through lower prices. Our introduction of delivery incentives is showing that successful managements can drive their companies to perform at new frontiers of operating and service performance. In 2014 we supported a number of companies' schemes to improve the resilience of their services and these schemes are well underway. Looking forward, this year we have clearly defined our approach to setting deliverables for companies in the 2020 to 2025 period.

However, this year the water sector has also been subject to deep scrutiny and significant challenge. Customers, the Government and Ofwat want to see a greater sense of fairness in the way many perceive water companies to operate. In particular, we have tackled the concerns that corporate behaviours by some companies have compromised public trust. It shows there is no room for complacency.

The Secretary of State for Environment, Food and Rural Affairs has recognised and supported the work we have done to tackle this, but it is clear that there is more for us to do. During 2018-19, we want to go further, and faster, to reform corporate behaviours.

We were also reminded in March of the criticality of a strong approach to operational resilience by water companies, when customers in some parts of the country saw unacceptable disruption to supplies. This was associated with a very cold period followed by a swift thaw. Ofwat's in-depth investigation into this has been thorough.

Customers rate some companies well for their service, but this doesn't diminish the need to rebuild public trust in the privatised water sector. To do that, companies need to serve – and be seen to serve – customers' interests first and foremost. In short, they need to put customers at the heart of their businesses. In April 2018 we published our programme to bring the water sector back into balance.

In December 2017, we launched the methodology for the next price review (PR19). This methodology sets a clear agenda for companies: affordability, resilience, innovation and customer service, all underpinned by a strong drive for efficiency.

We think there is real scope for companies to bring down bills for customers while delivering a high level of investment in water infrastructure and improving the environmental impact of the industry.

Last year also saw change within our Ofwat senior leadership team. We said goodbye to Cathryn Ross and thanked her for her strong leadership of Ofwat over four years. We welcomed Rachel Fletcher in January 2018 as our new Chief Executive. Rachel has an impressive track record and experience in regulation and customer-focused businesses. She has already made a mark on the sector, putting customers' needs first, driving change and implementation of our programmes.

I am also pleased that we have been able to welcome David Black as an executive member of our Board. David has been a Senior Director at Ofwat since 2016 and his appointment to the Board speaks of the strategic vision and value he adds to our work.

Finally, I would like to express my gratitude to all colleagues at Ofwat. This year has seen some unprecedented events in the water industry and significant challenge for us, too. I have watched first-hand how colleagues across the business and at all levels have risen to the challenge and delivered authoritative, innovative and impactful work. On behalf of the Board, I want to record our appreciation and admiration for their conscientiousness, skill and dedication.

A handwritten signature in black ink, appearing to read 'Jonson Cox', with a large, stylized initial 'J'.

Jonson Cox
Chair

Chief Executive's report

I am proud to be building on the work that took place at Ofwat under Cathryn's leadership.

The organisation's ambition to improve how the industry serves customers' interests is evident across a range of work carried out in 2017-18. This includes: the PR19 methodology; the decision to launch two enforcement cases in response to service and operational failures; and the steps taken to drive improvements in corporate governance and behaviours. We will be taking this work forward in the year ahead.

April marked a year since opening the business retail water market. It has been a positive start, with larger businesses in particular making savings with their time and money. The market has potential to improve customer service, efficiency and water saving across the sector as a whole. We will be working with MoSL, the market operator and market participants to deliver the full benefits for customers.

I have joined at an exciting and challenging time for the water sector. While overall there is an upward trend in performance standards and prices are stable, much more needs to be done to make sure that every water company has customers at the heart of everything they do.

The sector also has an important role to play in meeting the ambitions in the Government's 25 Year Environment Plan. And the recent report from the National Infrastructure Commission has highlighted the need for the industry to work together to provide resilient water supplies into the future. Ofwat's role continues to evolve to address the issues that matter. We will be working with Government and other bodies to address these strategic issues and to ensure we have a regulator and a regulatory framework that is up to the task.

At the end of a busy year, I would like to echo Jonson's sentiments and thank our colleagues for the dedication they have shown. I have greatly appreciated the support everyone has given me since my arrival in January. I welcome Alena Kozakova, Emma Kelso and Lisa Commane, who all joined the senior leadership team this year.

In the short time I have been with Ofwat, it is clear that all colleagues pride themselves in living our SAILOR values. I look forward to supporting and working with Ofwat colleagues, our partners and the rest of the industry to help deliver change.

A handwritten signature in black ink, reading 'Rachel Fletcher'.

Rachel Fletcher
Chief Executive

Purpose and activities

Our [Trust in water](#) strategy is the means through which we fulfil our statutory responsibilities. We also carry out our relevant functions in accordance with the statements of strategic priorities and objectives we receive from the UK and Welsh Governments.

Our [priorities for 2017-18](#) were:

1. Working with and challenging the sector to improve the customer experience in particular by improving resilience, delivering a step change in customer service, maintaining affordability and driving efficiency.
2. Improving information and transparency in the sector to hold companies to account.
3. Supporting the development and investability of markets, to enable the sector to deliver more for less.
4. Securing stakeholder engagement and support for change.
5. Ensuring we have the skills, experience, systems, processes and culture to deliver the strategy.

Our [2018-19 forward programme](#) sets out our plans for the next financial year.

Key issues and risks

Our risk and opportunities strategy sets out our approach for managing and responding to risks and opportunities. Our strategy is based on HM Treasury's [Orange Book: Management of risk – Principles and Concepts](#). And in line with its principles, risk and opportunity management is embedded across our organisation. Our governance statement on page 32 gives more information on risks and 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 90.

Our year at a glance

60%

There has been an improvement in service, with most water companies meeting more than 60% of their performance commitments for 2016-17.



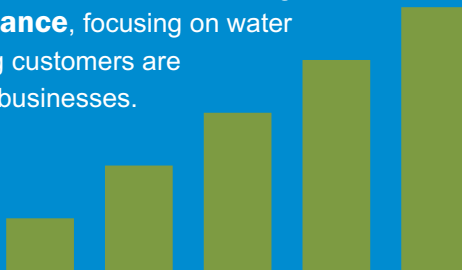
2019 price review

We consulted on, and launched, our methodology for the 2019 price review (PR19). The review aims to deliver more of what matters for customers, including greater resilience, better customer service, affordable bills and more innovation.



Former Chief Executive Cathryn Ross moved on to a new role and we welcomed **Rachel Fletcher** to Ofwat.

We launched a dialogue with the sector and with the UK and Welsh Governments on how to get the sector **back in balance**, focusing on water companies ensuring customers are at the heart of their businesses.



£40 million

Where performance has not been met on agreed commitments in 2016-17, about £40 million will be returned to customers.



Great place to work

Our employee engagement score, which measures our employees' attitudes to Ofwat as a great place to work, remained steady at 75%.



Our YouTube channel – Spark! – reached 2.1 million people with a series of programmes aimed at encouraging innovation in the sector.



We expect PR19 to set a new record for the lowest ever regulated cost of capital for water – saving customers about **£15 to £25** a year.

Leaks



We challenged water companies to fix more leaks, saving enough water a year to meet the needs of everyone in Birmingham, Leeds, Manchester, Liverpool and Cardiff combined.

120,000

In the first year of the new business retail market, 120,000 customers engaged with the market through switching, comparing suppliers or renegotiating deals with their existing supplier.





Performance Cost

The cost performance achieved by a company is shared with its customers. These efficiency gains are also used to set the new benchmarks for the next price review, benefitting the customers of all companies.

-5%

Both water and sewerage bills have seen only a marginal increase with an average combined bill of £405 – about £1.11 per day. This is in line with PR14 plans and will see companies deliver a 5% average drop in prices in real terms between 2015-20.

House building

We worked to support house building by making it easier for entrants to compete to serve developers, and by increasing the incentives for incumbents to provide good services to developers through our price review by including a specific financial incentive (D-Mex).



New strategic partner

We completed the Alternative Delivery Model (ADM) project to procure a strategic partner to work with us to improve our support services and make them more resilient particularly in busy periods. The contract also enables other regulators to benefit by utilising their services.

Quality of service

The service incentive mechanism (SIM) score increased during 2016-17. This measures the quality of service provided by water companies to their household customers.



Customer satisfaction

In the Service delivery report 2016-17, customer service and satisfaction from water companies increased in comparison with the previous year.



We launched a review to demonstrate good and bad performance by water companies when dealing with the early 2018 freeze and rapid thaw weather conditions. The learnings will help ensure customers get a better service and less disruption in the future.

77p

It cost water customers 77p (per household and business property) to fund the water regulator in 2016-17.

Performance analysis

Our 2017-18 performance

Our vision for Ofwat is to be working at the leading edge, trusted and respected, challenging ourselves and others to build trust and confidence in water.

Here, we report on highlights of our performance against our five strategic priorities, which we set out in our [forward programme 2017-18](#).

Priority 1: Working with and challenging the sector to improve the customer experience, in particular by improving resilience delivering a step change in customer service, maintaining affordability and driving efficiency.

Delivering more of what matters for customers

The [methodology](#) for our forthcoming price review, PR19, which we consulted on and published during the year, incentivises and encourages water companies to innovate and find new and better ways of delivering more of what matters to customers. In particular, we are seeking a step change from companies in four areas: customer service, affordability of bills, resilience and innovation.

Our initial view sets the cost of capital at 2.4% (RPI), which would result in an average saving per customer of £15-£25 per year off their bill from 2020 onwards.

Our PR19 methodology challenges water companies to go further than before for their customers by expecting companies to:

- make performance commitments that reflect customers' priorities;
- compare water customers' experience with that of other sectors;
- identify and support customers in vulnerable circumstances, including where such circumstances are temporary;
- ensure that customers that are struggling to pay have easy and effective access to assistance;
- make a step change in cost efficiency providing scope for lower bills and help with affordability;
- improve day-to-day resilience by reducing the number of supply interruptions, sewer flooding incidents and pollution incidents, and reducing water leakage by at least 15%; and
- assess a wide range of options for securing water supply resilience including investment in new infrastructure, water transfers and measures to significantly improve water efficiency and reduce consumption.

Building resilience in the round

The vital nature of water means that companies must think long-term about resilience – operational, financial and corporate. Resilience is the ability to cope with and recover from disruption, and anticipate trends and variability in order to maintain services for people and protect the natural environment now and in the future. [Our report](#) sets out our expectations of how water companies should respond to these challenges, including systems thinking, maintaining the resilience of the natural environment and putting customers at the heart of resilience.

We also published [a report by CH2M](#) aimed at helping us better understand how water and wastewater companies in England and Wales are approaching the measurement and management of asset health and how this contributes to their wider approach to resilience. This highlighted a number of opportunities and challenges for companies. Our PR19 methodology statement sets out how we expect companies to follow up on these in the next review period.

In our role as a statutory consultee on water companies' draft water resource management plans, we have liaised with both the Environment Agency and government. In our response on draft plans, we are encouraging greater ambition in meeting long-term supply and demand challenges. The severe weather conditions in early spring put some companies' resilience to the test. The freeze and rapid thaw

led to supply issues for some household and business customers and we announced a review of what happened and what lessons can be learned in the future. We published our findings in mid-June 2018.

Improved customer engagement within water companies

Customer data has inherent value for customers and companies, and we have been pushing companies to use it to serve all customers better – for example through identifying and serving customers in vulnerable situations, or engaging customers about their water consumption.

To encourage the water industry to utilise the data it holds on its customers to help make their experience a better one, we published ‘[Unlocking the value in customer data](#)’ in June 2017. This report provides water companies with a helpful framework with which to unlock the huge potential of their customer data which in turn could help significantly improve service delivery for customers.

We expect to see evidence of how companies are making better use of customer data in their business plans for PR19.

Supporting vulnerable customers across utilities

We joined with Ofgem through the UK Regulators Network (UKRN) to call on water and energy companies to work together where they can, to ensure vulnerable customers get the support they need.

While there are already good examples of water and energy companies working together to help vulnerable customers, more needs to be done. By identifying customers that are vulnerable, companies should offer priority support, provide bills in formats that are easier to read and understand, and move meters when they are difficult to reach.

Putting the sector ‘back in balance’

In March, we set out the changes in corporate behaviour that we considered the sector needed to rebuild trust. We have made it clear that we will pursue this agenda in the coming financial year, continuing to use all our regulatory levers to make sure that water companies meet the right standards. We have re-affirmed our commitment to this, and more generally to ensuring that the interests of customers

and investors are put back in balance, in our Chair's letter to the Secretary of State for Environment, Food and Rural Affairs in April.

We have consulted on our agenda to improve corporate behaviours including:

- looking to companies to share with customers any financial benefits they make from taking on high levels of gearing;
- setting tighter standards to make sure companies are financially resilient in the long term;
- stepping up demands on transparency around dividends and profits, including a clear expectation that companies meet their obligations to customers before making dividend payments; and
- addressing concerns around executive pay, including an expectation that water company boards explain executive bonuses by reference to exceptional delivery for customers.

Taking action: enforcement investigations

We have two ongoing investigations into water companies' actions and behaviours.

Our investigation into Southern Water is looking at whether the company has breached its statutory duties and licence obligations through the performance of its wastewater treatment sites and its reporting of relevant compliance information to us.

Our investigation into Thames Water followed its failure to meet its leakage performance commitments and considered whether, in doing so, Thames Water had contravened any of its statutory and licence obligations. We published a draft penalty notice and package of measures to compensate customers in early June 2018.

Priority 2: Improving information and transparency in the sector to hold companies to account

Checking how well companies are delivering against their promises

In July, water companies published information for their customers showing how they performed against the commitments they made in their PR14 business plans. We examined this information and in January 2018, published a [service delivery report](#) covering all companies.

We also published our second annual report focusing on [monitoring financial resilience](#) of the water sector in England and Wales. The report aims to enhance the visibility and transparency of company financial performance and financial and capital structures in the sector.

We will seek to ensure that:

- companies are taking responsibility for securing their long-term resilience;
- companies are maintaining an investment grade credit rating;
- they are addressing risks and issues associated with high gearing; and
- they are considering the resilience of their financing arrangements.

Where we have concerns about a company's performance, we raise this with them and are proactive in checking they get back on track.

Supporting and challenging companies to be more transparent about performance

We commissioned a [targeted review of common performance commitments](#) and published reporting guidance on each. This will be used during PR19 to deliver more comparative information – which will help customers, investors and other stakeholders challenge companies' decisions, performance and future targets.

Challenging companies to produce information that can be trusted

Our annual [company monitoring framework \(CMF\)](#) rates each company depending on the quality of the information they provide to us and their other stakeholders, providing the assurance needed to maintain trust and confidence in the sector. Our most recent CMF report flagged concerns about the information provided by four water companies – Bristol Water, Dee Valley Water, Southern Water and Thames Water. We challenged each of those companies to get to grips with the issue of data quality and assurance, and improve how they prepare and present information.

In contrast, three companies - South East Water, Northumbrian Water and United Utilities – performed really well, with solid processes to gather, test and present information. The remaining companies showed some areas of good practice, but also room for improvement in data and information handling.

Changes to company ownership and corporate structures

We have duties to make sure that efficient companies are able to finance their functions and protect customers' interests. As part of this, we monitor changes to companies' ownership and their corporate structures. Issues can also arise as a result of the way companies wish to organise themselves post-merger.

Following the merger between Severn Trent and Dee Valley in 2017, the companies applied to [change the boundaries](#) of their respective licences to align them along national boundaries. After consultation, we granted Severn Trent Water a variation to the water supply area in its existing Appointment to enable it to supply water services to the Chester area; and also granted Dee Valley Water a new Appointment and a variation to its supply area in its existing Appointment, to enable it to supply water and wastewater services to the Powys area. These changes were conditional upon the companies accepting changes to their licences.

Priority 3: Supporting the development and investability of markets, to enable the sector to deliver more for less

Saving water, money and time through the business retail market

Almost 10% of businesses have engaged with the business retail market in some form during its first year. A [survey](#) of eligible customers showed that over 35,000 customers had switched over 100,000 supply points across England. Nine new retailers entered the market and succeeded in attracting new customers with a range of price offers and services. Many customers who switched or renegotiated deals with their existing retailers have saved money and benefitted from service improvements and administrative savings, such as consolidated billing.

The option to act as a self-supply retailer has developed quickly. Four large customers are now licensed to self-supply and a number of further organisations have signalled their interest. Customers see this route offering benefits such as control of their water consumption, increased water efficiency and reduced bills.

Some of our self-supply licensees:

Nick Brown, Head of Sustainability for Coca-Cola European Partners:

“I am confident that this approach, along with our partnership with Waterscan, will help us to collaborate and innovate in the way we understand and improve our water efficiency.”

Andy Kershaw, Head of Group Facilities for Marston's PLC:

“This is a great opportunity for Marston's, enabling us to drive efficiency and cost whilst working towards reducing consumption through our managed sites and breweries.”

Sean Lavis, Whitbread Senior Procurement Manager:

“Self-supply will enable us to build on the efficiency works already undertaken, whilst driving cost and consumption control in the next phase of our water management strategy.”

Competition should deliver a wide range of opportunities and benefits beyond simple price savings, such as bill consolidation, water efficiency services and customer service offers such as multi-utility deals.

We recognise that there is more to do to ensure customers can make the most of the competitive market, and there remains considerable scope to develop and offer such benefits.

We have sought to improve retailers' and customers' participation in the market by:

- asking retailers to make their offers as clear as possible to enable customers to shop around;
- making a number of Code modifications to improve the functioning of the market;
- amending the Retail Exit Code to remove barriers for retailers to carry out normal commercial activity i.e. selling their customer books to other retailers; and
- updating and streamlining our application process for WSSLs limited to self-supply and made some minor amendments to the standard licence conditions that the WSSLs have to comply with.

The first year has nevertheless highlighted a number of areas where the market could function more effectively or efficiently, or where competitive developments have been constrained, including some examples of poor interaction between retailers and wholesalers; and because of poor quality data.

We have also commenced work to understand the experiences of small business customers, who may struggle to access the best deals. We will publish our first assessment of the market in early summer 2018, including setting out areas we wish to see addressed.

Removing barriers in the NAV market

In October, we published the [findings of a review](#) commissioned to consider how the market for new appointments and variations (NAVs) is working; including the extent to which any factors prevent, restrict or distort the market from achieving its full potential.

The review identified a number of potential barriers; including regulatory policy and process issues, water companies' behaviours in working with NAVs and the impact of water companies' charges. We have detailed actions required to address these concerns. These include reviewing our policies and processes to minimise regulatory and administrative barriers, consulting on new charging rules and guidance and challenging the sector to improve access to information and the delivery of services to NAVs.

In the coming year we will also review our overall policy towards NAVs.

Market information for bioresources and water resources

We conducted an analysis of the bioresources market, which indicated that it is challenging and costly for incumbents and potential entrants, both other water and sewerage companies and firms in wider waste markets, to identify profitable trade or optimisation opportunities. As a result, we consulted on and finalised [guidance on market information](#) that monopoly water companies will have to publish for the bioresources and water resources markets.

This market information will enable potential market participants to identify opportunities to supply services in the treatment, transport, recycling and disposal of bioresources, and allow us to monitor the market effectively. It will also enable third parties to identify opportunities to provide new water resources, and demand management and leakage services.

Priority 4: Securing stakeholder engagement and support for change

Sparkling innovation in the water sector

Our multi-channel social media campaign, Spark!, aimed to promote innovation in the water sector. It was the first video based, multi-platform, digital campaign that we or any other regulatory agency has run. It formed part of our wider innovation strategy to inform, enable and incentivise innovation within the water sector.

Using a talk show format, we interviewed a range of business people from other sectors where innovation has led to profound, transformational change. In doing so, we aimed to excite and inspire the sector, and achieved a huge response and reach on social media.

The campaign received positive feedback from the sector and, in particular, the campaign was seen to be an ambitious and engaging initiative, with Ofwat leading from the front on innovation. There were also positive comments about the quality of the production from an in-house team. As the campaign progressed, we published almost 7 hours of footage, achieving 4,500 video views and #SparkInnovation became a key platform to discuss innovation in the sector.

Priority 5: Ensuring Ofwat has the skills, experience, systems, processes and culture to deliver the strategy

Making Ofwat an even better place to work

Our 2016-2017 annual people survey continued to show that:

- 82% of people who responded to the survey said that they enjoy their job;
- our internal advocacy score (how likely our people are to recommend Ofwat as a great place to work) has seen a positive swing of 60% since we introduced the measure in 2014;
- excellent feedback was received on new technology and accommodation with 90% of people believing that our technology enables them to work more effectively; and
- our people feel much more positive about learning and training with 79% of respondents stating they have access to learning and training opportunities.

We have also continued our work on improving our contribution to the health and wellbeing of our people as we enter a very busy period.

A learning organisation

Over the last year, we have continued to develop our employer brand, helping us to successfully recruit staff across Ofwat to support our programme of work including PR19.

We have developed our in-house capabilities and skills during the year through our resource manager development programme and also by expanding our Ofwat Essentials portfolio of courses. With many learning activities delivered in readiness for PR19, we recorded 1,972 training days last year.

Our graduate recruitment scheme continues to be successful, with the latest graduates starting the programme in September 2017. The 18 month scheme gives graduates an opportunity to spend several structured placements across the different resource pools within Ofwat, offering them the prospect of upskilling in many areas.

New senior appointments

We welcomed two new senior directors during the year: Emma Kelso, Senior Director, Customers and Casework and Lisa Commene, Senior Director, Business Improvement.

Both have a wealth of experience from both the private and public sectors and they will contribute enormously to helping to deliver our vision of trust and confidence in vital public water and wastewater services.

Our Chief Economist, Alena Kozakova, was appointed to the Senior Leadership Team and David Black, Senior Director, Water 2020, was appointed to the Board.

New contract for support services

We appointed Pricewaterhouse Coopers (PwC) as our strategic partner to work with us to improve our support services and make them more resilient, particularly in busy periods. This decision followed a competitive process. Described by Civil Service Chief Executive John Manzoni as a pioneering contract in government, the contract enables other regulators to utilise the contract and PwC's services.

The Alternative Delivery Model will deliver for Ofwat:

- improvements to our operational business processes;
- transfer to a new payroll service; and
- redesign and development of our intranet.

In future the contract will also allow us to take advantage of off-site support, temporary staffing solutions, as well as project management and IT supply chain improvements.

Financial commentary

Our financial highlights are summarised below.

Operating costs summary

Table 1: Operating costs 2017-2018

	2017-18 £000			2016-17 £000
	Core Regulation	Thames Tideway Project	Total	Total
Income				
Licence fees received	24,482	500	24,982	25,080
Other income	266	-	266	213
Credit note issued at the end of the year	-	(222)	(222)	(2,500)
	24,748	278	25,026	22,793
Expenditure				
Administration costs	(24,352)	(278)	(24,630)	(22,069)
	(24,352)	(278)	(24,630)	(22,069)
Net operating cost	396	-	396	724

Core regulation budget

We are funded by fees charged to the companies we regulate. Fees are recovered annually from appointed companies and licensed suppliers. 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 negotiation with HM Treasury through the spending review process.

The core regulation operating budget set at the start of the year, and included within our Main Estimate, was £25.2 million.

This was funded in full by the recovery of general licence fees under licence condition N and from water supply and sewerage licensees under Condition 9 of Part A of their standard conditions. Our budget is set to meet our expected operational costs and includes a contingency to cover any unexpected requirements. In 2017-18, we did not charge £0.6m of our contingency budget upfront to companies. At the end of the year we underspent by 1.5% against our core budget, which was in line with our financial target.

The Board confirmed our core budget for 2018-19 at £31.2 million, which is an increase of 24% since 2017-18. This increase reflects most notably the increase in required resourcing as we begin the delivery phase of PR19.

Thames Tideway project

The regulation of the Thames Tideway project is funded under a separate licence and is paid by Thames Water Utilities Limited and Bazalgette Tunnel Limited, the infrastructure provider. The programme budget for 2017-18 was estimated at £0.5 million. The underspend against budget was 44% and arose because of lower utilisation of third-party support than originally expected.

At the end of the year, we returned £0.2 million of excess licence fees recovered to Thames Water Utilities Limited and Bazalgette Tunnel Limited by credit note and the budget for 2018-19 has been confirmed as £0.5 million.

Capital expenditure

Capital expenditure is funded by budget cover agreed with HM Treasury, which is recorded in our Main and Supplementary Estimate. Our core budget for 2017-18 was agreed at £370,000. We had a small underspend against our capital budget of £32,000, of which £20,000 was the amount we hold as contingency.

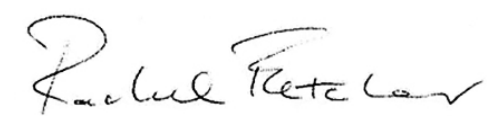
Our core budget for 2018-19 has been confirmed at £170,000.

We have no capital commitments held at 31 March 2018 (31 March 2017: £36,000).

Compensation payments and premature departure

During the year we drew on provisions made in 2009-10 to cover redundancy and early retirement costs.

Details of our movements in provisions are detailed in note 12 to the accounts.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', with a stylized flourish at the end.

Rachel Fletcher
Accounting Officer

28 June 2017

Sustainability

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.

Our carbon emissions for the period were 203.91 tonnes of carbon dioxide equivalent (CO₂e). The largest source of our emissions is electricity consumption, which accounts for 104.3 tonnes of CO₂e (51% of the total). Business travel is responsible for 56.3 tonnes of CO₂e (28% of the total). We do not have any direct (Scope 1) emissions.

Table 2: Breakdown of annual greenhouse gas emissions by activity type for 2017-18

Type of emissions	Activity	Units	(tCO ₂ e)	% of total
Indirect energy (scope 2)	Purchased electricity (kWh)	296,634.23	104.28	51.14%
	Subtotal		104.28	51.14%
Other indirect emissions (scope 3)	Business travel (miles)		56.33	27.62%
	Flights (miles)	2,171.07	0.67	0.33%
	Rail (miles)	1,095,288.36	51.24	25.13%
	Taxi (miles)	889.31	0.31	0.15%
	Motor mileage (miles)	13,359.62	3.92	1.92%
	Car hire (miles)	628.53	0.18	0.09%
	Waste and water		6.0	2.3%
	Water use (m ³)	146.82	0.15	0.08%
	Waste (tonnes)	20.31	3.90	1.91%
	Additional upstream activities	296,634.23	27.93	13.70%
	Electricity T&D (kWh)*	1,114,507.96	11.32	5.55%
	WTT**		99.63	48.86%
	Subtotal	146.82	0.15	0.08%
Total emissions (tCO₂e)			203.91	

*Transmission and distribution (T&D) emissions are those 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 associated with the upstream processes of extracting, refining and transporting raw fuel to the vehicles, assets or processes under scrutiny.

Carbon emissions

Our total carbon emissions have decreased by 52 tonnes of CO₂e (20%) compared to 2016-2017. This is mainly due to our reduction in business travel and non-recycled waste. Normalised emissions (tonnes of CO₂e per FTE) have decreased by 29% which represents our overall reduction in carbon emission in a period where our FTE has increased by 13%.

Table 3: Year on year analysis of greenhouse gas emissions

		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Type of emissions	Activity	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)
Indirect energy (scope 2)	Purchased electricity (kWh)	207.83	187.64	201.00	127.12	125.14	104.28
	Subtotal	207.83	187.64	201.00	127.12	125.14	104.28
Other indirect emissions (scope 3)	Business travel (miles)	58.55	71.98	60.49	48.36	79.81	56.33
	Flights (miles)	15.55	27.73	8.40	12.08	16.37	0.67
	Rail (miles)	37.04	37.46	46.84	30.36	57.21	51.24
	Taxi (miles)	1.00	1.43	0.74	0.68	0.40	0.31
	Motor mileage (miles)	3.2	4.7	4.2	5.0	5.6	3.92
	Cars (miles)	1.69	0.66	0.27	0.25	0.25	0.18
	Waste and water	5.36	3.67	7.96	5.21	5.98	4.05
	Water use (m ³)	0.97	0.96	0.92	0.25	0.15	0.15
	Waste (tonnes)	4.39	2.71	7.04	4.96	5.84	3.90
	Additional upstream activities	32.12	28.81	32.92	20.82	20.49	27.93
	Electricity T&D (kWh)*	27.24	26.95	28.53	19.42	24.57	11.32
	WTT**	123.27	131.42	129.90	93.81	130.86	99.63
	Subtotal	331.11	319.06	330.89	220.93	256.00	203.91
Total emissions (tCO₂e)			199	143	172	211	238

Average FTE across reporting period		1.60	2.32	1.28	1.21	0.86
Normalised emissions (tonnes of CO₂e per FTE***)	207.83	187.64	201.00	127.12	125.14	104.28

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

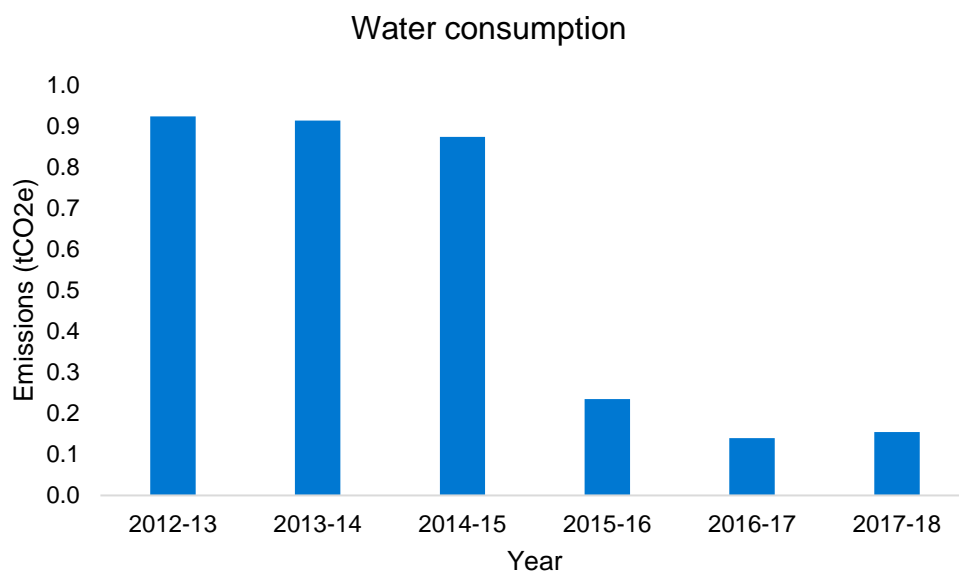
**Well-to-tank (WTT) emissions are those associated with the upstream processes of extracting, refining and transporting raw fuel to the vehicles, assets or processes under scrutiny.

***Staff numbers (FTE) are used as a benchmark to monitor emissions over time.

Water

We used 147m³ of water in our kitchen and toilet facilities, equivalent to 0.15 tonnes of CO₂e. This is a 5% increase from the previous year. Water consumption at our London site was estimated.

Figure 1: Water consumption for the past six years

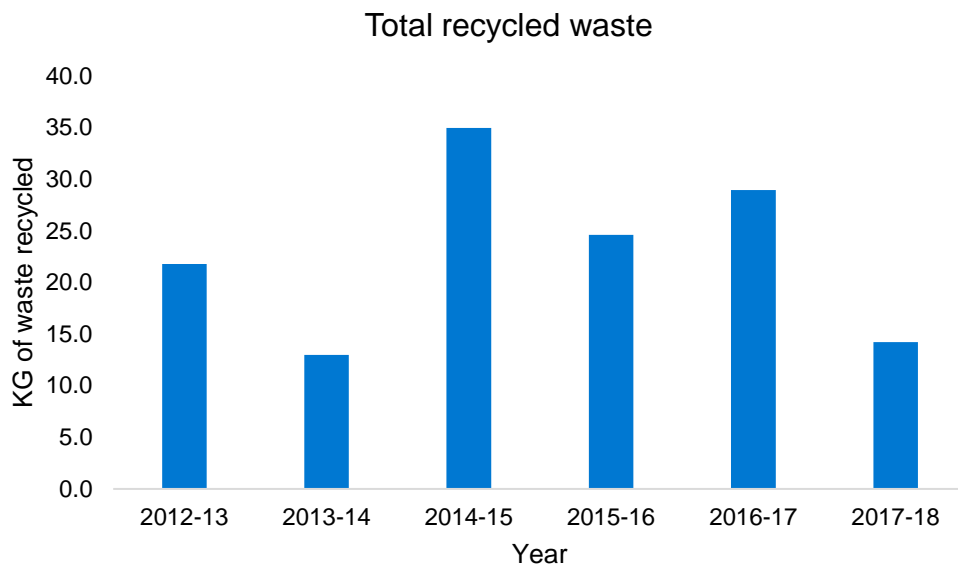



Waste

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

Recycled waste amounted to 14 tonnes, resulting in 0.31 tonnes of CO₂e. Landfill waste has been estimated at 6 tonnes, resulting in 3.59 tonnes of CO₂e. Waste figures at our London site were estimated.

Figure 2: Recycled waste for the past six years





Part 2

Our accountability report

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 Rachel Fletcher, and Jonson Cox is our Chair.

Supplier payment performance

We achieved 87% against our target for paying 100% of agreed invoices within 30 days of receipt during the year. The corresponding figure for 2016-17 was 90.1%.

The Government set a target for paying 80% of agreed invoices within five days of receipt. In 2017-18, we achieved 13.7% against this target. The corresponding figure for 2016-17 was 24.5%. Given the size of Ofwat and the resources required it is difficult for Ofwat to meet this target. However, we aim to pay our suppliers as quickly as possible and our average payment days in 2017-18 was 17 days.

Whistleblowing

Whistleblowing is the term used when an employee raises concerns about improper practices in their workplace. It is also referred to as a public interest disclosure. We have a responsibility for whistleblowing matters relating to the water sector in England and Wales.

As set out in the Prescribed Persons Order 2014, Ofwat, as a Prescribed Person, has a responsibility to provide employees with a mechanism to make their public interest disclosure to an independent body, where the employee does not feel able to disclose directly to their employer and the body might be in a position to take some form of further action on the disclosure.

Therefore if an employee of the water sector has information or concerns about any aspect of the way a water company or the sector is operating, they can contact us about it. On receipt of a whistleblower contact we investigate the claims made by engaging with the whistleblower (where possible), the water company and internal and external subject matter experts to decide what, if any, steps we can take to resolve the issue or take the matter forward as appropriate.

Following our assessment of the issues raised with us, none of the five qualifying disclosures we received during 2017-18 resulted in us deciding to take further action.

Table 4: Number of qualifying disclosures made in 2017-18

Metric	What is measured	Number
Whistleblowing	Number of disclosures of information made by water sector employees to Ofwat	5
	Number of those disclosures where Ofwat (the Prescribed Person) decided to take further action	0

Protected personal data-related incidents

We have an Information Risk Policy (IRP) and related procedures in place to manage the risk of protected personal data-related incidents. 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. As such, we have policies and procedures for detecting, reporting, responding to and handling security incidents. We continually monitor the effectiveness of our policies to ensure we have a robust process in place.

A breach of protected personal data-related incidents is defined as “any circumstance that has arisen contrary to policy and that has the potential to compromise HMG assets. Assets include people, property or information. The circumstance may include actions that were 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 2017-18 that we considered sufficiently serious as to require the Information Commissioner to be informed, consistent with ICO guidance.

Financial instruments

We do not have borrowings; we rely for our cash requirements primarily on licence fee income, claims on the reserve and Contingency Fund repayable advances. We are not, therefore, exposed to significant liquidity risks. Further details are provided in note 8 to the accounts.

Internal audit

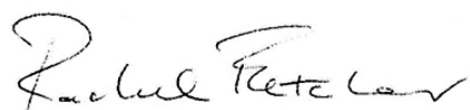
Grant Thornton provided our internal audit service during 2017-18. This independently measures and audits the adequacy, reliability and effectiveness of management, risk management, and financial control systems. The internal auditors make recommendations based on the appraisal of each system reviewed. The 2017-18 internal audit was performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

During the year, we participated in a cross regulator group procurement for the provision of internal audit services. At the conclusion of that process, Mazars were awarded the joint regulators' contract and appointed as our internal audit supplier from 1 April 2018.

External audit

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. There was no auditor remuneration (actual or notional) for non-audit work. As Accounting Officer, I have taken all the steps 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.

The notional cost of this audit service is £38,000 (2016-17: £40,000).



Rachel Fletcher
Accounting Officer

28 June 2018

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (GRAA), 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 and the net income, application of resources, changes in taxpayers' equity 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, balance 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 Rachel Fletcher, 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.

Accountability – how we are managed and scrutinised

Governance statement

In summary

This Governance Statement sets out our governance, risk management and internal control arrangements. It applies to the financial year 1 April 2017 to 31 March 2018 and, where appropriate, up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

How we are structured

Scope of responsibility

The Accounting Officer and Ofwat Board are responsible for maintaining corporate governance that supports the achievement of our strategy, [Trust in Water](#), while safeguarding public funds and departmental assets. This is in accordance with the responsibilities set out in [Managing Public Money](#). The Accounting Officer is accountable to Parliament for all aspects of our work. This includes the management of risk and opportunity.

As a non-Ministerial Government Department, our duties are laid down by legislation, primarily the Water Industry Act 1991, as amended.

Accountability

Our Annual Report and Accounts are sent to Defra, which lays copies of it before each House of Parliament, and to the Welsh Government, which lays copies before the Assembly. The Board is responsible for ensuring that proper records are maintained, which disclose with reasonable accuracy, at any time, our financial position. In addition, the Board is responsible for safeguarding our assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

How we manage the public funds we receive, in line with HM Treasury guidance, is set out in [Managing Public Money](#). We are continuing to develop a Framework

Document with Defra following the [Public Accounts Committee review of Arm's Length Bodies](#). We are both seeking to ensure that the development of the framework will ensure Ofwat maintains its independence within the remit set by statute.

The purpose of the governance framework

Ofwat adheres to the principles of the Code of Practice on Corporate Governance ('[Corporate Governance in central government departments: code of good practice](#)').¹ We comply with the Code, other than in some areas where our composition as a Non-Ministerial Government Department means certain provisions are not applicable.

The governance statement sets out:

- a review of our effectiveness in 2017-18;
- a summary of the key elements of our governance framework; and
- the Accounting Officer's statement.

Reviewing our effectiveness

As Accounting Officer, I am responsible, along with Ofwat's Board, 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 have advised me about the implications of my review of the effectiveness of the system of internal control 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 was appointed Accounting Officer on my appointment as Chief Executive of Ofwat on 8 January 2018. The previous Chief Executive gave me full assurance on the existence and maintenance of a comprehensive system of assurance and controls to support me in my role 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. This system of controls has been maintained. On the basis of evidence received from the Executive Directors, the Non-Executive Chair of the Board and the Non-Executive Director Chairs of the

¹ <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments>

Committees, particularly the Audit and Risk Assurance Committee (ARAC), I am satisfied that I have the necessary level of assurance to discharge my responsibilities effectively with respect to the period covered by this Governance Statement. Full records are available as set out below.

Ofwat's strategy provides the basis for our annual priorities, which are set out and consulted on in the forward programme each year. This forward programme drives programme and project plans and, ultimately, each of our people's objectives. Directors, project managers and team leaders regularly review progress on programme and project plans. The Senior Leadership Team and Board review progress across our portfolio each quarter.

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 monthly updates of programme risk registers, and action required is taken accordingly. The strategic risk register is incorporated into our quarterly portfolio reports to the Board as well as submitted for discussion to the ARAC. This covers both current and past areas of risk and opportunity, but also very much a forward looking perspective. I also receive regular reports from our SIRO on security (including information risks) and cyber risks.

In addition, the Audit and Risk Assurance Committee receives risk review presentations from the strategic risk owners and on programmes on a regular basis. Risk and opportunity management is embedded into all of our programmes and their component projects.

Our resource requirements are assessed regularly in the context of our rolling business plan and annual operational plan. In terms of general financial and corporate governance, progress against our budget and forward plan is monitored on an ongoing basis. We undertake an extensive quarterly review of programme budgets and progress against the milestones we have set. I also submit a quarterly portfolio review 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, putting our people's wellbeing at the heart of our delivery. The recent internal audit of the Financial Control environment confirmed substantial assurance which provides me with assurance on this key element of our controls.

We have an established internal audit programme, which is in line with last year's programme and any changes agreed to the plan by our Audit and Risk Assurance Committee (ARAC) during the year. Grant Thornton provided an assurance report at the end of the year on that basis. Progress against this plan is monitored by the

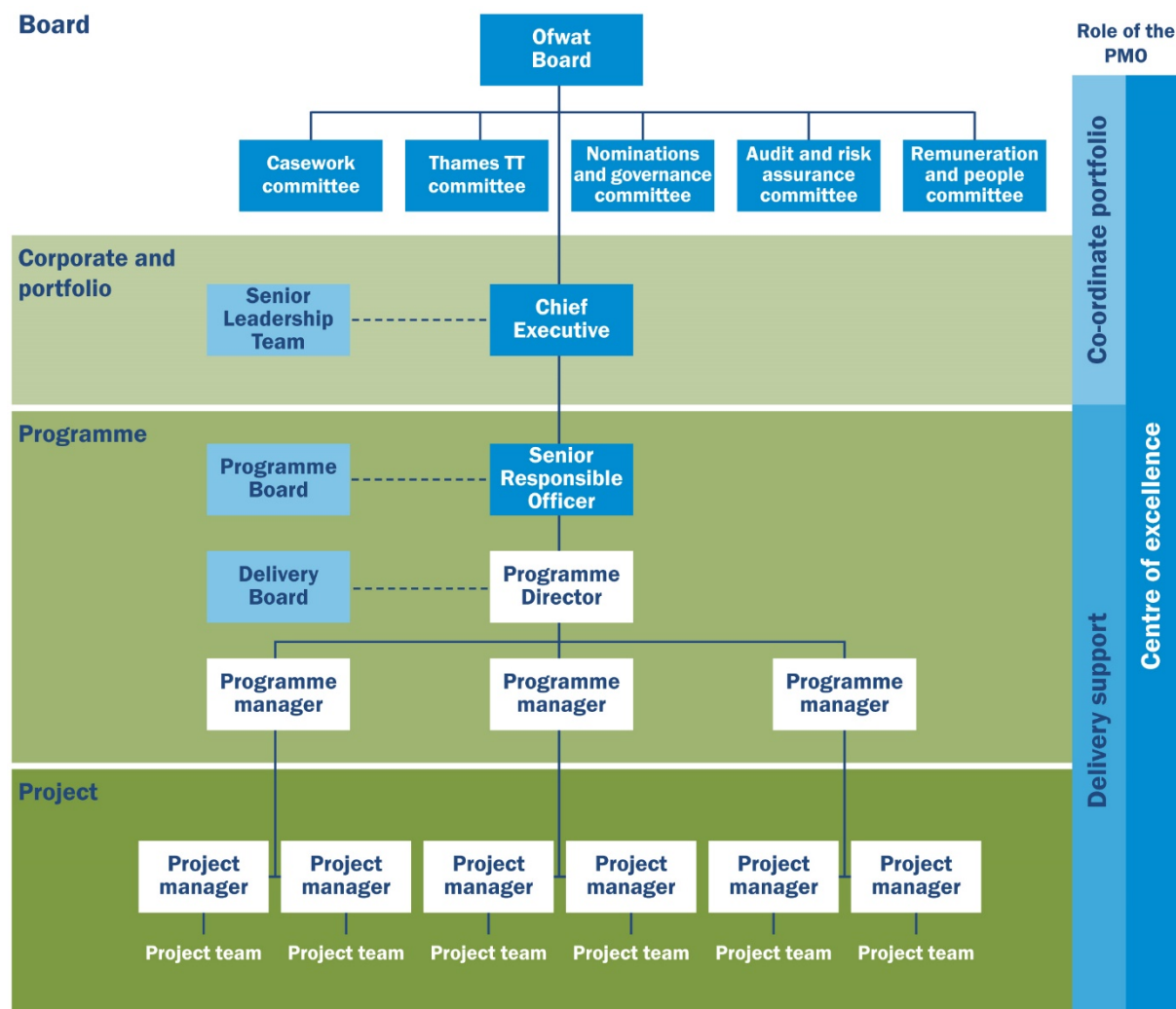
ARAC and internal audit assurance reports to date have been shared with the Committee promptly.

Our governance structure

Ofwat has a three layered system of governance:

- our board;
- 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.

Figure 3: Ofwat's governance framework

Ofwat Board

As a Non-Ministerial Government Department, the role of the Board is critical to our success. The Board, comprising of a mix of Executive and Non-Executive members, helps guide us strategically and provides challenge and advice to the Chief Executive and the executive team. This is on their development and implementation of the strategy and our business plan, and performance against that plan. Ofwat's Board has a majority of independent Non-Executives with a Non-Executive Chairman. During 2017-18, the Board comprised seven Non-Executive Directors and four Executive Directors, including the Chief Executive.

The Board provides:

- Challenge: reviewing and challenging our business plan and performance against that plan, in particular, in 2017-18, playing a key role in setting our price review methodology and focusing on strategic issues reserved to it, including matters that raise major new issues of principle or are particularly sensitive.
- Expertise: providing wider public and private sector expertise to help shape the delivery of strategy and to improve our performance. They also advise the Chief Executive on senior appointments.
- Strategy: agreeing our strategy and assuring 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.
- Supporting the Chief Executive, as Accounting Officer, by reviewing the comprehensiveness and reliability of assurances on the accuracy of the financial statements, and that risk management and control processes across Ofwat are robust, appropriate and proportionate.

The Board does not have a role in day-to-day operational decision-making other than matters reserved for Board as set out in our [Board Rules of Procedure](#). These include strict guidelines on the disclosure and management of conflicts of interest. They were revised this year and published on the [Ofwat website](#).

The Board's membership provides the necessary balance of experience and expertise, covering our duties and strategy. The General Counsel, Jenny Block, attends and is accountable to the Board for providing legal advice.

The Board met ten times in 2017-18, receiving regular updates from business areas covering financial performance, and the key risks to performance and transformation we faced, giving the Board clear oversight of how we are performing against our objectives and business plan commitments.

The Chairman and Non-Executive Directors have played a full part in Board business by attending and contributing to Board and Board committee meetings. Minutes of the Board's meetings are published on the Ofwat website.

Two Executive Directors joined the Board during 2017-18: David Black was appointed as a Board member in May 2017 and Rachel Fletcher in January 2018. Two Executive Directors have also left the Board during the year: Richard Khaldi left Ofwat in May 2017 and Cathryn Ross, Chief Executive left in January 2018.

Ofwat's 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 for Environment, Food and Rural Affairs.

Independent Members

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

John Swift QC – Independent Member of Casework Committee who left the Committee in August 2017.

Vanessa Howlison – Independent Member of Audit and Risk Assurance Committee, and whose other appointments include Chief Finance Officer for Highways England.

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 Chairman. The Board takes the opportunity to meet more informally several times throughout the year to enhance its cohesion as a team. Further to the full survey of its effectiveness in 2016-17, the Board intends to undertake a further formal assessment in 2018-19 once the new Board members, including myself as Chief Executive, are established.

We also intend a more comprehensive review of certain elements of governance in 2018-19 to take forward the recommendations of the previous effectiveness review. For example, to:

- provide greater clarity on the issues that should come before the Board;
- consider whether individual Non-Executive Directors should have a particular focus, such as in relation to cyber security;
- refresh the terms of reference of the various Committees, supplementing the review of the terms of reference of the Audit and Risk Assurance Committee undertaken this year;
- improve reporting and evaluation of strategic risks and how these are managed in accordance with our risk appetite; and

- provide a more regular cycle of training to support the induction of new Board members on relevant policy and governance topics and ongoing refreshers for established Board members.

Register of interests

We maintain a register of interests to ensure that potential conflicts of interest can be identified. This is 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, and members declare interests on agenda items at the start of every Board and Committee meeting. On the rare occasion a conflict of interest arises, the Rules of Procedure ensure that the relevant Board member is not involved in decision-making on relevant items and appropriate measures are taken to ensure the integrity and impartiality of the Board's decision making. Such circumstances are noted in the minutes.

Board committees

Work is delegated to five Board committees, where smaller groups of Non-Executives and members of the Senior Leadership Team can examine issues in more detail and present their findings to the Board for discussion and conclusion. Each committee is chaired by a Non-Executive Director. The Board's supporting committees are:

- Audit and Risk Assurance Committee
- Remuneration and People Committee
- Casework Committee
- Thames Tideway Committee
- Nominations and Governance Committee

Audit and Risk Assurance Committee

Chair: Alison Munro

The purpose of the Audit and Risk Assurance Committee (ARAC) is to support the Board in its responsibilities for managing issues of risk, control, governance and associated assurance. It does this by reviewing the sources of assurance in place to meet the Board's and Accounting Officer's assurance needs, considering whether

they are sufficiently comprehensive and complete, reviewing the reliability and integrity of these assurances, and providing an opinion (on governance, risk management and internal control) 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.

During the period of this report, the Committee met five times. In May 2018, the Committee submitted its recommendation to the Board to approve the annual accounts. Other matters discussed by the Committee in 2017-18 included:

- updates to the Departmental Security Health Check return which, was submitted to the Cabinet Office in July 2017, and our proposed approach to the management of information and of risks to our information;
- the assurance approach to PR19 methodology and delivery;
- the re-procurement of Internal Audit services;
- the ARAC effectiveness review;
- an update on our business continuity plans;
- assurance on the procurement of a strategic partner for our alternative delivery model and PR19 delivery partner;
- lessons learned from the alternative delivery model procurement;
- an update on our implementation of the General Data Protection Regulation;
- regular deep dive reviews focusing on key strategic risk areas and programmes; and
- regular reviews of our progress in implementing actions arising from internal and external audit and other reviews.

The Committee also reviewed and refreshed its Terms of Reference.

All of the scheduled internal audit reviews were completed, as agreed by the Committee, with findings providing moderate assurance (which reflects that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control) and above. Matters reviewed include:

- the adequacy of design and effectiveness of our stakeholder engagement arrangements;
- our core financial systems and payroll;
- lessons learned from the Retail Market Opening programme;
- PR19 delivery model assurance; and
- a review of our new electronic data records management system (EDRMS).

Overall for the 2017-18 financial year, Grant Thornton have provided 'moderate' assurance of our systems of internal control.

Remuneration and People Committee

Chair: Martin Lawrence

The role of the Remuneration and People Committee is to oversee the implementation of the People Strategy and to consider matters relating to the pay and conditions of employment of our staff.

During 2017-18 the Committee met four times and focused on strategic workforce planning and resourcing and pay issues, along with monitoring our people survey, maintaining our people's wellbeing and supporting the Chief Executive in setting objectives for the Senior Leadership Team.

Casework Committee

Chair: Catherine Waddams

In July 2013, the Board established the Casework Committee to make certain final decisions in strategic cases. During the year there were no strategic cases requiring the Committee's involvement.

Thames Tideway Committee

Chair: Jonson Cox

The purpose of the Committee is to make certain decisions and to provide challenge, support and advice in relation to the Thames Tideway Tunnel programme responsible for Ofwat's regulation of the project. During 2017-18 the Committee met on one occasion by conference call. During the year the Committee made the following decisions:

- The Committee agreed that Ofwat should consult on a proposal to issue a waiver notice for the Thames Clippers' contract and delegated the final decision to Keith Mason, as Senior Responsible Owner (SRO), Thames Tideway Tunnel programme.

Nominations and Governance Committee

Chair: Jonson Cox (other than when dealing with matters relating to chairmanship of the Board).

The Committee's role is to:

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

Given the importance and timing of proposed recruitment to the Board and Senior Leadership Team, the Committee met informally together with other Non-Executive Directors to consider the scope of these senior roles.

Senior Leadership Team

The Senior Leadership Team (SLT) comprises the executive members of the Board, Senior Directors and the General Counsel. SLT meets frequently and considers matters relating to our management, our portfolio of programmes and our resources, subject to the overall direction, reserved powers and oversight of the Board.

Its focus is strategic across our portfolio, including horizon scanning and the scrutiny of strategic risk and opportunities. It also focuses 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 in the organisation, particularly in terms of overseeing and exemplifying our values, behaviours and culture. Progress against our portfolio is fed back to each Board meeting in the Chief Executive's report.

In 2017-18 three new members joined the SLT. We welcomed Lisa Commane, Senior Director, Business Improvement, Emma Kelso, Senior Director, Customers and Casework; and Alena Kozakova, Chief Economist to the team.

Board members' terms of appointment and committee attendance

Table 5: Attendance at Board and five sub-committee meetings from April 2017 to March 2018

Board members*		Board Meetings (10)	Audit and Risk Assurance Committee Meetings (5)	Remuneration and People Committee Meetings (4)	Casework Committee Meetings (0)	Nominations Committee Meetings (0)	Thames Tideway Committee Meetings (1) Conference call (1)
Jonson Cox Chairman		10/10	----	4/4	----	0	2/2
Term started	Term 2 ends						
01/11/2012	31/10/2020						
Martin Lawrence Non-Executive Director		9/10	----	4/4	0	0	----
Term started	Term 2 ends						
01/05/2013	30/04/2020						
Catherine Waddams Non-Executive Director		10/10	----	----	0	----	----
Term started	Term 2 ends						
01/05/2013	30/04/2021						
Christine Farnish Non-Executive Director		10/10	5/5	----	----	----	2/2
Term started	Term 2 ends						
01/01/2014	30/04/2020						
Mark Bayley Non-Executive Director		10/10	5/5	----	----	----	2/2
Term started	Term ends						
28/04/2016	27/04/2021						
Alison Munro Non-Executive Director		10/10	5/5	----	----	----	----
Term started	Term ends						
28/04/2016	27/04/2020						
Tim Waggott Non-Executive Director		10/10	----	4/4	----	0	----
Term started	Term ends						
28/04/2016	27/04/2020						
Rachel Fletcher Chief Executive		3*/10	1*/5	1*/4	0	0	0
Term started	Term ends						
08/01/2018	06/01/2023						
Aileen Armstrong Senior Director Finance and Governance		10/10	----	----	----	----	----
Term started	Term ends						
16/05/2016	14/05/2021						

Board members*		Board Meetings (10)	Audit and Risk Assurance Committee Meetings (5)	Remuneration and People Committee Meetings (4)	Casework Committee Meetings (0)	Nominations Committee Meetings (0)	Thames Tideway Committee Meetings (1) Conference call (1)
John Russell Senior Director Strategy and Planning		9/10	----	----	----	----	----
Term started	Term ends						
25/07/2016	23/07/2021						
David Black Senior Director Water 2020		7*/10	----	----	----	----	----
Term started	Term ends						
29/05/2017	27/05/2022						
Vanessa Howlison Independent Member		----	5/5	----	----	----	----
Term started	Term ends						
01/01/2015	31/12/2018						
John Swift QC Independent Member		----	----	----	0	----	----
Term started	Term ended						
11/2014	31/08/2017						
Cathryn Ross Former Chief Executive		7*/10	4*/5	3*/4	0	0	2/2
Term started	Term ended						
14/10/2013	7/01/2018						
Richard Khaldi Former Senior Director Customers and Casework		2*/10	----	----	0	----	----
Term started	Term ended						
06/01/2014	26/05/2017						

¥ The term dates refer to the dates of members' appointment to the Board only.

*Rachel Fletcher joined Ofwat on 8 January 2018.

*David Black was appointed as a Board member on 29 May 2017.

*Cathryn Ross left Ofwat on 7 January 2018.

*Richard Khaldi left Ofwat on 26 May 2017.

Risk management

Our risk management framework is based on HM Treasury standard guidance in the [Orange Book](#). In January 2017, the Board held its annual strategic risk and opportunities review. This resulted in minor changes to our strategic risks and opportunities, and no changes to our risk appetite.

In line with the principles of the Orange Book, the Board, Audit and Risk Assurance Committee and Senior Leadership Team regularly review the strategic risk and opportunities register. In addition, the Audit and Risk Assurance Committee receives risk review presentations from the owners of particular strategic risks and opportunities and programme Senior Responsible Officers, and senior director overviews on a regular basis. Risk and opportunity management is embedded into all of our programmes and their component projects.

Figure 4: Ofwat's risk framework



We cannot deliver our vision for the sector on our own, therefore we need to understand the internal and external environments, including interactions with other organisations' risks. We promote a culture where we proactively and thoroughly

manage risks to a level we are willing to accept, and equally proactively pursue appropriate opportunities.

To be innovative and make the most of available opportunities we accept some risk, and manage and control the impact to acceptable levels. We pursue some higher risk activities if we anticipate sufficient benefits in line with our vision for the sector or our vision for Ofwat.

There are several ways that we manage risks, which we set out below. In the last year we have:

- worked closely with programme directors and managers to help them understand that effective risk and opportunities management is an integral part of good leadership;
- continually reviewed our strategic risks and opportunities to ensure that we are effectively managing risks that cut across multiple areas of our work and that could have the greatest impact on our ability to achieve our strategic objectives;
- worked closely with programmes through programme partners to ensure key risks to our plans are identified, and managed early; and
- continued to make improvements to our approach to risk through regular conversations with the Senior Leadership Team and the Audit and Risk Assurance Committee.

Risk overview

During the year we reviewed and updated our risks and opportunities to ensure we were appropriately managing the strategic and programme risks most likely to have a material impact on the delivery of our strategy. Throughout the year, we were also very much alive to, and sought to capitalise on, opportunities that might allow us to be even more successful at achieving better outcomes for customers. The key areas of risks and opportunities were as follows.

Our regulatory approach

It is fundamental that our regulatory approach reflects customers' best interests both now and for the long term, and delivers the outcomes customers need, want and can afford. Our strategy relies on the sector stepping up to deliver these outcomes and on our ability to align investors' interests to do so, intervening robustly where customers' interests are not served effectively.

We put customers' needs at the heart of our regulatory approach. We are clear that the culture of the sector needs to change to support the delivery of more for less for the benefit of customers.

Underpinning all of this is the need for resilient services. Customers expect reliable water and wastewater services supplied by infrastructure that can avoid, cope with and recover from disruption. Water companies must ensure that they deliver resilient services by making the best long-term decisions about operations, maintenance and investment. This in turn means they need the right information, systems, processes, governance and capabilities; and resilient balance sheets, cash flows and finances.

Over the past year, we have challenged companies to do more and to put the sector back in balance and to deliver this resilience, in particular through improved corporate governance, greater transparency of financial flows, and to be ambitious and innovative in their water resource planning and business plans. This builds on our existing outcomes based framework which also affords companies the ability to out-perform on outcomes which in turn should motivate companies as they prepare for PR19.

We have also seized opportunities to deliver more for customers by supporting the opening of the business retail market and putting in place measures to help to develop markets for water resources and bioresources and through direct procurement for customers for large infrastructure projects. The development of these markets is integral to the PR19 methodology, leading to visible change in the sector, which continues to attract new investors.

We also continue to monitor the business retail market to drive forward looking, proactive policy interventions where needed. We have engaged with industry panels, customers and other stakeholders to help ensure the market architecture adapts to emerging market changes and provides the protection for customers and impetus for further efficiencies, alongside the wider benefits that this new market may bring.

The way we work

If we are to deliver our vision for the sector and discharge our responsibilities, it is vital that we are set up to operate efficiently and effectively. This requires governance that is appropriate and proportionate, supporting our optimum ways of working, and enabling us to empower our people, manage risk and seek out opportunities. In addition, our portfolio contains a number of critical interdependencies that must be managed effectively and holistically to enable us to deliver our strategy.

We work in a flexible way to ensure we are able to respond quickly to new circumstances, while never taking our focus from protecting customers' interests. Our culture, values and behaviours have been critical for the transformation of our organisation and we need to ensure that they are not compromised and remain embedded, even at times of peak delivery. This means continually assessing whether we are making best use of all our resources and ensuring we maintain the trust and respect of our colleagues.

To address the risks to delivering in the right way, and to support our culture and values, we have utilised robust and proportionate governance. This is embedded within programmes and resource pools to ensure good compliance which supports optimum ways of working, enabling us to deliver efficiencies, and secure value for money.

Successful mitigation of these risks has delivered a transformed Ofwat, which is modern, more agile and flexible; with a reputation across government for being well run and trusted by Government and the sector. However we are not complacent. In the current environment, as we enter a phase of peak delivery, we recognise the challenges that this may present to sustaining and building on progress made to date.

We will continue to review and embed our Governance Framework across the organisation, and carry on ensuring that effective delegations to Senior Responsible Officers and Senior Resource Managers are in place and monitored for their efficacy. We have also set up regular portfolio reviews to ensure our programme activity reflects our strategy and ensures effective prioritisation, as well as innovation in both our policy and enabling work. We have sought to continuously improve our systems and processes to ensure they are lean and agile, and our strategic arrangement with PwC will further support this.

External factors

Delivery of our strategic vision relies on effective partnership working. We also recognise that external events may provide an opportunity to further our strategic objectives and improve outcomes for customers. We work hard to ensure we have the right relationships in place to allow us to influence, even where we don't have direct authority and that we are horizon scanning to spot opportunities. We also see regulatory independence within suitably framed government strategic priorities as essential to enable us to deliver our vision and enable effective regulation that benefits customers.

Our external communications strategy is pivotal to mitigating the risks of failing to address the expectations of our key stakeholders. We communicate proactively on delivery for customers and holding companies to account, working across all programmes, to convey a consistent and joined up external message to all our stakeholders, being clear about the benefits of economic regulation and the regulatory model.

To ensure appropriate alignment with government thinking, we have embedded effective implementation of the [UK Government's Strategic Priorities and Objectives Statement](#) and the [Welsh Government's Strategic Priorities and Objectives Statement](#) across Ofwat, clearly highlighting how we have met and intend to meet our delivery milestones in the forward programme across our portfolio. We have engaged in positive and proactive dialogue with the Welsh and UK Governments to maintain trust and confidence in our approach, and we continue to ensure that we do our job well through transparent open processes.

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 Risk Policy (IRP) and related procedures in place to ensure that such assets are properly safeguarded and associated risks are well managed, including with respect to our dealings with third party suppliers.

We have a Senior Information Risk Owner, Departmental Security Officer and IT Security Officer, as well as Information Asset Owners for all of our programmes and pools. We have quarterly meetings of our Security and Information Assurance Group (SIAG), which provides governance of our security, information risk and information assurance measures. SIAG has met three times during 2017-18.

To raise staff awareness we have continued to run training and awareness campaigns including a phishing exercise in December and Insider Threat training. We have also recently launched a visual tool to highlight the rise and fall of incidents capturing the most common for example loss of equipment, minor data breaches and any contract issues. 2017-18 has seen a slight increase in the number of reported security issues, most of which were minor, but there has been an increase in theft/loss of our equipment. None of the reported issues required reporting to the Information Commissioner's Office.

Our Departmental Security Health Check return, key elements of which are subject to internal audit, demonstrates we have robust systems and processes in place to

manage our information and security whilst recognising that there are some areas for improvement. The current Transforming Government Security Programme (TGSP) is addressing the concern that the central DHSC process needs to be reviewed in accordance with new standards issued, and TGSP is working with departments to ensure that this is proactively managed.

We regularly update our Business Continuity Plan. Further developments will continue into 2018 to establish regular training.

Quality Assurance of Analytical Models

We continue to develop our quality assurance framework for analytical models.

In 2017-18 a further 18 members of staff were trained in the use of the FAST modelling standard. Further FAST training will be provided during 2018-19 to new recruits who will be involved in analytical and modelling work. Wherever possible we are now ensuring that models we publish are built according to the FAST modelling standard. All of the key models published as part of our PR19 final methodology are FAST compliant.

We use a risk-based approach to the quality assurance of Excel models. Two internal training courses were held in 2017-18 on the quality assurance of Excel spreadsheet models. A further training course is planned for early 2018-19.

During 2017-18 we have used external review where appropriate to gain further assurance of the quality of our analytical models.

Data quality

We use a wide range of financial and other data 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 continually seek new ways to present management information in a clear way.

Accounting Officer's statement

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 Responsible Officers for all of our programmes and the Strategic Resource Managers who lead our resource pools 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 and the Audit and Risk Assurance Committee and the assurance reports and reviews undertaken to inform our returns to government, for example with respect to our Departmental Security Health Check.

Based on my review of this evidence, and the assurance provided by the outgoing Chief Executive, I am assured that we have a strong system of internal controls to support the delivery of our strategy. That said, I am not complacent, and there are areas where further action is being taken to reinforce our internal systems, particularly in relation to the management of information and data. In this respect in particular we are conscious of the changing external risk environment. We will continue to take action as necessary to enhance our internal arrangements to ensure that we are able to manage these risks effectively in the coming year.

During 2018-19, we are undertaking a review of a number of elements of our governance arrangements with a view to making them as streamlined as possible and ensuring they remain proportionate and fit for purpose. This is not expected to lead to a fundamental review of our governance arrangements.



Rachel Fletcher
Accounting Officer

28 June 2018

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
Rachel Fletcher*°	Chief Executive (from 8 January 2018)
Cathryn Ross*°	Chief Executive (until 7 January 2018)
John Russell*°	Senior Director, Strategy and Planning
David Black*°°	Senior Director, Water 2020
Aileen Armstrong*°	Senior Director, Finance and Governance
Emma Kelso°	Senior Director, Customers and Casework (from 1 September 2017)
Richard Khaldi*°	Senior Director, Customers and Casework (until 26 May 2017)
Keith Mason°	Senior Director, Thames Tideway
Claire Forbes	Senior Director, Corporate Communications
Lisa Commane°	Senior Director, Business Improvement (from 4 September 2017)
Alena Kozakova°°	Chief Economist (from 10 August 2017)
Jenny Block°	General Counsel

*Denotes Board member

°Denotes member of the Senior Civil Service

° David Black became a member of Ofwat's Board from 29 May 2017

° Alena Kozakova became a member of the Senior Civil Service from 1 January 2018 and was Senior Director, Customers and Casework from 27 May 2017 to 31 August 2017

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 officials 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).

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

Permanent members of the Senior Leadership Team who are not part of the Senior Civil Service are remunerated in line with our staff remuneration policy.

For the 2017-18 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

The Remuneration and People Committee approves the approach to annual pay awards. Our salaries are set on the basis of recruiting and retaining high-calibre staff within the framework of controlling public sector expenditure and pay set by the Government.

A non-consolidated bonus may be awarded to staff or teams whose performance is exceptional. Bonus budgets are delegated to resource pools. Bonus nominations are considered by a panel, and the consistency and fairness of the process is overseen by the Director, People in conjunction with a small group of representatives from the Office and Joint Negotiating Committee. The annual bonus budget is determined as part of the annual Pay Remit approved by the Permanent Secretary for Defra.

Non-Executive Directors' remuneration policy

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

Senior managers' remuneration

The following information was subject to audit.

Table 6: Senior management remuneration 2017-18

Single total figure of remuneration	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Rachel Fletcher Chief Executive (from 8 January 2018)	35-40 (full year equivalent 160-165)	-	-	-	500	-	24,000	-	60-65	-
Cathryn Ross Chief Executive (until 7 January 2018)	125-130 (full year equivalent 160-165)	160-165	-	-	5,300	9,700	45,000	63,000	175-180	235-240
John Russell Senior Director, Strategy and Planning (from 25 July 2016)	120-125	80-85 (full year equivalent 120-125)	-	-	-	-	126,000	216,000	245-250	295-300
Emma Kelso* Senior Director, Customers and Casework (from 1 September 2017)	65-70 (full year equivalent 120-125)	-	-	-	2,500	-	64,000	-	130-135	-

Single total figure of remuneration	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Richard Khaldi Senior Director, Customers and Casework (until 25 May 2017)	20-25 (full year equivalent 120-125)	120-125	-	15-20	1,100	11,300	7,000	48,000	25-30	190-195
Aileen Armstrong* Senior Director, Finance and Governance (from 16 May 2016)	85-90 (full year equivalent 120-125)	60-65 (full year equivalent 120-125)	-	-	4,800	5,100	84,000	159,000	175-180	220-225
David Black Senior Director, Water 2020	120-125	120-125	15-20	15-20	1,400	3,200	48,000	48,000	185-190	185-190
Keith Mason Senior Director, Thames Tideway	120-125	115-120	-	-	-	-	9,000	24,000	125-130	140-145
Claire Forbes** Senior Director, Corporate Communications	90-95 (full year equivalent 100-105)	85-90 (full year equivalent 100-105)	0-5	-	2,600	2,800	36,000	34,000	130-135	120-125
Alena Kozakova* Chief Economist (from 10 August 2017)	75-80 (full year equivalent 120-125)	-	-	-	-	-	30,000	-	105-110	-
Jenny Block General Counsel (from 5 September 2016)	120-125	65-70 (full year equivalent 120-125)	15-20	-	2,000	3,000	48,000	27,000	185-190	95-100
Lisa Commame Senior Director, Business Improvement (from 4 September 2017)	70-75 (full year equivalent 120-125)	-	-	-	2,400	-	28,000	-	100-105	-
Beverley Messenger Senior Director, Business Improvement (until 3 October 2016)	-	60-65 (full year equivalent 120-125)	-	-	-	4,000	-	24,000	-	85-90

Single total figure of remuneration	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total (£000)	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Elizabeth Hillman** General Counsel (until July 2016)	-	30-35 (full year equivalent 120-125)	-	-	-	1,000	-	-	-	35-40

*Alena Kozakova joined Ofwat in 2016 and was later appointed to the Senior Leadership Team from 10 August 2017.

•Claire Forbes, Emma Kelso and Aileen Armstrong are employed on part time contracted hours.

**For Elizabeth Hillman and Claire Forbes the difference between actual remuneration and full year equivalent include the impact of periods of leave during 2016-17.

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.

Non-Executive Director's remuneration

The following information was subject to audit.

		Salary (£000)		Benefits in kind (to nearest £100)		Total (£000)
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Jonson Cox Chairman	115-120	115-120	2,300	1,900	120-125	120-125
Martin Lawrence Non-executive Director	15-20	15-20	1,100	1,000	20-25	20-25
Christine Farnish Non-executive Director	15-20	15-20	300	-	15-20	15-20
Catherine Waddams Non-executive Director	15-20	15-20	1,300	700	20-25	15-20
Alison Munro Non-executive Director (from 28 April 2016)	15-20	15-20 (full year equivalent 15-20)	600	300	15-20	15-20 (full year equivalent 15-20)
Mark Bayley Non-executive Director (from 28 April 2016)	15-20	15-20 (full year equivalent 15-20)	500	200	15-20	15-20 (full year equivalent 15-20)
Tim Waggett Non-executive Director (from 28 April 2016)	15-20	15-20 (full year equivalent 15-20)	1,400	1,000	20-25	15-20 (full year equivalent 15-20)
Christopher Burchell Non-executive Director (until 30 April 2016)	-	0-5 (full year equivalent 15-20)	-	-	-	0-5 (full year equivalent 15-20)

Independent Members' remuneration

The following information was subject to audit.

Table 7: Independent Members' remuneration 2017-18

	2017-18		2016-17	
	Salary (£000)	Benefits in kind (to nearest £100)	Salary (£000)	Benefits in kind (to nearest £100)
John Swift* Independent Member (until 31 August 2017)	-	-	0-5	-
Vanessa Howlison** Independent Member	-	-	-	-

*John Swift is remunerated per attendance at committee meetings rather than provided an annual salary.

**Vanessa Howlison does not receive remuneration from Ofwat in respect of her appointment, but was granted time by Highways England to attend these meetings.

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 thus recorded in these accounts.

Benefits in kind

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

The Senior Manager bonuses reported in 2017-18 relate to performance in 2016-17 and the comparative bonuses reported for 2015-16 relate to performance in 2014-15.

Pay multiples

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

The banded remuneration of the highest-paid director in Ofwat in the financial year 2017-18 was £160,000 to £165,000 (2016-17: £170,000 to £175,000). This was 3.4 times (2016-17: 3.6 times) the median remuneration of the workforce, which was £48,406 (2016-17: £48,697).

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.

Our pay multiples remain consistent with those reported for 2016-17.

Senior managers' pension benefits*

The following information was subject to audit.

Table 8: Senior management remuneration 2017-18

	Accrued pension at age 65 at 31 March 2018 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31 March 2018 £000	CETV at 31 March 2017 £000	Real increase in CETV £000
Rachel Fletcher Chief Executive (from 8 January 2018)	30-35 lump sum: -	0-2.5 lump sum: -	557	516	21
Cathryn Ross Chief Executive (until 7 January 2018)	35-40 lump sum: 80-85	2.5-5.0 lump sum: 0	554	504	17
John Russell Senior Director, Strategy and Planning (from 25 July 2016)	30-35 lump sum: 90-95	5.0-7.5 lump sum: 10.0-12.5	544	435	75
Emma Kelso Senior Director, Customers and Casework (from 1 September 2017)	20-25 lump sum: -	2.5-5 lump sum: -	302	257	37
Richard Khaldi Senior Director, Customers and Casework (until 25 May 2017)	20-25 lump sum: -	0-2.5 lump sum: -	241	236	2
Aileen Armstrong Senior Director, Finance and Governance	25-30 lump sum: 70-5	2.5-5.0 lump sum: 5-7.5	427	353	48

	Accrued pension at age 65 at 31 March 2018 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31 March 2018 £000	CETV at 31 March 2017 £000	Real increase in CETV £000
David Black Senior Director, Water 2020	10-15 lump sum: -	2.5-5.0 lump sum: -	154	121	20
Keith Mason Senior Director, Thames Tideway	35-40 lump sum: 105-110	0-2.5 lump sum: 0-2.5	838	806	9
Claire Forbes Senior Director, Corporate Communications	5-10 lump sum: -	0-2.5 lump sum: -	104	79	15
Alena Kozakova Chief Economist	0-5 lump sum: -	0-2.5 lump sum: -	40	23	10
Jenny Block General Counsel	0-5 lump sum: -	2.5-5.0 lump sum: -	50	18	23
Lisa Commane Senior Director, Business Improvement (from 4 September 2017)	0-5 lump sum: -	0-2.5 lump sum: -	14	0	9

*CETV: Cash Equivalent Transfer Value: the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at the particular point in time. Pension benefits have not been calculated for 2017-18 for those senior managers that left Ofwat's employment in the previous financial year.

Pension liabilities

The main pension scheme for our staff is the Principal Civil Service Pension Scheme (PCSPS). The pension liabilities arising from our employees' membership of the PCSPS 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 both former Directors General, as required by HM Treasury (note 13). Claims are made on the Exchequer to cover the pension costs that relate to employment other than with Ofwat.

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

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 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 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. 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 officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official 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 a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% 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 officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official 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 (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

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

Staff report

Table 9: Analysis of Ofwat's staff costs for 2017-18

The following information was subject to audit.

	2017-18 £000				2016-17 £000
	Permanently employed staff	Others	Non-exec directors	Total	Total
Wages and salaries	11,059	558	235	11,852	10,402
Social security costs	1,282	-	25	1,307	1,097
Other pension costs	2,385	-	-	2,385	2,098
Other staff costs	-	-	-	-	(10)
Sub Total	14,726	558	260	15,544	13,587
Less recoveries in respect of outward secondments	(247)	-	-	(247)	(157)
Total net costs	14,479	558	260	15,297	13,430

'Other' includes the cost of agency workers and secondees. Other expenditure incurred in respect of specialist contractors and interim managers are 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 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation

<http://www.civilservicepensionscheme.org.uk>.

For 2017-18, employers' contributions of £2,278,026 were payable to the PCSPS (2016-17 £2,051,631) at one of four rates in the range 20.0% to 24.5% 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 2017-18 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 £90,634 (2016-17: £27,441) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £2,986, 0.5% of pensionable pay (2016-17: £921), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £12,939 (2016-17: £1,668). Contributions prepaid at that date were £nil (2016-17: £nil)

Table 10: Average number of whole-time equivalents

The following information was subject to audit.

	2017-18 number				2016-17 number
	Permanently employed staff	Others	Non-exec directors	Total	Total
Business Transformation	-	-	-	-	20.10
Casework	-	-	-	-	18.59
Compliance and Assurance	28.76	0.58	0.16	29.50	36.78
Finance and Governance	22.31	0.21	0.16	22.68	15.39
Fit for the Future	18.05	-	0.15	18.20	-
Market Outcome and Enforcement	31.30	1.76	0.16	33.22	-
Strategy and Planning	24.30	1.85	0.16	26.31	20.93
Water 2020	76.14	0.16	0.16	76.46	50.32
Retail Market Opening	-	-	-	-	14.44
Thames Tideway Project Regulation	3.50	-	0.15	3.65	5.13
Total	204.36	4.56	1.10	210.02	181.68

Civil Service and other compensation scheme exits

There have been no redundancy or other departure costs paid in 2017-18 (2016-17 nil).

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 caught by IR35.

Table 11: Off-payroll engagements for more than £245 per day and lasting for longer than six months, as of 31 March 2018

	Number of arrangements
Existing at 31 March 2018	-
Existed for less than one year at the time of reporting	-

Table 12: New off-payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that last for longer than six months

	1 April 2017 to 31 March 2018
Number of new engagements for more than £245 per day and that last longer than 6 months	2
Of which:	
number assessed as being caught by IR35	2
number assessed as not being caught by IR35	-
Number engaged directly (via PSC contracted to department) and on departmental payroll	-
Number of engagements reassessed for consistency/assurance purposes during the year	-
Number of engagements that saw a change to IR35 status following the consistency review	-

Table 13: Off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2017 and 31 March 2018

	Number of arrangements
Number of off-payroll engagements of Board members and/or senior officials with significant financial responsibility during the financial year	-
Total number of individuals, both on payroll and off-payroll, deemed “Board members and/or senior officials with significant financial responsibility” during the financial year	20

Consultancy expenditure

Our expenditure on other consultancy and professional services in 2017-18 was £3.9m, per note 4 of the accounts. This is consistent with the level of expenditure in the previous year (2016-17: £3.7m; 2015-16: £4.93m). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy.

We continue to use professional service 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 economic to maintain this expertise in-house.

Spend on professional services support will naturally fluctuate over our regulatory cycle of work and is expected to increase in 2018-19 and 2019-20 as we deliver PR19.

Sickness absence

Our policy is to reduce employee absence and we rely on early intervention by our people managers conducting a return to work interview after each period of absence to mitigate and manage this effectively. People managers 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
- Four periods of absence in a rolling period of twelve months.

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

Sickness absence data is presented to the Board on a quarterly basis and also monitored by the Remuneration and People Committee.

Table 14: Sickness absence statistics (reported to the Ofwat Board quarterly)

2017-18				2016-17		
	Short term	Long term	Total	Short term	Long term	Total
Days lost	377	636	1,013	467	571	1,038
Average working days lost per person			4.4			6.6

A long-term absence is any absence running over a consecutive period of 14 working days or more. Our sickness absence figures are below the Civil Service average of 5.9 working days lost per person.

Employee involvement

As a learning organisation, we continued our development programme for our Resource Managers and Strategic Resource Managers, which saw the embedding of the responsibilities set out in the 'Role Expectations' document we developed last year.

For the third year, we devolved a portion of the learning and development budget to our resource pools so that they could identify and deliver learning needs relevant to their technical and professional requirements. This ensures learning meets the needs of our strategy and the requirements of our key programmes of work.

We have continued to embed our Ofwat Learning Framework within the organisation. Our recently developed Ofwat Essentials tier of learning now includes 14 modules; covering a variety of areas including environment and resilience, charging and vulnerable customers.

Our 'giving and receiving feedback' workshops remain popular, with 219 people completing the session by the end of 2017-18. We also continue to be an active participant in the regulator mentoring network programme.

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 34 separate recruitment campaigns, which in some cases sought more than one member of staff.

Staff composition

Details of our staff composition by gender and ethnic group is available in Appendix 9, on page 135.



Rachel Fletcher
Accounting Officer

28 June 2018

Parliamentary accountability and audit report

Statement of Parliamentary Supply

for the 12 months ended 31 March 2018

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires us to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit.

The SoPS and related notes are subject to audit.

Summary of resource and capital outturn 2017-18

		Estimate			Outturn			2017-18	2016-17
								Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-voted	Total	Voted	Non-voted	Total		Total
Departmental Expenditure Limit									
- Resource	SOPS1.1	140	-	140	(396)	-	(396)	536	(724)
- Capital	SOPS1.2	370	-	370	338	-	338	32	288
Annually Managed Expenditure									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
Total Budget		510	-	510	(58)	-	(58)	568	(436)
Total Resource		140	-	140	(396)	-	(396)	536	(724)
Total Capital		370	-	370	338	-	338	32	288
Total		510	-	510	(58)	-	(58)	568	(436)

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 our department 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 related to unrequired contingency budget held for potential 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 21.

Net cash requirement 2017-18

£000	2017-18				2016-17
	Note	Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
	SOPS3	1,510	1,269	241	1,209

The variance between outturn and estimated net cash requirement is £0.24 million. We drew £1.5 million as cash from the Consolidated Fund during the year to cover settlement of 2016-17 working capital balances and to fund pension payments in respect of the retired Directors General pension scheme and capital purchases. Our residual cash balance at the end of the year will be returned to the Consolidated Fund.

Administrative costs 2017-18

2017-18	2017-18		2016-17
Estimate (£000)	Outturn (£000)		Outturn (£000)
140	(396)		(724)

The £140,000 estimate represents Parliamentary supply provided to us in relation to the retired Directors General pension scheme, for which we cannot charge the industry. The variance between outturn and estimate relates to income received in excess of expenditure during the period.

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

The notes on pages 86 to 105 form part of these accounts.

SOPS1: net outturn

for the 12 months ended 31 March 2018

SOPS1.1: Analysis of net resource outturn by section

£000	2017-18										2016-17
	Outturn							Estimate			
	Administration			Programme				Net total	Net total compared to Estimate, adjusted for virements	Total	
	Gross	Income	Net	Gross	Income	Net	Total				
Spending in Departmental Expenditure Limit Voted:											
A	24,630	(25,026)	(396)	-	-	-	(396)	140	536	536	(724)
Total	24,630	(25,026)	(396)	-	-	-	(396)	140	536	536	(724)

Section A - Water Services Regulation Authority.

SOPS1.2: Analysis of capital outturn by section

£000	2017-18						2016-17
	Outturn			Estimate			
	Administration			Net total	Net total compare to Estimate	Net total compared to Estimate, adjusted for virements	Total
	Gross	Income	Net				
Spending in Departmental Expenditure Limit Voted:							
A	338	-	338	370	32	32	288
Total	338	-	338	370	32	32	288

Section A - Water Services Regulation Authority.

The notes on pages 86 to 105 form part of these accounts.

We are not required to produce 'SOPS2: Reconciliation of outturn to net operating expenditure'

SOPS3: Reconciliation of net resource outturn to net cash requirement

for the 12 months ended 31 March 2018

SOPS 3.1: Reconciliation of net resource outturn to net cash requirement

	Note	2017-18 £000		
		Estimate	Outturn	Net total outturn compared with estimate; saving (excess)
Resource Outturn	SOPS1.1	140	(396)	536
Capital Outturn	SOPS1.2	370	338	32
Accruals to cash adjustments:		1,000	1,327	(327)
of which:				
Adjustments to remove non-cash items:				
Depreciation	4	(360)	(212)	(148)
New provisions and adjustments to previous provisions	4	(140)	(79)	(61)
Other non-cash items	4	(45)	(48)	3
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables	10	-	(71)	71
(Increase)/decrease in payables	11	1,364	1,539	(175)
Use of provisions	12, 13.1	181	198	(17)
Net cash requirement		1,510	1,269	241

The notes on pages 86 to 105 form part of these accounts.

We are not required to produce ‘SOPS4: Income payable to the Consolidated Fund’ as we do not have excess cash held at 31 March 2018 generated from licence fee or other income. The cash balance held at 31 March 2018 relates to overdrawn supply from the Consolidated Fund in settlement of prior year working capital balances.

Parliamentary Accountability Disclosures

The following information was subject to audit.

We do not have anything to report for 2017-18 in respect of:

- losses and special payments;
- fees and charges disclosures;

- Remote contingency liabilities; or
- Long-term expenditure trends.

The notes on pages 86 to 105 form part of these accounts.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', with a stylized flourish at the end.

Rachel Fletcher
Accounting Officer

28 June 2018

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 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Department's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and Parliamentary Accountability disclosures that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2018 and of the Department's net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2018 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 that govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 2016. I am independent of the Water Services Regulation Authority in accordance with the ethical requirements that are relevant to my audit and 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.

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 the preparation of the financial statements and for being satisfied that they give a true and fair view.

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.

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

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Services Regulation Authority's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Water Services Regulation Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 that I identify during my audit.

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

Other information

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration and Staff Report and Parliamentary Accountability disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, 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, 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 parts of the Remuneration and Staff Report and Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Water Services Regulation Authority and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- 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.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

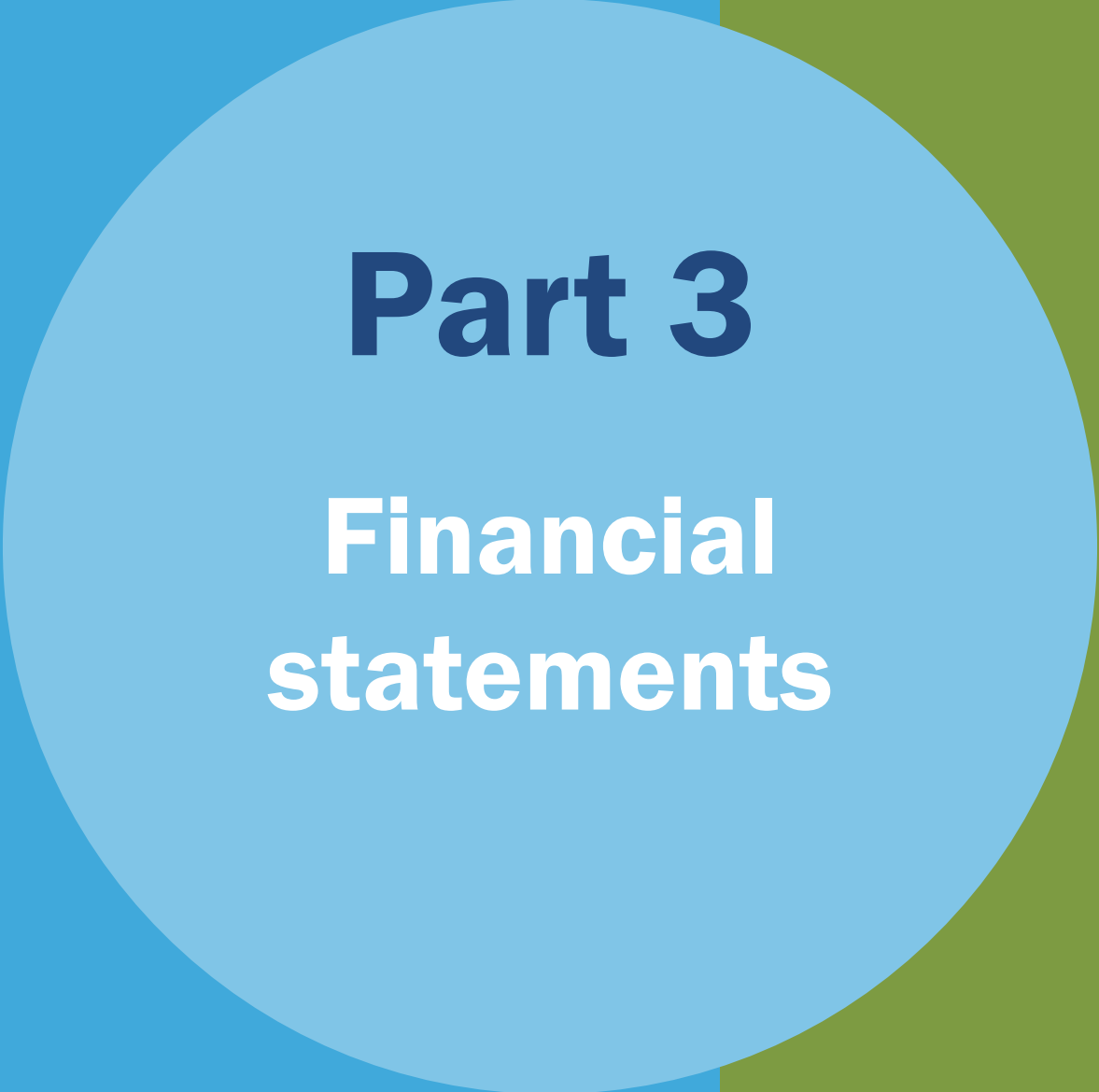
- the financial statements and the parts of the Remuneration and Staff Report and Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

6 July 2018



Part 3

Financial statements

Part 3: Financial statements

Statement of comprehensive net expenditure

for the 12 months ended 31 March 2018

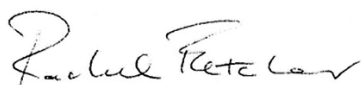
	Note	2017-18 £000	2016-17 £000
Licence fees		(24,760)	(22,580)
Miscellaneous		(266)	(213)
Total operating income		(25,026)	(22,793)
Staff costs	3	15,544	13,587
Purchase of goods and services	4	7,935	7,324
Rental costs	4	812	811
Depreciation and impairment charges	4	220	217
Other non cash	4	119	130
Total operating expenditure		24,630	22,069
Net income for the 12 months ended 31 March 2018		(396)	(724)
Other comprehensive net expenditure			
Items which will not be reclassified to net operating costs:			
Actuarial (gain)/loss on pension scheme liabilities	13	(151)	335
Comprehensive net expenditure for the 12 months ended 31 March 2018		(547)	(389)

The notes on pages 86 to 105 form part of these accounts.

Statement of financial position

as at 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Non-current assets:			
Property, plant and equipment	5	987	849
Intangible assets	6	5	28
Trade & other receivables	10	3	1
Total non-current assets		995	878
Current assets:			
Trade & other receivables	10	548	621
Cash and cash equivalents	9	241	293
Total current assets		789	914
Total assets		<u>1,784</u>	<u>1,792</u>
Current liabilities:			
Trade and other payables	11	(4,762)	(6,354)
Provisions	12	-	(15)
Total current liabilities		(4,762)	(6,369)
Total assets less current liabilities		<u>(2,978)</u>	<u>(4,577)</u>
Non-current liabilities:			
Provisions	12	-	-
Pension liabilities	13.1	(2,664)	(2,919)
Other payables	11	-	-
Total non-current liabilities		(2,664)	(2,919)
Total assets less total liabilities		<u>(5,642)</u>	<u>(7,496)</u>
Taxpayers' equity and other reserves:			
General Fund		(5,642)	(7,496)
Revaluation Reserve		-	-
Total equity		<u>(5,642)</u>	<u>(7,496)</u>



Rachel Fletcher
Accounting Officer

28 June 2018

The notes on pages 86 to 105 form part of these accounts.

Statement of cash flow

for the 12 months ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Cash flows from operating activities			
Net operating income		396	724
Adjustments for non-cash transactions	4	339	347
(Increase)/decrease in trade and other receivables	10	71	66
Increase/(decrease) in trade payables	11	(1,592)	(2,048)
Less movements in payables relating to items not passing through the Comprehensive Statement of Net Expenditure		(3)	209
Use of provisions	12, 13.1	(198)	(293)
Net cash (inflow)/outflow from operating activities		(987)	(995)
Cash flows from investing activities			
Purchase of property, plant and equipment		(333)	(288)
Purchase of intangible assets		(5)	-
Net movement in capital receivables (payables)		55	73
Net cash outflow/(inflow) from investing activities		(283)	(215)
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		1,510	1,502
Advances from the contingencies fund		5,000	5,000
Payments to the contingencies fund		(5,000)	(5,000)
Capital element of payments in respect of finance leases		1	1
Net financing		1,511	1,503
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		241	293
Payment of amounts due to the Consolidated Fund		(293)	(576)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(52)	(283)
Cash and cash equivalents at the beginning of the period	9	293	576
Cash and cash equivalents at the end of the period	9	241	293

The notes on pages 86 to 105 form part of these accounts.

Statement of changes in taxpayers' equity

for the 12 months ended 31 March 2018

	Note	General Fund £000	Total Reserves £000
Balance at 1 April 2016		(9,134)	(9,134)
Changes in taxpayers' equity for 2016-17			
Net Parliamentary Funding		1,502	1,502
Comprehensive Net Expenditure for the year		389	389
Notional Auditors' Remuneration	4	40	40
Amounts issued from consolidated fund but not spent at year end	9	(293)	(293)
Balance at 31 March 2017		(7,496)	(7,496)
Changes in taxpayers' equity for 2017-18			
Net Parliamentary Funding		1,510	1,510
Comprehensive Net Expenditure for the year		547	547
Notional Auditors' Remuneration	4	38	38
Amounts issued from consolidated fund but not spent at year end	9	(241)	(241)
Balance at 31 March 2018		(5,642)	(5,642)

The notes on pages 86 to 105 form part of these accounts.

Notes to the departmental accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, 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.

1.1 Accounting convention

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

1.2 Property, plant and equipment

Items of property, plant and equipment 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. Our policy is to pool purchases of property, plant and equipment assets when the total purchase value is in excess of £500,000 for capitalisation purposes.

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.

Table 15: Estimated useful lives of property, plant and equipment classes

Asset classification	Asset life
Leasehold improvements	Term remaining on lease
Furniture, fixture and fittings	10 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.

1.3 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.

1.4 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 Operating income

Since our costs are primarily recovered through licence fees and invoiced in advance based on estimated costs, any licence fee income that exceeds the level of operating costs is surrendered to the Consolidated Fund.

We are mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCWater's operating costs. This income is then transferred to the Department for Environment, Food and Rural Affairs (see note 15.1). 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 Contingencies Fund and repaid later.

1.7 Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when evidence supports 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 Consolidated Fund at the date the final legal notice is served.

The income is collected by us and surrendered to the 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).

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 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.

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 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 0.24% real per annum to 0.10% real per annum from 31 March 2018.

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 that have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, contingent liabilities that 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 2018 shows negative taxpayers' equity of £5.6 million (2016-17: £7.5m). In common with other government departments, the future financing of liabilities will be met by future grants of supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. Accordingly, we consider it appropriate to adopt a going concern basis for the preparation of these financial statements.

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

The negative tax payers' equity has been caused by our end of year payable balances and our provision for the pension entitlement of the former Directors General.

The surrender of cash held or unspent monies is accompanied by a corresponding reduction in Taxpayer's Equity. Our outstanding payable balances at the end of the year are customarily met by drawing cash from the Exchequer through the annual Main Estimate Process, as approved by Parliament each year. The pension entitlements of the former Directors General accrued in respect of non-Ofwat employment are funded annually by the Exchequer per note 13. In line with HM Treasury's guidance we are unable to show the corresponding asset as it is drawn annually from the Consolidated Fund. These mechanisms result in Ofwat's Statement of Financial Position showing liabilities which are greater than the assets we hold.

Our budget for 2018-19 was agreed via our Main Estimate, presented to the House of Commons on 19 April 2018.

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

Each year we commission an actuarial valuation. This was carried out 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 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 us in preparing these accounts.

1.17 Operating costs

We operate a time recording system, capturing staff hours against our programmes. The percentage of staff time per programme is apportioned against payroll costs.

1.18 Adoption of new and revised accounting standards

There are no new IFRS that are effective for the first time this year that have an impact on our accounts.

New standards, amendments and interpretations issued, but not yet effective, are as follows:

Standard	Date of adoption
IFRS 9 Financial instruments	1 April 2018
IFRS 15 Revenue from contracts with customers	1 April 2018
IFRS 16 Leases	1 April 2019

IFRS 9

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective from periods beginning on or after 1 January 2018 (to be adopted by government for annual periods beginning 1 April 2018) and introduces:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising provisions based on expected credit losses; and
- simplified hedge accounting by aligning hedge accounting more closely with an entity's risk management methodology.

We are not exposed to the same degree of financial risk as commercial entities because of the largely non-trading nature of our activities and the way in which government departments are financed. We have 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.

We have completed an assessment of the impact of IFRS 9 and have concluded that it will have no material impact on our financial statements. See note 8 for further details on financial instruments.

IFRS15

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 11 Construction Contracts, IAS 18 Revenue, and their associated interpretations. It is effective for periods beginning on or after 1 January 2018 (to be adopted by government for annual periods beginning 1 April 2018). The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

We are allowed by statute to retain the revenue generated from Licence Fees within the current accounting period. Under public sector interpretation this revenue is treated as arising from a contract under IFRS 15. There are no performance obligations on us in respect of Licence Fees, and as such IFRS 15 is not considered to impact our current revenue recognition policy.

Other income we may generate is only invoiced once our performance obligation has been satisfied with the customer.

We have completed an assessment on the impact of IFRS 15 and have concluded that there will be no material impact on our revenue streams.

IFRS 16

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 will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases' and related interpretations and is effective for annual periods beginning on or after 1 January 2019 (to be adopted by government for annual periods beginning 1 April 2019).

The management's current assessment is that this will have a material impact due to our accommodation leases which are of a material value. This will be considered further in 2018-19 in line with HM Treasury implementation guidance.

See note 7.1 for further details on operating leases held.

2. Statement of operating costs by programme

	2017-18	2016-17
Description of Programme:	£000	£000
Business Transformation	-	2,584
Casework	-	1,591
Compliance and Assurance	4,993	5,295
Finance and Governance	2,906	1,776
Fit for the Future	2,989	-
Market Outcome and Enforcement	3,025	-
Strategy and Planning	2,349	1,630
Water 2020	8,090	6,897
Retail Market Opening	-	1,853
Thames Tideway Project Regulation	278	443
Total Expenditure	24,630	22,069
Total Income	(25,026)	(22,793)
Net income	(396)	(724)

3. Staff costs

	2017-18	2016-17
	£000	£000
	Outturn	Outturn
Staff costs:		
Wages and salaries	11,852	10,402
Social security costs	1,307	1,097
Other pension costs	2,385	2,098
Other staff costs	-	(10)
Total	15,544	13,587

4. Expenditure

	2017-18 £000 Outturn	2016-17 £000 Outturn
Purchase of goods and services:		
Consultancy services	3,943	3,699
Contingent labour	1,136	984
Training	286	323
Travel and subsistence	478	515
Taxation charges	8	30
Rates	228	170
Information Technology	914	410
Other hire and maintenance	15	18
Seminars, meetings and conferences	82	70
Publications, books and periodicals	73	107
Telecommunications	256	322
Recruitment costs	87	217
Office consumables	122	80
Accommodation expenses	92	75
Internal Audit fees	37	40
Records management	29	133
Other	149	131
	7,935	7,324
Rentals under operating leases:		
Accommodation	789	767
Office equipment	23	44
	812	811
Non cash items:		
Depreciation	184	160
Amortisation	28	57
Loss on disposal of assets	2	-
Addition/(release) of provision	-	(3)
Other finance costs	79	93
External Auditors' remuneration	38	40
Impairment of assets	8	-
	339	347
Total	9,086	8,482

Information Technology costs increased in the period, as we purchased IT equipment in year as part of our desktop refresh to replace our current equipment, which is at end of life.

Records management costs have reduced in the period following the electronic archiving of records, which was completed in the previous period 2016-17.

5. Property, plant and equipment

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

	£000	£000	£000	£000	£000
	Furniture & Fittings	Office machinery & Telecomms	Leasehold Improvements	Information Technology	Total
Cost or valuation					
At 1 April 2017	119	18	922	544	1,603
Additions	12	-	81	240	333
Disposals	-	(5)	(32)	-	(37)
Impairments	-	-	(10)	-	(10)
At 31 March 2018	131	13	961	784	1,889
Depreciation					
At 1 April 2017	28	17	241	468	754
Charged in year	13	1	123	48	185
Disposals	-	(5)	(32)	-	(37)
At 31 March 2018	41	13	332	516	902
Carrying amount at 31 March 2018	90	-	629	268	987
Carrying amount at 31 March 2017	91	1	681	76	849
Asset Financing:					
Owned	90	-	629	268	987
Finance Leased	-	-	-	-	-
Carrying amount at 31 March 2018	90	-	629	268	987

	£000	£000	£000	£000	£000	£000
	Payments on Account	Furniture & Fittings	Office machinery & Telecomms	Leasehold Improvements	Information Technology	Total
Cost or valuation						
At 1 April 2016	12	91	53	688	506	1,350
Additions	-	28	-	222	38	288
Disposals	-	-	(35)	-	-	(35)
Reclassifications	(12)	-	-	12	-	-
At 31 March 2017	-	119	18	922	544	1,603
Depreciation						
At 1 April 2016	-	17	45	139	429	630
Charged in year	-	11	7	103	39	160
Disposals	-	-	(35)	-	-	(35)
Impairments	-	-	-	(1)	-	(1)
At 31 March 2017	-	28	17	241	468	754
Carrying amount at 31 March 2017	-	91	1	681	76	849
Carrying amount at 31 March 2016	12	74	8	549	77	720
Asset Financing:						
Owned	-	91	-	681	76	848
Finance Leased	-	-	1	-	-	1
Carrying amount at 31 March 2017	-	91	1	681	76	849

6. Intangible assets

Intangible assets consist of purchased software licences. All assets held have a finite life.

	£000 Purchased software licences	£000 Total
Cost or valuation		
At 1 April 2017	417	417
Additions	5	5
Disposals	(62)	(62)
At 31 March 2018	360	360
Amortisation		
At 1 April 2017	389	389
Charged in year	28	28
Disposals	(62)	(62)
At 31 March 2018	355	355
Carrying amount at 31 March 2018	5	5
Carrying amount at 31 March 2017	28	28

	£000 Purchased software licences	£000 Total
Cost or valuation		
At 1 April 2016	417	417
Additions	-	-
At 31 March 2017	417	417
Amortisation		
At 1 April 2016	331	331
Charged in year	58	58
At 31 March 2017	389	389
Carrying amount at 31 March 2017	28	28
Carrying amount at 31 March 2016	86	86

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.

	2017-18 £000	2016-17 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	874	878
Later than one year and not later than five years	3,094	3,513
Later than five years	-	472
Total	3,968	4,863
Other		
Not later than one year	12	42
Later than one year and not later than five years	2	14
Later than five years	-	-
Total	14	56

7.2 Capital commitments

	2017-18 £000	2016-17 £000
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Property, plant and equipment	-	36
Intangible assets	-	-
Total	-	36

8. Financial instruments

We are not exposed to the same degree of financial risk as commercial entities because of the largely non-trading nature of our activities and the way in which government departments are financed. We have 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

We have no borrowings and rely primarily on licence fee income and Contingency Fund loans for our cash requirements, and we are therefore not exposed to significant 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 we are not exposed to significant 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 the departmental group's financial assets and liabilities at 31 March 2018.

9. Cash and cash equivalents

	2017-18 £000	2016-17 £000
Balance at 1 April 2017	293	576
Net change in cash and cash equivalent balances	(52)	(283)
Balance at 31 March 2018	241	293
The following balances at 31 March 2018 were held at:		
Government Banking Services (GBS)	241	293
Commercial banks and cash in hand	-	-
Total	241	293

Any cash held at 31 March 2018 must be surrendered to the Consolidated Fund per note 1.6.

10. Trade receivables and other current assets

	2017-18 £000	2016-17 £000
Amounts falling due within one year		
Trade receivables	56	49
Deposits and advances	50	33
HM Revenue and Customs (VAT)	75	225
Prepayments and accrued income	367	314
Total	548	621
Amounts falling due after more than one year:		
Prepayments and accrued income	3	1
Total	3	1

11. Trade payables and other current liabilities

	2017-18 £000	2016-17 £000
Amounts falling due within one year		
Trade payables	883	3,056
Other payables	308	242
Other taxation and social security	437	334
Accruals	2,783	2,295
Deferred income	110	133
Current part of finance leases	-	1
Amounts issued from the consolidated fund for supply but not spent at year end	241	293
Total	4,762	6,354

12. Provisions for liabilities and charges

	2017-18 £000		2016-17 £000
	Restructure costs	Total	Total
Balance at 1 April 2017	15	15	130
Provided in the year	-	-	-
Provisions utilised in the year	(15)	(15)	(112)
Provisions not required written back	-	-	(3)
Balance at 31 March 2018	-	-	15

	2017-18 £000		2016-17 £000
	Restructure costs	Total	Total
Analysis by type			
Amounts falling due within one year	-	-	15
	-	-	15
Amounts falling due after more than one year	-	-	-
	-	-	-
Total	-	-	15

	2017-18 £000		2016-17 £000
	Restructure costs	Total	Total
Analysis of expected timing of discounted flows			
Not later than one year	-	-	15
Later than one year and not later than five years	-	-	-
Later than five years	-	-	-
Balance at 31 March 2018	-	-	15

13. Pensions liabilities

13.1 Pension liabilities

	2017-18 £000	2016-17 £000
Balance at 1 April 2017	2,919	2,672
Analysis of the amount charged to the Statement of Comprehensive Net Expenditure		
Interest costs	79	93
Benefits paid		
Benefits paid	(183)	(181)
Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity		
Experience (gain)/loss	40	13
Actuarial (gain)/loss	(191)	322
Balance at 31 March 2018	2,664	2,919

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 Ofwat undertake to pay these. There is no fund and therefore no surplus or deficit.

In accordance with the requirements of HM Treasury, we make 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 of the by-analogy pension scheme was carried out by the Government Actuary's Department (GAD) at 31 March 2018.

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 Office for National Statistics 2016-based UK principal population projection.
- 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 2018 are as follows.

- the gross discount rate is assumed to be 2.55% a year (31 March 2017: 2.8%);
- the consumer price index (CPI) is assumed to be 2.45% (31 March 2017: 2.55%); and
- net (of CPI) discount rate is assumed to 0.10% (31 March 2017: 0.24%).

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

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 decrease in liabilities of approximately 5%, or £134,000;
- increasing the CPI inflation assumption by 0.5% would result in a corresponding increase in liabilities of approximately 5.0%, or £136,000; and
- increasing assumed life expectancies in retirement to equal those of people one year younger would result in a corresponding increase in liabilities of approximately 4.0%, or £89,000.

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 loss

	2017-18 £000	2016-17 £000	2015-16 £000
Experience (gains)/losses arising on the scheme liabilities	40	13	(20)
Changes in assumptions underlying the present value of scheme liabilities	(191)	322	(110)
Per Statement of Changes in Taxpayers' Equity	(151)	335	(130)

13.4 History of experience losses

	2017-18	2016-17	2015-16	2014-15	2013-14
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	40	13	(20)	4	61
Percentage of the present value of the scheme liabilities	1.5%	0.4%	(0.7)%	0.1%	2.2%
Total amount recognised in Statement of Taxpayers' Equity					
Amount (£000)	(151)	335	(130)	161	204
Percentage of the present value of the scheme liabilities	(5.7)%	11.5%	(4.9)%	5.6%	7.3%

14. Contingent liabilities disclosed under IAS37

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

15. Related party transactions

15.1 Defra/CCWater

We transferred £5.24 million to Defra in respect of CCWater's operating costs in 2017-18 (2016-17: £5.1 million).

15.2 Catherine Waddams, Non-Executive Director/Member of the Centre of Competition Policy (CCP), University of East Anglia (UEA)

Ofwat paid a subscription of £6k to the Centre for Competition Policy during 2017-18. Neither Catherine Waddams nor her husband, who are both members of the CCP, received any additional financial benefit from the UEA as a result of Ofwat's subscription (2016-17: £6k).

15.3 Jonson Cox, Chairman/Cory Environmental Management Ltd (Cory)

Ofwat received £12k from Cory for the provision of shared secretariat services for Jonson Cox during the year (2016-17: £12k).

15.4 Vanessa Howlison, Independent Member, CFO Highways England (Highways)

Ofwat received £64k from Highways England in relation to the provision of services by Ofwat employees loaned to them under a secondment agreement (2016-17: £nil).

15.5 Civil Aviation Authority (CAA)/UK Regulators Network (UKRN)

Ofwat received £102k from the CAA on behalf of the UKRN in relation to the provision of services by Ofwat employees loaned to the UKRN under a secondment agreement (2016-17: £133k).

Ofwat received £3k from the CAA on behalf of the UKRN in relation to the provision of Huddle licences (2016-17: nil).

15.6 Other

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

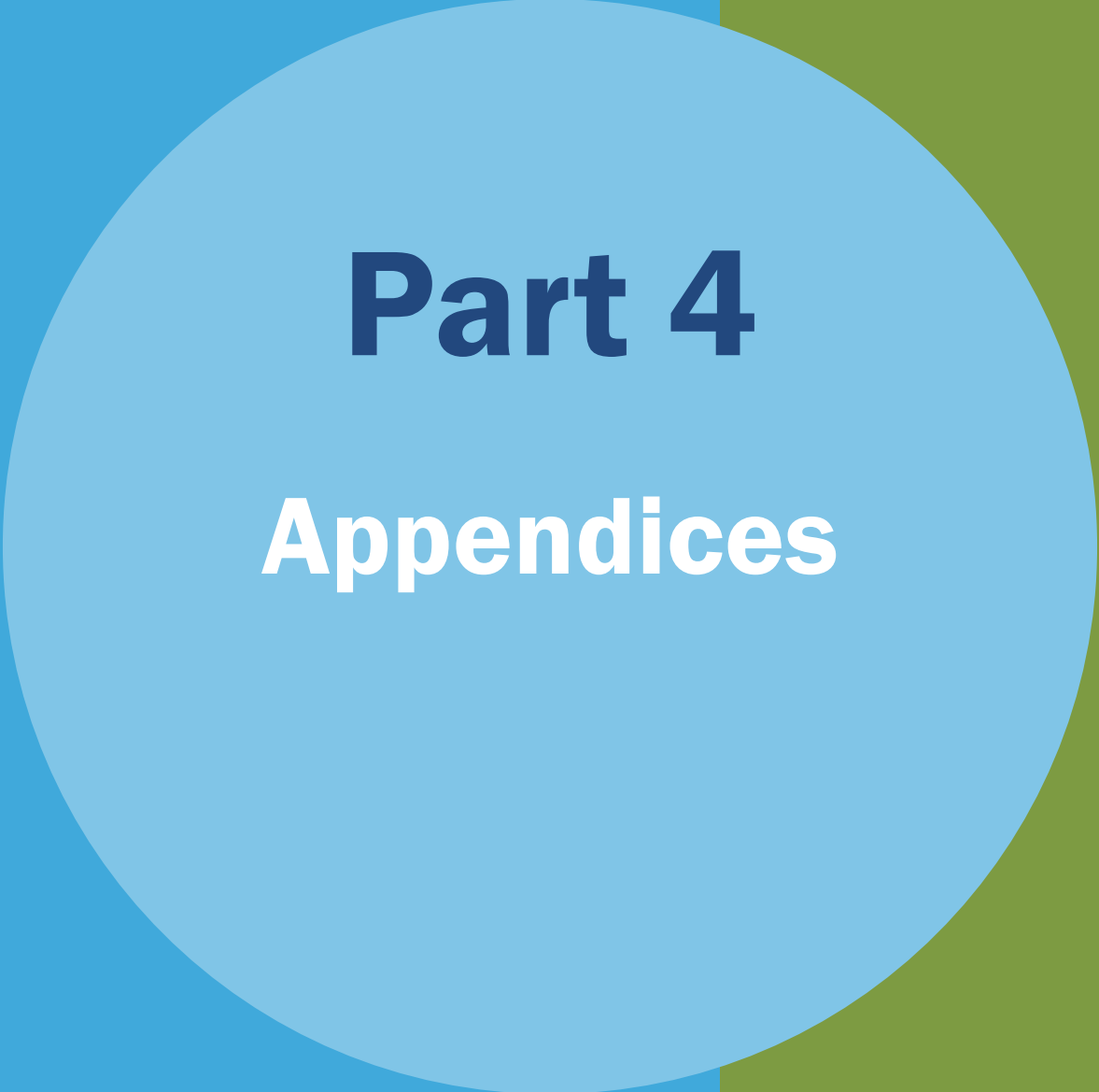
With exception of remuneration disclosed in the Remuneration and Staff Report (page 52), there are no undisclosed related party transactions between Ofwat and any of our Directors.

16. Events after the reporting period

There have been no significant events after 31 March 2018 that require adjustment to, or disclosure in, the financial statements.

The Accounting Officer authorised these financial statements for issue 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

Part 4: Appendices

The appendices are not subject to audit.

A1 Progress on projects described in ‘Ofwat’s forward programme 2017-18’

Below we highlight our progress against the projects we outlined in [Ofwat’s forward programme 2017-18](#).

What we said	Status
April to June 2017	
Contribute to the National Infrastructure Commission’s assessment of water and wastewater infrastructure.	Met
Host a cross-sector event on water and wastewater resilience to bring together thinking across the community, and share learning, approaches and expectations.	Met
Host a cross-sector event on customers, with a focus on the findings of our customer data work stream.	Met
Following the business retail water market being opened by the UK Government on 1 April 2017, begin monitoring the market.	Met
Consult on our codes for the agreements regional and small companies operating wholly or mainly in England enter into in order to adopt infrastructure for new connections that has been provided by other parties (‘adoption agreements’). This is to help ensure the new connections market is working well and supports housing growth.	Met
Stakeholder event for non-executive directors of companies to improve dialogue between Ofwat and company Boards and encourage good corporate governance.	Met
Decision whether to approve a variation to the Tideway works. Varying the works will enable Thames Water’s proposed flood alleviation scheme (Counters Creek) to flow into the Tideway Tunnel.	Met
Publish and lay our annual report and accounts 2016-17 before the UK Parliament and National Assembly for Wales to account for our work and expenditure during the year.	Met
July to September 2017	
As part of our preparation for the 2019 price review, consult on our draft methodology for setting the price limit, performance commitment and incentive framework (‘price controls’) for regional water and wastewater companies. This will set out our proposed expectations for companies’ business plans in terms of affordability, customer engagement, service and water and wastewater resilience for the period 2020 to 2025.	Met
Introduce a pilot data capture system for collecting information from regional companies’ annual performance reports in a more efficient way.	Met

What we said	Status
Consult on changes to our guidance for regional companies' annual performance reports in light of our consultation on business planning expectations for our 2019 price review.	Met
Engage stakeholders on the findings of our market study into how the market for new appointments and variations is working, including potential actions to address any issues identified by the study.	Met
Following our selection scheme, our new graduates will start with us in September to support critical skills development as part of our strategic workforce plan.	Met
Test the market to find a partner to assist us with assessing how we deliver our corporate enabling services.	Met
October to December 2017	
Consult on and determine the in-period rewards and penalties for outcome delivery incentives for three regional water and wastewater companies, based on their performance during 2016-17.	Met
Following our consultation, publish our final methodology for setting the price controls for regional companies beyond 2020.	Met
Implement a training programme to prepare our staff for the 2019 price review.	Met
Publish rules companies based wholly or mainly in Wales must use in setting their charges, subject to enabling work from the Welsh Government.	Changed. Now will be delivered in 2018-19
Publish results of our analysis of regional companies' performance, financial resilience, service resilience and board leadership, transparency and governance to hold them to account.	Met
Assess regional companies against our company monitoring framework to challenge them to publish good quality information about their performance for customers and others.	Met
Complete changes to companies' licences to make them more streamlined.	Delayed until 2018-19
Two-year review of progress on Thames Tideway Tunnel.	Delayed until 2018-19
Publish updated guidance on how we consider sewer flooding complaints where a customer thinks a company is not meeting its statutory duty to ensure its area is effectually drained.	Changed. We considered that we could deliver more benefits to customers by prioritising other milestones
Issue our final codes for adoption agreements to regional and small companies operating wholly or mainly in England to support the new connections market.	Met
Publish our refreshed People strategy.	Delayed until 2018-19
Implement systems to improve information management and support more efficient processes.	Met

What we said	Status
January to March 2018	
Consult on our draft forward programme of work for 2018-19 to get feedback from our stakeholders on our plans, and publish the final version ahead of the new financial year.	Met
Publish our updated five-year business plan for 2018-19 to 2022-23.	Decided to defer pending more comprehensive strategy refresh
Carry out a detailed assessment ('targeted review') of service area to hold service providers to account and encourage better services for customers and wider society.	Met
Consult on changes to our guidance to regional companies in preparing their annual report for 2018-19 to improve accountability.	Delayed until 2018-19
Begin our assessment of regional and small companies' draft water resource management plans during the 12-week public consultation period. The public consultation period will start in England in January 2018 and in Wales in March 2018.	Met
Publish the first performance results on the business retail market, which opens to full competition in England in April 2017, as part of our market monitoring framework.	Delayed until 2018-19

A2 Performance against stated levels of service

We do not generally deal with individual customers' enquiries and complaints about water companies. The [Consumer Council for Water](#) (CCWater) is the statutory consumer body for the water sector in England and Wales and is the primary contact for customers who have a complaint that they have been unable to resolve directly with their water company. Nevertheless, we receive and respond to a significant number of enquiries and complaints from customers and stakeholders each year. We also have a role in investigating particular types of dispute where we have the legal powers to do so.

We have standards of service within which we aim to respond to customer contacts and to complete our investigations. We monitor our performance against these on an on-going basis to ensure we continue to improve. Below we set out details of the volume of contacts we received and disputes we investigated during 2017-18 and how we performed against our standards of service.

General enquiries

We receive a wide range of enquiries from customers and stakeholders by telephone, email and letter. These enquiries cover a wide range of topics including, people asking for details about how we regulate water companies, how companies set their bill levels and our price review process. We also receive requests for information about how companies can apply for a licence. We seek to respond to all of the enquiries we receive within ten working days and have a target to do this in at least 95% of cases.

Table 16: Performance against our service standard for general enquiries

Metric	What is measured	Number received	Target 2017-18	Actual 2017-18
General enquiries	The proportion of enquiries responded to within ten working days of receipt	893	95%	96.4%

Information requests

The Freedom of Information Act 2000 (FOIA) and the Environmental Information Regulations 2004 (EIR) provide a general right of access to all types of recorded

information held by public authorities. They place a number of obligations on public authorities and also set out exemptions to rights of access.

The FOIA and the EIR apply to Ofwat because we are a public authority. We have a responsibility to respond to any written request, normally within 20 working days. There are some exceptions to this deadline; we are able to take more time to consider the public interest in the disclosure of information. We set out our performance in the table below.

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

Table 17: Performance against standard for information requests

Metric	What is measured	Number of requests¹	Target 2017-18	Actual 2017-18
FOIA and EIR requests	Information requests responded to within deadline	126 (103 FOIA 23 EIR)	100%	100%
Subject Access Requests	Information requests responded to within deadline	1	100%	100%

Disputes and complaints about water and wastewater services

We have powers to consider a limited range of disputes that customers may have with their water company, as set out in legislation. These include complaints and disputes about:

- water supply and sewer connection charges (including the requisitioning of new water mains, sewers and lateral drains);
- the terms and conditions of adoption agreements for water mains or sewers that have been constructed by a third party that wishes the local water or sewerage company to take responsibility for them;
- a water company's refusal to install a water meter;
- a company's guaranteed standards scheme (GSS) payments;
- how a water company has consulted customers affected by their pipe-laying in streets and across private land;

- the conditions a sewerage company puts on customers seeking to put trade effluent into a public sewer;
- requests to appoint an arbitrator about compensation payments due as a result of particular types of work completed by a water company;
- the eligibility of a premises for the business retail market; and
- an allegation of a breach of a company's statutory duties, including under competition law.

Many of the complaints we receive from customers are not issues we have legal powers to consider and are instead matters on which they can seek assistance from CCWater or, if it is unable to help resolve the matter, they can refer to an alternative dispute resolution scheme. We often signpost customers to CCWater where they have not already sought its assistance. Likewise if CCWater is unable to help a customer resolve a dispute that we have powers to consider, it will refer the customer to us.

Where we have legal powers to consider a dispute, we have a formal duty to investigate some of these, whilst for others we have discretion as to whether or not we investigate. When we receive details of a dispute or complaint from a customer, we complete an initial assessment to decide whether it falls within our jurisdiction and, if so, whether we should open a formal case to investigate the matter further. Below we set out the numbers of complaints we have responded to during 2017-18 where we have no legal role, and those for which we have or may have a legal role.

Table 18: Performance against our service standard for responding to complaints where Ofwat has no role

Metric	What is measured	Number received	Target 2017-18	Actual 2017-18
Complaints – Ofwat has no role	The proportion of complaints where Ofwat has no role responded to within ten working days of receipt	1,333	95%	96.9%

Table 19: Performance against our service standard for completing an initial assessment where Ofwat has or may have a role

Metric	What is measured	Number received	Target 2017-18	Actual 2017-18
Initial Assessment – Ofwat has or may have a role	The proportion of responses following our initial assessment provided within ten working days of receipt	57	95%	100%

Investigations we carry out

Where we have powers to investigate a customer's complaint or dispute, we aim to do this as quickly and thoroughly as possible. We have service standards within which we aim to complete all of our non-strategic cases. We set out the timescales within which we seek to deliver particular types of investigation on our [website](#) – depending on the type of dispute, these range from six months to 24 months.

During 2017-18, in line with our [casework strategy](#), we have continued to work with customers and water companies to resolve issues before they become formal investigations. This can help customers to get a quicker resolution to their complaint and to ensure that water companies take greater ownership of their customer relationship and reflect on and respond to the concerns their customers raise with them.

Encouraging informal resolution of disputes has reduced the number of formal investigations customers ask us to do. It has also seen us close formal cases before we have reached a final decision because the parties to the dispute have re-entered discussions and been able to resolve the matter directly. Greater use of informal resolution has meant that where we do open and complete formal investigations they are often about novel or particularly complex or entrenched issues that can take longer for us to consider and resolve.

During 2017-18 we had fewer formal cases to consider than in previous years. The proportion of these cases that we closed within our target improved compared with our performance in 2016-17 (48%).

During 2017-18 we also opened two large-scale enforcement investigations, details of which can be found on the [open cases](#) page of our website.

Table 20: Cases closed within our service standards

Metric	What is measured	Number received	Actual 2017-18
Cases	The proportion of our 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 parties).	20	85%

Internal reviews

Where a stakeholder is unhappy with how we have handled a complaint or case, they can ask us to review what we did. Our internal complaints policy sets out how we review complaints.

Four internal reviews were begun within 2017-2018, two of which were outstanding at the end of the financial year. Of those completed, our case decisions were unchanged but process changes were recommended in one case and implemented. In the second case no recommendations were required.

Complaints to the Parliamentary and Health Service Ombudsman

If a complainant is still dissatisfied with our handling of their complaint, they can ask the Parliamentary and Health Service Ombudsman (PHSO) to investigate.

One complaint was referred to the PHSO during 2017-18. The case was closed with no further action required.

Licensing

New Appointees and Variations

New Appointees and Variations (NAVs) are companies that have successfully applied for a licence (an “appointment”) to replace the existing water and or sewerage company for a particular geographic area. If a company already has an appointment elsewhere and applies to serve a new site, it can apply to us to seek a variation to its existing appointment to cover the new site (a “variation”).

When we receive a NAV application we aim to undertake an initial check to ensure it is complete within 15 working days of receipt. We then aim to assess and make a decision on whether to grant a NAV application within 110 working days of confirming that we have received a complete application. When processing applications we have the ability to ‘stop the clock’ on applications where we are waiting for information from the applicant to complete our assessment. We noted in last year’s annual performance report that in the past we had not generally used our ability to stop the clock, and that this had impacted on the timescales we reported for our processing of applications.

During 2017-18 we have received more NAV applications than in previous years and improved our processing of them. We have also made better use of stop the clock to ensure the reporting of our performance in processing NAV applications better reflects the stages of the application process that rely on us. The table below sets out our performance against our service standards during 2017-18.

Table 21: Performance against our service standards for processing New Appointment and Variations (NAVs) applications

Metric	What is measured	Number of applications received	Completed within our service standards
NAV applications	The proportion of NAV applications for which we completed our initial check within 15 working days of receipt	20	95%
	The proportion of NAV applications fully processed within 110 working days of receipt	12	58%

For new applications we have improved our performance against our service standards for initial checks and making our final decision. Our overall performance against our service standards continues to be affected by a small number of legacy NAV applications, for which we did not stop the clock in previous years and are awaiting outstanding information from the applicant.

In 2018-19 we will be introducing new application guidance, which seeks to improve our process and the information available to applicants to enable them to submit a complete application. We hope that this will reduce the need for us to stop the clock on applications and enable us to process applications more quickly. As a result the new application guidance will include reduced timescales for us to complete our initial checks and our assessment of applications.

Water supply and sewerage licences

Since April 2017, 1.2 million eligible business, charity and public sector customers in England have been able to choose their water and wastewater retailer. These retailers must apply for and be granted a water supply and/or sewerage licence (WSSL). As part of the licence application process we consider whether the applicant has the appropriate level of competency to hold the type of WSSL requested. We do this by assessing a number of key areas, including managerial, financial and technical competencies.

When we receive a WSSL application we aim to undertake our initial checks within five working days to ensure we have all of the required information for us to undertake our full assessment. We then aim to assess and make a decision on whether to grant a WSSL application within 60 working days of confirming that we have received a complete application. This service standard is extended to 90 working days if the application requires us to modify a standard licence condition.

The table below sets out our performance against our service standards for processing WSSL applications during 2017-18. We processed fewer WSSL applications during 2017-18 compared to the previous year. We improved our performance in completing our initial checks compared to 61% in 2016-17. Our performance against our service standard for completing our assessment and making a decision fell from 92% last year. We have identified improvements to be introduced during the first quarter of 2018-19 to increase this percentage. For example, we are introducing a standard application form to better enable applicants to include all of the information we require at an earlier stage, rather than us having to request missing information/further details during our assessment.

Table 22: Performance against our service standards for processing Water and Sewerage Supply Licences (WSSLs)

Metric	What is measured	Number of applications received	Completed within our service standards
WSSL applications	The proportion of WSSL applications for which we completed our initial check within five working days of receipt	10	90%
	The proportion of applications fully processed within 60/90 working days of a complete application	7	87%

A3 How our work aligns with the UK and Welsh Governments' strategic priorities

Under the Water Industry Act 1991, the UK and Welsh Governments have powers to issue statements setting out strategic priorities and objectives for us. We are required to act in accordance with these statements when discharging relevant functions relating wholly or mainly to England and Wales respectively. Updated strategic policy statements from the UK and Welsh Governments to Ofwat were finalised and came into effect during 2017-18².

This annex sets out how our work during 2017-18 contributed to achieving the objectives and priorities set out in those statements. The key themes of both SPSs had been clear for some months before they came into force, allowing Ofwat to plan its work with these requirements in mind, although we are only required to act in accordance with them from the date they entered into force. Accordingly, we have also considered the previous statements which were in place for much of the last financial year and with which we had to comply. For simplicity and ease of understanding, we position our report below from the perspective of the new statements and are satisfied that our report also reflects requirements that were placed upon us under the previous statements.

Strategic Priorities and Objectives Statement from the Welsh Government

The Welsh Government issued its 'Strategic Priorities and Objectives Statement to Ofwat' in January 2018, following consultation and laying before the Assembly. The statement concerns the approach that we should take to performing our regulatory functions in Wales, with six objectives, including the need to take decisions with appropriate regard to the particular circumstances in Wales and differences, current or future, in the policy and law between England and Wales. We must also consider how our regulation can contribute to the achievement of the Welsh Government's broader policies and strategies.

We are expected to submit an annual report to Welsh Ministers on the steps taken and the consideration given to delivering on these objectives and priorities and have agreed with the Welsh Government that we may do so through this Annual Report.

² November 2017 and January 2018 respectively.

The Welsh Government has also set out priorities for the regulation of the water sector under seven headings.

- Affordability: relating to both current and future affordability for customers.
- Innovation: relating to new ways of delivering services for customers and for the environment.
- Long-term: relating to the need to balance short-term affordability and efficiency, and longer-term resilience and investment, and the need to ensure that companies plan for the long-term.
- Markets and competition: relating to the need to ensure that market mechanisms and competition are applied with appropriate regard to Welsh Government policy.
- Resilience: relating to the importance of short and long-term resilience, including the resilience of eco-systems and companies' operational assets.
- Strong customer focus: relating to the importance of effective customer engagement and acceptability of companies' plans.
- Sustainable management of natural resources: relating to the need for an integrated approach in the management of natural resources in the management of water and wastewater services.

Priority and contribution

Affordability

Our [final methodology for the 2019 price review \(PR19\)](#) published in December 2017 set out the framework that companies will be assessed against when business plans are submitted in September 2018. Affordability is one of the key themes for PR19. During the year we developed our approach to the initial assessment of business plans, which will consider the extent to which companies' plans will deliver affordable, value for money bills for those struggling, or at risk of struggling, to pay their bills, including the availability of social tariffs. Companies' proposals for affordability will be tested against five principles (customer engagement, customer support, effectiveness, efficiency, and accessibility for customers who are struggling to pay). Our assessment will also consider how companies' plans deliver greater value for money, having regard to resilience and service over the long-term.

In addition, PR19 will for the first time place a specific focus on how companies deliver for customers in circumstances that make them vulnerable, and the initial assessment of business plans includes assessment of the extent to which companies provide sensitive, well-designed support and services to these customers. In assessing the efficiency of companies' retail costs and approach to

recovering bad debts, we will test the extent to which companies' debt management and collection practices are in line with best practice across sectors, recognising differences in the regulation of residential landlords in Wales. This is firmly aligned with the objective set out in the statement to "challenge companies to deliver for customers on the basis of comparison across companies in Wales and England, and across sectors where appropriate".

Affordability for customers in vulnerable circumstances has been a strong focus of other work we have done this year. Working closely with Ofgem through the UK Regulators' Network (UKRN), we produced a report called '[Making better use of data: identifying customers in vulnerable situations](#)' on progress companies are making to share data on customers in circumstances of vulnerability which will allow us to challenge companies to offer appropriate support to such customers, and potentially improve the take up of social tariffs.

Given the similar types of support offered, Ofwat and Ofgem want our respective sectors to pool their efforts to ensure that vulnerable customers are better able to access the extra help that is available. By identifying those customers who are vulnerable, companies could, for instance, offer priority support in emergencies, provide bills and other literature in accessible formats or move a customer's meter where it is difficult to reach.

Innovation

Innovation is another of our key themes for the price review, and was a major focus during the year. We will assess companies' business plans on their ability to innovate and to realise the benefits of innovation alongside ambition and high quality. Using these criteria we will judge a company's business plan to determine whether it is considered "exceptional" and should therefore receive financial, procedural and reputational benefits. Moreover, reflecting the Welsh Government's emphasis on the promotion of catchment management approaches, this year we developed our approach to the initial assessment test on resilience which will incentivise companies to consider the full range of mitigation options to achieve resilience over the long-term. We would expect this to include consideration of scale catchment management approaches where appropriate.

In our 'Resilience in the Round' publication, we also set out the importance of companies exploring a range of innovative solutions – including effective catchment management programmes – to operational challenges.

To promote and motivate innovation more broadly, in February 2018, we ran a digital innovation campaign called '[Spark!](#)'. The aim of the campaign was to encourage

water companies to innovate using examples from a range of sectors and industries. Over 20 individual contributors shared their expertise and experience throughout our video series to show water companies what might be possible. The campaign had a positive reception both inside and outside of the sector.

Long-term

Our approach to PR19 reflects the Welsh Government's focus on the importance of balancing short and long-term affordability and ensuring that our approach to regulation, and companies' plans, are fair to future generations as well as current customers, in line with the sustainable development principle set out in the Wellbeing of Future Generations Act (Wales) 2015.

The progress we have made during the year on developing our approach to the initial assessment of business plans will allow us to test companies' proposals for overall affordability of bills as well as affordability over the long-term. We will test whether companies have used the best available evidence to assess and prioritise risks in the face of anticipated future social, economic and environmental challenges, and whether the full range of appropriate mitigation options has been considered, including technological innovation. Our regime will reward those who are ambitious and efficient.

We have been fully engaged in responding as a statutory consultee on the water resources management plans (WRMPs) for companies wholly or mainly in Wales, liaising closely with Natural Resources Wales. We concluded and published our assessments by mid-June 2018.

Asset health is a key area of focus for Ofwat in contributing to the Welsh Government's priority to ensure that companies plan for the long-term. This year we commissioned a [report](#) by CH2M to consider how water companies are approaching the measurement and management of asset health and how this contributes to their wider approach to resilience.

The report highlighted a number of challenges and opportunities for companies that we believe are vital to address now, in order to provide protection for current and future customers and to avoid damage to the environment. These challenges and opportunities also cut across other priorities set out in the Welsh Government's statement, including encouraging innovation and ensuring companies' approaches have a strong customer focus, and this will continue to be an important part of our ongoing work to contribute to each of these priorities.

In March 2018 we launched a [review](#) on the significant water supply issues customers experienced in England and Wales during the freeze and thaw period in February and March 2018, looking at the causes of the problems and the response of water companies. We published our findings in mid-June 2018. Our review considered what happened and set out clear lessons learned for improvement. The review drew out good and bad performance so that good practice can be shared and built on, ensuring customers get a better service and less disruption in the future. We also considered whether customers affected had received appropriate compensation.

Markets and competition

Our approach to markets reflects the Welsh Government's position on the extension of competition in Wales. As emphasised in our final PR19 methodology, we will continue to promote the use of markets in Wales to the extent this is consistent with the Welsh Government's position.

Our assessment of business plans will apply tests to determine whether companies' plans use and engage with markets to deliver efficiency and innovation and enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers, and whether companies have given appropriate consideration to the use of direct procurement for major projects. However, we are clear that our application of this test will have regard to the particular circumstances in Wales.

We published the findings of our [study of the market for new appointments and variations](#) (NAVs). The study was commissioned to assess how the NAV market was working, to highlight areas where the market might not be working as effectively as it could be and to propose remedies in response to these areas.

Our findings set out work that we will be doing, working closely with the sector and wider stakeholders in Wales, to ensure that there is a level playing field between new entrants and existing undertakers for the benefit of customers in Wales. This is consistent with the Welsh Government's position regarding retail competition and takes account of the different statutory threshold for a "large user" in Wales under section 7(4) of WIA91 which allows Ofwat to appoint a company in place of the incumbent.

Resilience

Our PR19 final methodology sets out how we will assess companies' business plans against their adherence to the seven resilience principles that we have established.

These tests reflect the Welsh Government's priority, and set out the expectation that companies should consider the short, medium, and long-term risks which the company faces, including operational, corporate, and financial risks. Our approach to resilience also emphasises the importance of ecosystem resilience, and incentivises companies to promote ecosystem resilience and biodiversity where this is consistent with their role as providers of water and wastewater services.

Our outcomes framework also emphasises resilience: the 14 core common performance commitments, for which companies are required to propose service levels, will provide incentives to companies to identify and mitigate relevant risks to water and wastewater services, and cover a range of issues including resilience, asset health, including risks of cyber-attack, and the risk of severe restrictions during a drought. We commissioned a [targeted review of common performance commitments](#) and published reporting guidance on each.

This year we published our report entitled '[Resilience in the round: building resilience for the future](#)', which aimed to encourage companies to consider all aspects of resilience: operational, financial and corporate resilience. Resilience in the round matters to customers and is a core concept throughout our portfolio of work. In order to manage resilience in a more complex and less predictable world, companies will need to see the bigger picture if they are to deliver against customer expectations – linking corporate, financial and operational elements together with customers at the heart. Our report highlighted examples from abroad and other sectors to inspire companies to enhance resilience for the benefit of their customers, in line with the Welsh Government's statement.

Strong customer focus

During 2017-18 we continued to develop our approach to challenging the sector to focus on what customers want. Great customer service is one of four key themes of our approach to PR19. When operating their businesses, and developing their business plans, we expect companies to actively, meaningfully and effectively engage with their customers and stakeholders on acceptability and affordability.

Through our initial assessment of business plans, we will test the quality of companies' customer engagement, including their approach to customer participation and how well their customer engagement has been reflected across their business plans. We will also require assurance from company Boards that their business plans have been informed by customer engagement.

Our expectations are supported by the principles of customer engagement we have established which, in line with the Welsh Government's priority, includes an

expectation that companies should engage customers on longer-term issues. Our initial assessment of business plans will also test whether companies have engaged effectively with customers on longer-term issues such as resilience, and taken into account the needs and requirements of future customers.

During the year, we also worked with the sector to develop our approach to a Customer Measure of Experience (C-MeX), which we will pilot during 2018-19 to help to drive a greater focus from companies on the services experienced by all customers, including those in circumstances of vulnerability.

In order to ensure customers are able to access accurate information about their company, we conducted our annual review to assess the transparency and quality of the information (including data) that companies publish using our [Company Monitoring Framework](#). We use our company monitoring framework to provoke and challenge all water and wastewater companies to publish information that can be trusted, enabling customers and stakeholders to understand how the company is performing. Our role is to ensure that this information can be trusted.

This year we published our '[Tapped in: from passive customer to active participant](#)' report, which encourages water companies to develop active relationships with their customers. These active relationships can go a long way to building greater trust and confidence in the sector. The report draws on emerging practices from inside and outside the water sector to highlight the opportunities that companies can capitalise on through actively taking a strong customer focus.

Sustainable management of natural resources

The principal route through which we can incentivise the efficient and sustainable use of water resources is through the price review process. Our approach to PR19 reflects the Welsh Government's emphasis on the sustainable use of natural resources as articulated in the Welsh Government's statement and as reflected in Natural Resources Wales' State of Natural Resources Report, the Water Strategy for Wales and the Environment (Wales) Act 2016. During the year we developed our approach to the initial assessment of companies' business plans, which will consider the extent to which companies:

- consider ecosystem resilience and biodiversity as part of their decision making processes;
- have based their business plans on thorough analysis of their long-term water resources position through the WRMP process; and

- show that they have analysed the costs and benefits of their investment choices, including the wider costs and benefits to the economy and society, and having engaged with customers to understand their views.

We worked with a range of stakeholders, including environmental NGOs and water companies, to develop our 14 common performance commitments, many of which relate to the sustainable management of natural resources – for example, pollution incidents, per capita consumption and leakage. We are expecting companies to set stretching performance commitment levels for these, which should reduce the impact of water companies on the environment.

Reflecting the Welsh Government's statement's emphasis on leakage, we will require companies to justify their proposals for leakage reduction against our challenges. These challenges include, among others, a 15% reduction by 2025 or upper quartile performance on leakage per property per day throughout the 2020-25 period.

We are requiring companies to have comprehensive coverage of their environmental challenges in their bespoke performance commitments and to take into account customers' preferences and, where appropriate, the environment, biodiversity and natural capital when setting their performance commitment levels and outcome delivery incentives.

Resilience in the Round emphasised how the natural environment is at the core of water and wastewater service delivery. Managed well, this natural system underpins resilience. Our report encouraged companies to embrace opportunities to ensure the natural environment can continue to support long-term resilience. This message is strongly aligned with the Welsh Government's priority for the sector to encourage the sustainable management of natural resources.

Strategic Priorities and Objectives Statement from the Secretary of State for Environment, Food and Rural Affairs

In November 2017, following consultation and laying before Parliament, the UK Government issued its Strategic Priorities and Objectives Statement. The statement sets out objectives and priorities under three principal headings:

- securing long-term resilience;
- protecting customers; and
- making markets work.

The statement also sets the expectation that we will report our progress against these objectives and priorities openly in our annual report. We consider that our priorities and work programme in 2017-18 reflected, and made a significant contribution to delivering, the UK Government's priorities and objectives and a shift in water companies' strategic direction. We have also had regard to the expectations placed on the water industry in exercising our relevant functions and, where an explicit steer is provided on Ofwat's role in this respect, we have used the full range of our tools where necessary and appropriate to hold companies to account.

Below, we summarise what action we have taken in 2017-18 to achieve this.

Priority, objectives and contribution

Securing long-term resilience

Resilience was a major focus of our activity during the year, and we have made significant progress in setting out a clear challenge for companies to address resilience in all areas of their business, operational, corporate, and financial. The importance of resilience is reflected in its status as one of the four core themes of PR19.

Our [PR19 final methodology](#), published in December 2017, sets out how we will assess companies' business plans against their adherence to the seven resilience principles that we have established. These tests reflect the UK Government's priority, and set out the expectation that companies should consider the short, medium, and long-term risks which the company faces, including operational, corporate, and financial risks.

We have been clear that we expect that companies will need to assess a wide range of options for securing water supply resilience, including investment in new infrastructure alongside measures to reduce leakage and increase water efficiency, in line with the Government's "twin track" approach. Our approach to resilience also emphasises the importance of ecosystem resilience, and incentivises companies to promote ecosystem resilience and biodiversity where this is consistent with their role as providers of water and wastewater services.

Our outcomes framework will also emphasise resilience: the 14 core common performance commitments, for which companies are required to propose service levels, will provide incentives to companies to identify and mitigate relevant risks to water and wastewater services, and cover a range of issues including resilience, asset health and the risk of severe restrictions during a drought.

This year we published our report entitled '[Resilience in the round: building resilience for the future](#)', which aimed to encourage companies to consider operational, financial and corporate resilience holistically. Resilience in the round is what matters to customers and is a core concept throughout our portfolio of work. In order to manage resilience in a more complex and less predictable world, companies will need to see the bigger picture if they are to deliver against customer expectations – linking corporate, financial and operational elements together with customers at the heart. Our report highlighted international examples and other sectors to inspire companies to enhance resilience for the benefit of their customers, in line with the UK Government's statement.

Our role in the water resources management planning (WRMP) process is an important aspect of how we ensure that companies are planning effectively for long term resilience in water supply. During the year we continued to work closely with the Environment Agency and other partners to inform development of companies' draft plans, and we responded formally during early 2018-19 in our role as a statutory consultee.

While the WRMP process provides for long term water resources planning, no such process exists for wastewater planning. During the year we have continued to work with companies and other stakeholders to develop future approaches to wastewater planning under the auspices of the 21st Century Drainage Board. We have also worked with the National Infrastructure Commission to inform their analysis of the long term water supply and wastewater challenges England faces, reflected in the Commission's first National Infrastructure Assessment, published in July 2018.

Reflecting the importance of innovation in delivering long term resilience, in February 2018, we set up a digital innovation campaign called ‘[Spark!](#)’. The aim of the campaign was to encourage water companies to innovate using examples from a range of sectors and industries. Over 20 individual contributors shared their expertise and experience throughout our video series to show water companies what might be possible. The campaign had a positive reception both inside and outside of the sector and we believe it will have a positive impact in encouraging companies to innovate and deliver more outcomes that want now and in the future.

Asset health is a key area of focus for the sector in securing long-term resilience. This year we commissioned a [targeted review](#) by CH2M to consider how water companies are approaching the measurement and management of asset health and how this contributes to their wider approach to resilience. The report highlighted a number of challenges and opportunities for companies that we believe are vital to address now, in order to provide protection for current and future customers and to avoid damage to the environment.

In March 2018 we launched a [review](#) on the significant water supply issues customers experienced in England and Wales during the freeze and thaw period in February and March 2018, looking at the causes of the problems and the response of water companies. We published our findings in mid-June 2018. Our review considered what happened and set out clear lessons learned for improvement. The review drew out good and bad performance so good practice can be shared and built on and customers get a better service and less disruption in the future. We also considered whether customers affected had received appropriate compensation.

Protecting customers

Our emphasis on delivering more for customers, for less, and holding companies to account for what they do and how they do it, illustrates the importance we place on our ability to protect customers. Great customer service and affordable bills are core themes of PR19, and our initial assessment of business plans during 2018-19 will consider the extent to which companies’ plans will deliver affordable, value for money bills for those struggling, or at risk of struggling, to pay their bills. Companies’ proposals for affordability will be tested against five principles (customer engagement, customer support, effectiveness, efficiency, and accessibility for customers who are struggling to pay). During the year we continued to develop our approach to ensuring bills are affordable, including by publishing [analysis](#) of companies’ approaches to recovering unpaid debts.

In addition, the initial assessment of business plans at PR19 includes assessing the extent to which companies provide sensitive, well-designed support and services to

customers vulnerable circumstances. During the year we developed our approach to our new Customer Measure of Experience (C-MeX), which we will pilot during 2018-19, and which will help to driving a greater focus from companies on the services experienced by all customers, including those in circumstances of vulnerability.

In addition to our work on delivering PR19, to ensure that companies are incentivised to deliver the outcomes which customers want, and keep pace with customer expectations, we have continued to deliver the PR14 settlement, including by consulting on and making final determinations on in-period underperformance penalties and outperformance payments for three companies, for performance during 2016-17.

In order to ensure customers are able to access accurate information about their company, we conducted our annual review to assess the transparency and quality of the information (including data) that companies publish using our [Company Monitoring Framework](#). We use our company monitoring framework to provoke and challenge all water and wastewater companies to publish information that can be trusted, enabling customers and stakeholders to understand how the company is performing.

Protecting customers in vulnerable circumstances has been a strong focus of the work we have done this year. Working closely with Ofgem through the UK Regulators' Network (UKRN), we produced a report called '[Making better use of data: identifying customers in vulnerable situations](#)' on progress companies are making to share data on customers in circumstances of vulnerability which will allow us to challenge companies to offer appropriate support to such customers, and potentially to improve the take up of social tariffs. Given the similar types of support offered, Ofwat and Ofgem want our respective sectors to pool their efforts to ensure that vulnerable customers are better able to access the extra help which is available. By identifying those customers which are vulnerable, companies could, for instance, offer priority support in emergencies, provide bills and other literature in accessible formats or move a customer's meter where it is difficult to reach.

This year we published our '[Tapped in: from passive customer to active participant](#)' report, which encourages water companies to develop active relationships with their customers. These active relationships can go a long way to building greater trust and confidence in the sector. The report draws on emerging practices from inside and outside the water sector to highlight the opportunities that companies can capitalise on through actively taking a strong customer focus.

Making markets work

In April 2017, working with a range of stakeholders including the UK Government, we opened the largest competitive water retail market in the world. This new market means 1.2 million businesses, charities and public sector organisations in England are no longer restricted to buying water services from their regional monopoly. Effective operation of the business retail market will help to drive greater efficiency and more sustainable use of water, contributing to the long-term resilience of water and wastewater services. The business retail market also has important long-term benefits for customers and could deliver lower bills, help people use less water, lead to improved services, and see new offers and bundles emerge.

In order to ensure that the market works effectively and these benefits can be realised, we have been closely monitoring and regulating the market. Some particular highlights of our work this year include:

- publishing a single code for adoption agreements;
- put in place the Retail Exit Code (REC);
- granting a number of water supply and sewerage licences; and
- launching a review of the market codes which set out the credit requirements for retailers.

We will continue to assess and take action where we need to intervene in the market to protect customers and ensure that all customers – including small business customers – are able to benefit from the market.

During the year we continued to refine our approach to developing new markets through our Water 2020 programme. As set out in detail in our final methodology for PR19, the development and promotion of effective markets is an important part of our approach to the price review, and will play a key role in driving achievement of long-term resilience and protection for customers. Our initial assessment of business plans will assess the extent to which plans provide evidence that companies use and engage with markets to deliver efficiency and innovation and enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers, and will apply tests of companies' plans to make use of bioresource and water resource markets, and direct procurement for major relevant major projects.

A4 List of impact assessments carried out during 2017-18

[New connections charges for the future – England – a consultation – 5 July 2017](#)

[Delivering Water 2020: consulting on PR19 methodology for the 2019 price review. Appendix 15: Approach to impact assessment – 11 July 2017](#)

[New connections charges rules from April 2020 – England: Decision Document – 2 November 2017](#)

[Bulk charges for NAVs: a consultation – 9 November 2017](#)

[Delivering Water 2020: Our final methodology for the 2019 price review. Appendix 14: Approach to impact assessment – 13 December 2017](#)

A5 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

Programme	How we intend to reduce regulatory burdens
Strategy and Planning	The programme helped us embed our strategy and maximise the benefits we deliver across our portfolio of programmes. This has also helped improve our value for money and reduce the financial burden on companies by allocating our resources dynamically to respond to changing priorities.
Finance and Governance	Our risk-based approach to monitoring and intervention means that we use a variety of tools that are proportionate to the different risks that customers face. Our informal tools focus on highlighting performance and allowing companies to manage and respond themselves, rather than needing to intervene formally where appropriate.
Market Outcomes and Enforcement	We put in place the Retail Exit Code (REC) which places requirements on the price and non-price terms and conditions offered to customers transferred from an exiting incumbent. We have been reviewing our application guidance and processes for WSSL licences to be more customer-focused and streamlined, enabling us to process applications more efficiently and deliver higher volumes. We have reviewed how the market for new appointments and variations (NAVs) is working, and identified actions to cut administrative barriers. We also published our Code for Adoption Agreements, which sets a clear framework for the sector to improve its services for developers and self-lay providers.
Water 2020	Following consultation, we are implementing changes to the regulatory framework for wholesale markets and the 2019 price review. There is the opportunity for new arrangements to reduce the overall regulatory burden by removing more prescriptive price and service regulation from parts of water

Programme	How we intend to reduce regulatory burdens
	<p>and wastewater service delivery where appropriate and replacing it with either:</p> <ul style="list-style-type: none"> • more risk-based, assurance focused regulation; or • a greater use of markets.
Thames Tideway	<p>We have adapted our regulatory approach to be more appropriate to the specific issues associated with the Thames Tideway Tunnel. We have ensured that in those limited cases where we need to be prescriptive, requirements are proportionate.</p>
Fit for the Future Compliance, Assurance and Improvement	<p>These programmes have helped improve the way we work and deliver value for money. The aim has been to ensure that we deliver best value from licence fees and help reduce the financial burden on companies.</p>

A6 Directions given by the Secretary of State under section 27(3) of the Water Industry Act 1991

None

A7 Final and provisional orders made and penalties imposed

None

A8 Reference of cases or issues to the Competition and Markets Authority

None

A9 Staff composition 2017-18

Staff recruitment (by gender and ethnic group)

	2017-18			2016-17			2015-16		
Level and salary range	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Band 1 – £15,623 to £22,220	0	0	0	0	0	0	0	0	0
Band 2 – £22,221 to £31,448	14	57	7	5	40	60	13	62	23
Band 3 – £31,449 to £47,146	31	58	13	18	50	16	23	39	1
Band 4 – £47,147 to £72,114	18	33	22	19	57	21	20	35	10
Band 5 – £72,115 to £108,171	6	67	33	8	62	12	6	0	0
Total	69	52	19	50	54	22	62	38	8

All figures rounded to the nearest whole number.

Staff in post

Type	31 March 2018	31 March 2017	31 March 2016
Employed staff head count	233	190	171
Agency staff and consultants head count	4	13	34

Employed staff information

Area	31 March 2018	31 March 2017	31 March 2016
Full-time equivalent staff	201	161	157
Proportion of women (%)	50	47	45
Proportion from ethnic minorities (%)	15	17	14
Proportion disabled (%)	3	1	1
Members of the Senior Civil Service	7	9	8
Number of fixed-term and casual contracts	47	31	17
Number of staff working part-time	37	31	26
Staff turnover (%)	13	9	11*

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

Staff training attendance (by ethnic group)

Ethnic group	2017-18		2016-17		2015-16 ¹	
	Number of training days ²	% ³	Number of training days ²	% ³	Number of training days ²	% ³
White	–	–	–	–	–	–
Other ethnic groups	–	–	–	–	–	–

Unknown	1,972	100	1,673	100	1,361	100
Total number of training days	1,972	100	1,673	100	1,361	100

1. We did not collect information on training days by ethnic group in 2015-16, 2016-17 or 2017-18.
2. Rounded up to the nearest whole number.

Staff by gender

Area	31 March 2018	31 March 2017	31 March 2016
Employed staff head count	233	190	171
Number of women	117	90	78
Number of men	116	100	93

Senior Directors by gender*

Area	31 March 2018	31 March 2017**	31 March 2016
Employed head count	9	7	6
Number of women	6	3	3
Number of men	3	4	3

* These figures exclude the role of the Chief Executive.

**These figures have been corrected post publication of the 2016-17 Annual Report and Accounts.

Members of Senior Civil Service by gender

Area	31 March 2018	31 March 2017	31 March 2016
Employed head count	7	8	8
Number of women	5	3	2
Number of men	2	5	6

A10 Ofwat's compliance with the public sector equality duty

Background

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

External

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

We published our methodology for our 2019 price review (PR19) of water companies' price and service packages for their customers in December 2017. In our methodology we are requiring water companies to engage extensively with their customers to understand their preferences for the outcomes they want to see their companies deliver. We have emphasised the importance of companies engaging with representative samples of their customers, including hard-to-reach customers and customers in circumstances that might make them vulnerable.

One of the nine areas on which we will be testing companies' PR19 business plans is affordability and vulnerability. In relation to affordability we are testing companies on how they are addressing affordability for all customers, future customers and those struggling or at risk of struggling to pay their bills. In relation to vulnerability we are testing how well companies are providing an inclusive service which is

accessible to all their customers, including those in circumstances that might make them vulnerable.

We are also improving our existing Service Incentive Mechanism (SIM), which encourages companies to improve the quality of their customer service to all their customers, with a new incentive called C-MeX (customer measure of experience), which will incentivise companies to improve the overall experience customers have of their water company.

On pages 124 to 128, we summarise the actions we have taken in 2017-18 in relation to the [UK and Welsh Governments' strategic priorities and objectives statements](#) to us. These set out a number of steps we have taken in this regard.

As an organisation, we help advance equality of opportunity through access to information. For example, we make publications available in large print and braille formats on request. Our website complies with government guidance on accessibility, including a responsive design which adapts itself to a range of devices. We continue to provide transcripts or subtitles for multimedia content.

We also have a Welsh language scheme and use a scoring system to objectively identify which material needs to be published in Welsh or bilingually. When someone writes to us in Welsh, we reply in Welsh. We will also, if practicable, reply in the same language to correspondence we receive in languages other than Welsh or English.

Our branding guidelines cover our use of things like fonts, colours and logos. It takes into account the needs of people with disabilities such as dyslexia and colour vision deficiency ('colour blindness').

Internal

Our 2018 People Strategy continues to focus on strong people management practices to make us an employer of choice; attractive to existing employees and prospective candidates because our work, culture, environment and rewards make it a great place to work. We also want a working environment that, among other things, provides a welcoming culture, free from discrimination, and that values diversity and different opinions.

We recruit staff on merit through fair and open competition in line with the Civil Service recruitment principles. This ensures equal opportunity for employment, regardless of:

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

All our recruitment activity is subject to audit by the Civil Service Commission to ensure that we comply with the guidance in the Civil Service recruitment principles.

By the end of March 2018, diversity e-learning had been undertaken by 93% of our staff. This is part of our commitment to ensure our staff understand and fulfil their obligations under the Equality Act, thereby contributing to a welcoming and diverse working environment.

One of our equality objectives is to put our SAILOR values at the forefront of everything we do. In 2015-16 we introduced a new set of values and behaviours, and throughout 2016, 2017 and in 2018 there has been a continuous focus on embedding these values. Our values and behaviours are core to our people management practices such as recruitment, reward and recognition schemes and induction of new staff. In July 2016 employees first signed up to our values at our staff event, and then revisited this exercise with new employees at the staff event in December 2017 and at other Ofwat briefings in 2018. We continue to ask all new starters to sign up to our values.

Our 2017 People Survey results indicated that our people are more likely to think that we put our values and behaviours at the forefront of our work (69%) compared to 2015 (57%). This means we are very close to achieving our target and that we are continuing to see an improved trend as we embed our values in everything we do.

Table 23: Equality objectives for 2014-18

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

A11 Trade Union time

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

Table 24: Relevant union officials

What was the total number of your employees who were relevant union officials during the relevant period?

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
5	0.01FTE

Table 25: Percentage of time spent on facility time

How many of your employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?

Percentage of time	Number of employees
0%	5
1-50%	0
51%-99%	0
100%	0

Table 26: Percentage of pay bill spent on facility time

Provide the figures requested in the first column of the table below to determine the percentage of your total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

Total cost of facility time	£2k
Total pay bill	£14,986k
Percentage of the total pay bill spent on facility time	0.01%

Table 27: Paid trade union activities

As a percentage of total paid facility time hours, how many hours were spent by employees who were relevant union officials during the relevant period on paid trade union activities?

	Figures
Time spent on paid trade union activities as a percentage of total paid facility time hours	0%

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

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