

June 2019

Trust in water

**Water Services Regulation Authority (Ofwat)**

# Annual report and accounts 2018-19

For the period 1 April 2018 to 31 March 2019

HC 2278

**Ofwat**

[www.ofwat.gov.uk](http://www.ofwat.gov.uk)

Water Services Regulation Authority (Ofwat)

# Annual report and accounts 2018-19

For the period 1 April 2018 to 31 March 2019

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

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# About this document

This document sets out our annual report and accounts for the period 1 April 2018 to 31 March 2019.

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](http://www.ofwat.gov.uk).

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# Part 1

**Our performance report**

# Overview

## Purpose of the overview section

This section of the performance report is designed to provide a short summary of our performance during 2018-19, with information to understand:

- Ofwat and our purpose;
- how we performed during the year against our objectives.

Every five years we set allowed revenues and service quality for the industry. Throughout the regulatory cycle we carry out work to enforce where there are licence breaches, to improve markets, and to strengthen governance as well as operational and financial resilience.

Our performance reporting in this document is structured to reflect:

- the outcomes we see now, which reflect the decisions we made as part of the 2014 price review (2015-20);
- ongoing work to improve outcomes for customers now; and
- the work we are doing as part of the 2019 price review which will drive outcomes from 2020 onwards.

## Purpose and activities

[Trust in water](#) is the means through which we fulfil our statutory responsibilities. We will be refreshing our strategy later this year, alongside a new shared vision for the water sector. We carry out our relevant functions in accordance with the statements of strategic priorities and objectives we receive from the UK and Welsh Governments.

## Performance against the forward programme 2018-19

We achieved the vast majority of the milestones set out in our [forward programme 2018-19](#). Where we did not, this was mainly due to factors outside our control, such as responding to the extreme weather in early 2018. More information on our progress is in Appendix 1 on page 118.

Following a [consultation](#) earlier this year, we have published our [forward programme 2019-20](#), which 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](#). In line with its principles, risk and opportunity management is embedded across our organisation. Our governance statement on page 43 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 101.



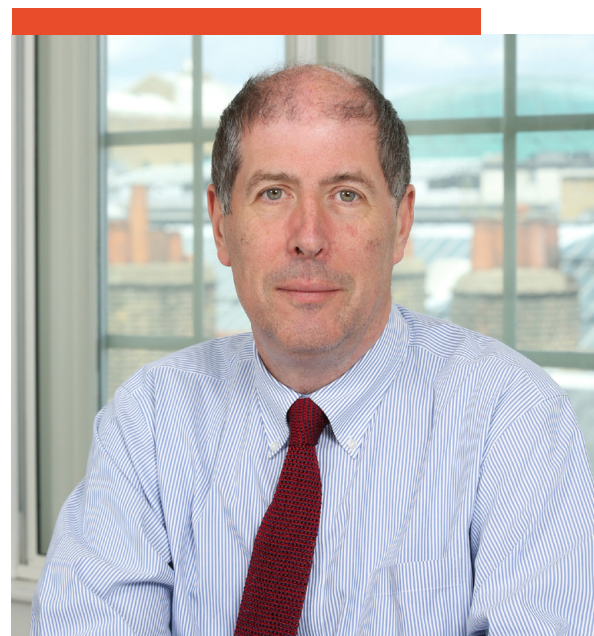
# Chair's foreword

Ofwat has a unique and privileged responsibility – to hold water companies to account and improve their performance for customers and the public. Throughout the last year, we have dedicated ourselves to this.

At a time of public scepticism about aspects of corporate behaviour, our 2018 '[Back in balance](#)' programme has sought to restore an equilibrium in the sector – between the interests of customers, on the one hand, and companies and investors on the other. We made good progress in 2018, with companies taking up our challenge to improve financial resilience and develop more sustainable dividend policies. We have challenged some companies on their complex ownership arrangements and we have been pleased to see some movement in this respect.

Our five-yearly price review (PR) process sets performance commitments, efficient cost levels and the return allowed on invested funds for companies. In PR19, we are driving companies harder and setting a higher bar. At the conclusion of this process, we expect to see material ongoing investment in resilience and service.

Three companies – Severn Trent, South West Water and United Utilities – set a new standard for the sector with their delivery of high-quality plans last year. Other companies must now match them. Customers benefit when companies are driven to bring down bills while delivering high levels of investment in water infrastructure, and while improving the environmental and societal impact of the industry.



Several landmark investigations show that we do not hesitate to step in to protect customers and to uphold the standards we expect companies to meet. Our investigation into Thames Water's failure to meet its obligations on leakage led to a £120 million settlement for the benefit of customers during the year. Our '[Out in the cold](#)' review into widespread service failures in March 2018 showed up important operational lessons.

In parallel, we rely on Boards running their companies effectively and striking the right balance in delivering for customers, the public and investors. We have published the second iteration of our Board leadership agenda. We now require that companies set out the purpose and values of their company. In addition our new principles protect the independence of the regulated company, and provide for sufficient

independent representation at the Board table. Almost all companies have accepted in principle that the four core objectives should be enshrined in the licence.

Looking forward, we are taking the opportunity to review and enhance our strategy. We have worked with the other sector regulators, Government and companies, to begin to create a new long-term vision for the sector, which will continue to be developed through 2019.

It has been a challenging and busy year and, I would like to thank all Board colleagues, our CEO Rachel Fletcher and all colleagues at Ofwat for their skill, hard work and dedication. They have worked professionally and at pace across the year, and on behalf of the Board, I would like to express our gratitude to all.

A handwritten signature in white ink on a light blue background. The signature appears to read 'Jonson Cox' in a cursive, flowing style.

**Jonson Cox**  
**Chair**

# Chief Executive's report

This annual report explains the work we done over the past year to make sure that the water industry in England and Wales delivers the very best for its customers. Our focus has been on ensuring four main outcomes that benefit everyone:

- great service;
- value for money;
- resilient services; and
- a long-term commitment from companies and their investors in delivering public services.

We have seen good progress, particularly in terms of service and value. Customer satisfaction in water companies has risen overall, and our challenge to companies on costs at the last price review equates to customer savings of £10 for every £1 spent on Ofwat. Vulnerable customers and those struggling to pay have seen tangible benefits, with nearly half a million customers signed up to companies' Priority Services Registers, and many more signed up to financial assistance schemes.

We continue to hold companies to account for the resilience of their service to customers and of the assets that support this. We are clear that there is more for some companies to do individually and in collaboration to minimise service interruptions, including in the face of climate change, and to provide support for customers – especially vulnerable customers – when problems arise. Resilience is one of the four key areas of focus for our current price review and, as a result, we expect to see significant and ongoing improvements by companies in this area in coming years.



Our focus on delivering the best for customers also includes business customers who have the opportunity to switch supplier. We continue to monitor activity in the business retail market. While there is clear evidence of the benefits of switching or renegotiating with an existing supplier, take-up has been slow, with just 9% of supply points switching retailer. We are working together with the market operator MOSL to tackle frictions in the market, including poor data quality.

Looking back over the last year, I am pleased to report that we have not hesitated to use the full range of powers available to us to secure the right outcome for customers. This includes our investigation and enforcement powers – which have resulted in money back for customers – as well as pursuing changes to licence conditions. Here, we have been consulting with companies to secure changes to Board leadership and

governance, including strengthening independent representation on Boards and ensuring greater clarity about company purpose and values.

Alongside these formal powers, we have also utilised our softer powers through communications and debate. Our Water Stories campaign has amplified the customer's voice in our work and we have brought together people with differing views from within and outside the sector in a Question Time-style debate. Our collaboration with partners on a shared vision for the sector has set a new agenda for the future of water and we will continue to evolve this approach as we begin to implement our new strategy in early 2020.

As we have prepared this annual report, we have reflected on the recent report '[Regulating to protect consumers](#)' by the National Audit Office (NAO). We are pleased that the NAO acknowledged the work that we, and other regulators, are doing to improve the way we define, measure and report our performance and have taken on board their recommendations about how we can do this better. The following pages demonstrate the initial steps we have taken to connect our work to clear and straightforward outcomes for customers and we will continue to build on this over the coming year.

I would like to take this opportunity to echo Jonson's sentiments and thank all of our colleagues at Ofwat for their ongoing enthusiasm, and the skills and knowledge that they have contributed over the past year. All of our people continue to show their passion and commitment to deliver the best possible outcomes for customers now and in the future.



**Rachel Fletcher**  
**Chief Executive**

## Performance summary – our year at a glance

# Customers



**84%**

Customer satisfaction (service incentive mechanism) increased from more than 82% to over 84%



**67%**

In 2017-18, the sector achieved 67% of performance commitments (68% in 2016-17 and 70% in 2015-16)

**400,000**



Priority service registers have grown steadily since 2015, to almost 400,000 customers registered in March 2018



**£120 million**

Thames Water agreed to pay £120 million in penalties, of which £65 million will be returned to customers through bill rebates from 2018-19 to 2021-22



**2,460**

We responded to 2,460 customer contacts and closed 10 cases



**£8 million**

Up to 31 March 2019, 9% of supply points switched retailer in the business retail water market. In the first year, customers saved £8 million and between 270 million and 540 million litres of water

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# Corporates acting in the public interest

In response to our 'Putting the sector in balance' statement, companies have taken steps to reflect our expectations on executive pay and dividend policy



**100%**

The Thames Tideway Tunnel project is now 100% funded, with much of the finance coming from 'Green Funds'



Trust in water companies has increased, from 7.33 in 2011 to 7.67 (out of 10) in 2017

# Value for money



For every £1 spent on Ofwat, customers save £10 (2015-20)

800,000



Almost 800,000 low-income customers signed up to water companies' financial assistance schemes to help reduce their bills, including social tariffs



For PR19, the overall bill reduction proposed across the sector is 5% before inflation between 2020 and 2025. Four companies are proposing real-terms bill reductions of more than 10%

## Resilience



**£105 million**

Water companies incurred automatic underperformance payments of £105 million. £80 million of this was for companies' failure to meet leakage, supply interruption and water quality performance commitments



**£30**

Most water companies have agreed to increase the Guaranteed Standards Scheme payments to £30 (from £20) for residential customers, for every 12 hours they are without water supply



No hosepipe bans, although summer 2018 was the joint hottest on record (according to the Met Office)



**29%**

External sewer flooding has reduced year-on-year since PR14, by 29% overall



**39%**

The industry has reduced the number of pollution incidents caused by the unexpected release of contaminants by 39% on average since 2015

# Performance analysis

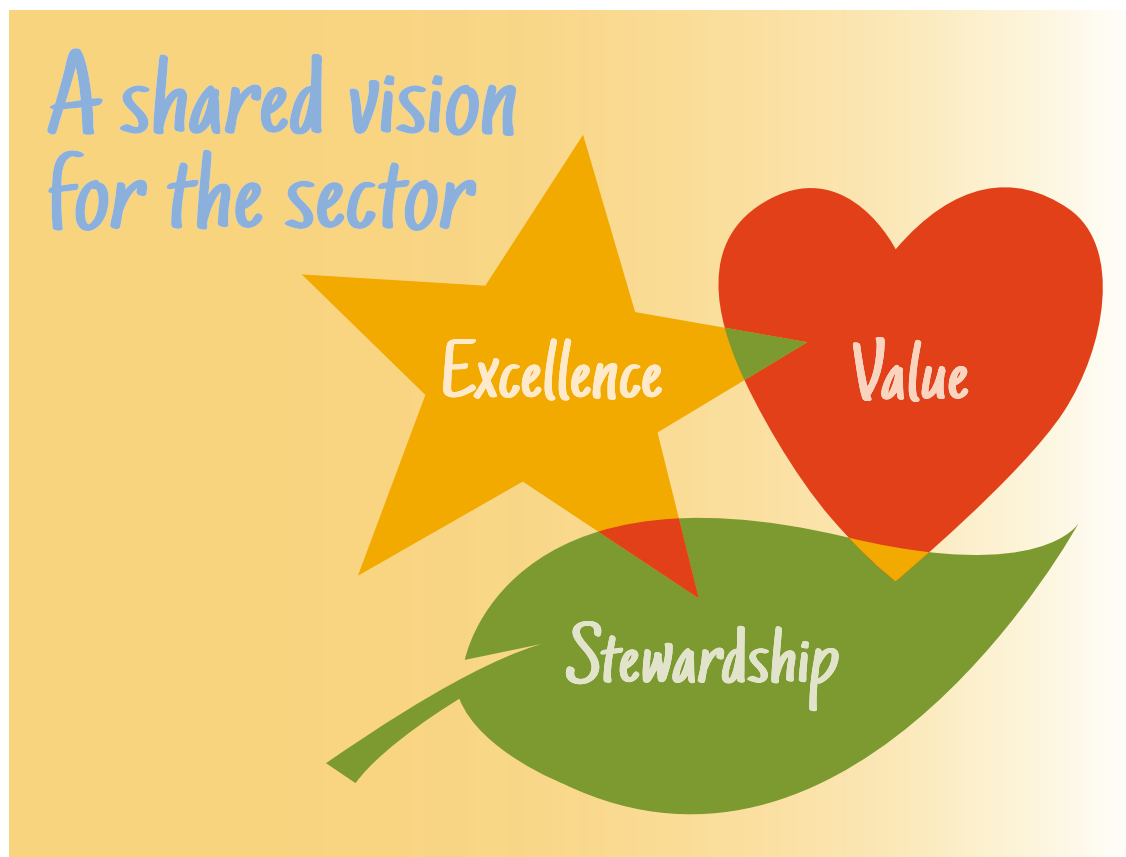
## Our 2018-19 performance

Ofwat is responsible for protecting the interests of water customers. We aim to be working at the leading edge, trusted and respected – challenging ourselves and others to build trust and confidence in water.

### Starting a conversation about a new vision and strategy

With the price review for the five-year period to 2025 concluding at the end of 2019, we are beginning to think about what priorities we should put in our work programme, the tools we should use and the kind of regulator we need to be from 2020 onwards. We have been working with Governments, regulators, consumer bodies and the water companies to set a shared vision for the water sector.

A new vision for the sector should express what we are all striving for, provide a basis for joint working and guide us through the challenges the sector is facing. We intend to publish the joint vision for the sector and our new strategy for Ofwat in autumn 2019.





## Delivering for customers – our strategic outcomes

In 2018 we agreed the key strategic outcomes that we expect our regulation of the water sector to deliver for customers. Each element of our portfolio of work contributes to one or more of these outcomes. These connections are explained in our [forward programme for 2019-20](#).

We have developed a set of measures to help us monitor and assess the impact we are having on these outcomes and will refine these further over the coming months. There are some areas where we still have gaps, either because of where this report falls in the regulatory cycle or because we are still progressing work to aggregate the appropriate data at a company or key indicator level. Improving this picture and utilising technology and data insights in new ways to achieve more meaningful and consistent indicators is a key part of our proposed future strategy and business planning.

As the new vision for the sector and Ofwat strategy is developed, we will keep checking that these remain the right strategic outcomes to focus on to demonstrate the impact of our work. Continual monitoring of relevant outcomes will help us to assess if we are achieving the impact that we need to.

## Demonstrating how our work delivers our strategic outcomes

To demonstrate how our outcomes and performance can be referenced to the different contexts of our work, we have used the following icons to show:

**Where the outcomes and performance we are reporting reflects work undertaken through our price review in 2014**



**Where what we are doing now is driving outcomes and performance**



**Where what we are doing now will drive outcomes and performance in the next price review period from 2020 onwards**





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

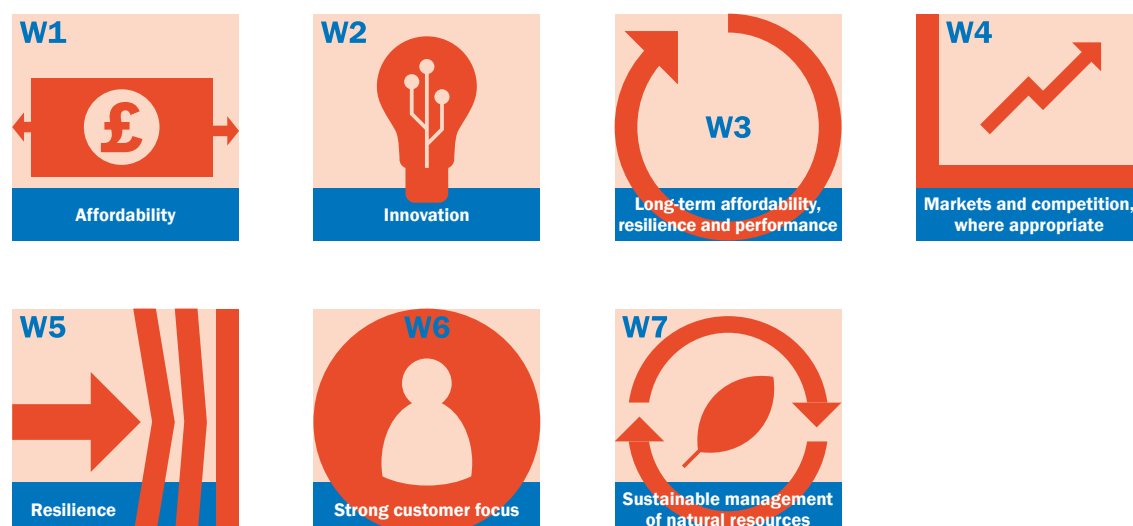
Under the Water Industry Act 1991, the UK and Welsh Governments may issue statements setting out strategic priorities and objectives for us. We are required to act in accordance with these statements when discharging relevant functions relating to companies wholly or mainly in England and Wales respectively. Updated strategic policy statements from the [UK](#) and [Welsh](#) Governments to Ofwat were finalised and came into effect during 2017-18. We are required to report annually on our compliance with their objectives and priorities, which we provide as part of this annual report.

This performance analysis sets out how our work during 2018-19 contributed to achieving these objectives and priorities. As they are strongly embedded across all our work, we consider that the best way of reflecting this is to refer to the priorities and objectives that each activity furthers in the detail of our performance below. We will use the following icons to show where our performance relates to meeting each theme.

### UK Government strategic priorities

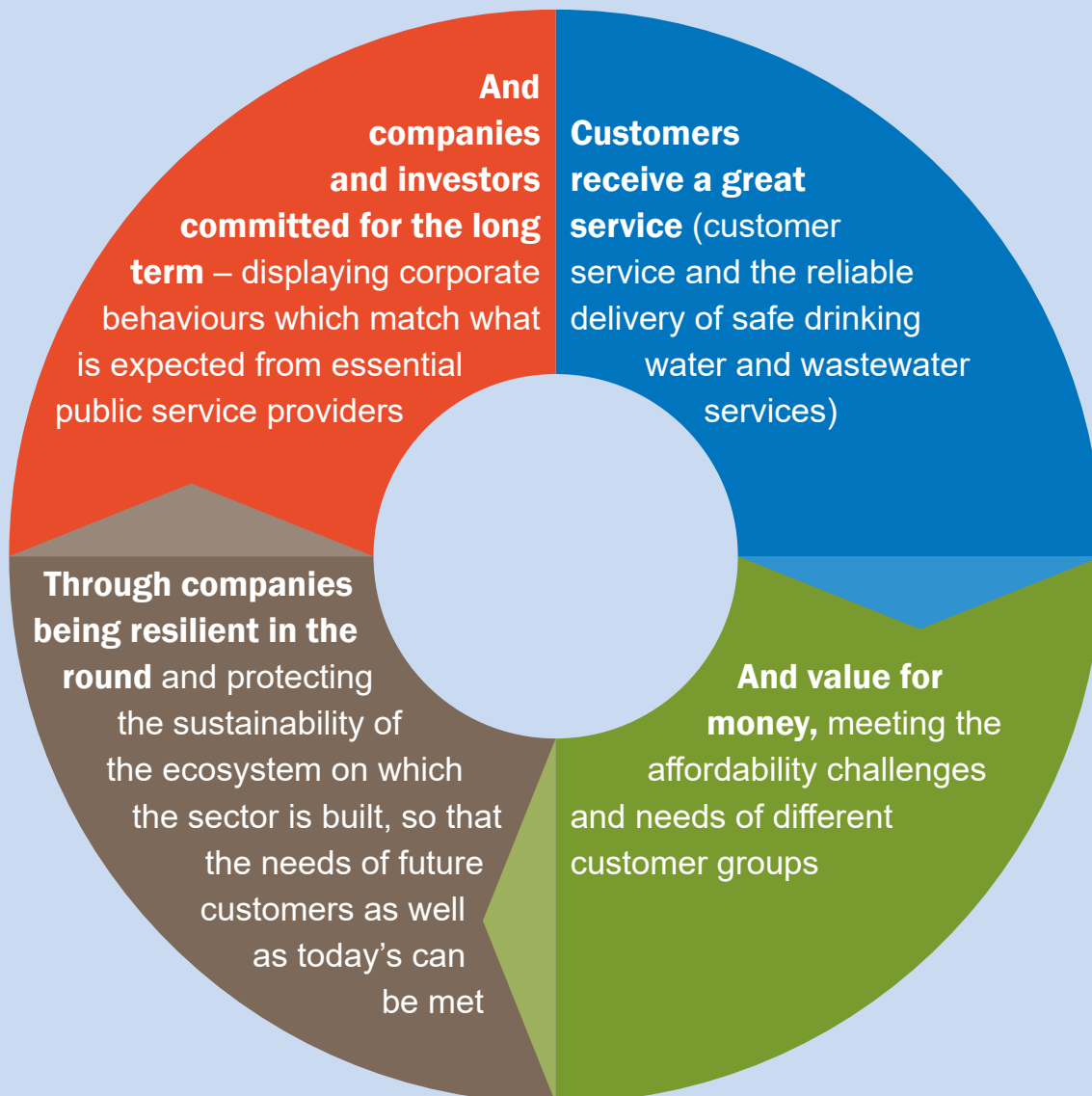


### Welsh Government strategic priorities



## Highlights of our performance

We are committed to achieving the following strategic outcomes for water customers.



## Customers receive a great service (customer service and the reliable delivery of safe drinking water and wastewater services)

Water and wastewater are essential services which we all rely on every single day. Householders cannot choose their water provider so as a regulator we play an important part in ensuring customers receive a great service from their water company.

Part of our role is understanding and listening to customers, so that we can develop our framework to serve their needs and those of future customers. We set certain standards that the water companies must achieve and provide incentives to drive improvements. Our price review process ensures that companies pay automatic rebates and compensation if they do not meet their price review commitments to customers. We will step in to protect customers if companies fail to meet their obligations, using all our tools.

### Better service for customers

PR14

Since 2015, we have seen an improvement in customer service and satisfaction. Complaints received by water companies have reduced by 12% and complaints received by the [Consumer Council for Water](#) (CCWater) by 15%.

Customer satisfaction, as measured by our Service Incentive Mechanism (SIM) metric, has increased from more than 82% to more than 84% in 2018-19.

In 2017-18, the sector met 67% of the stretching performance targets we set for them in 2014 – a small deterioration compared with 68% in 2016-17, and 70% in 2015-16. We do not expect all companies to meet these performance commitments all of the time, but companies automatically return money to customers where certain targets are not met.

Company performance results for 2018-19 will be published by 15 July 2019.

## Protecting vulnerable customers

Getting access to the support they need across multiple providers can be time consuming and stressful for customers in vulnerable circumstances. We require companies to know which customers will need special support in the event of disruption to water supply.



The number of customers on [priority service registers](#) (PSR), which focus on non-financial assistance in the industry, has been increasing steadily since 2015, with almost 400,000 customers on the register in March 2018.

PR14

## Sharing PSR data



Ofwat and other regulators in the UK Regulators Network (UKRN), produced a [joint report](#) that set out the progress companies had made in the pilot project for sharing PSR data between energy and water companies. The report sets out recommendations for regulators and companies on how to share vulnerability data effectively.

The following progress had been made:

- companies are working with diverse third party organisations, including charities, hospitals, food banks and local councils;
- some companies have increased vulnerability training for their staff, which has built trust and led to increased consent for data sharing; and
- plans to implement data sharing arrangements between the energy and water sectors by April 2020 are currently on track.

## Supporting customers with complaints

We provide information and support to customers, and we resolve certain disputes including about such matters as:

- new connections;
- the adoption of assets;
- water pressure;
- trade effluent; and
- damage caused by a water company carrying out work on private land.



The role of the Consumer Council for Water (CCWater) is to help customers with complaints about water companies. We get involved if we have a specific dispute resolution role by law.

In 2018-19, we responded to about 2,460 customer contacts and closed 10 cases. Please see 'Investigations we carry out' on page 125 for more information.



## Everyone has a story to tell about water

To help us do our job better and develop our strategy from 2020 onwards, we want to understand what water really means to people – how they use it every day, why it is important to them, the language they use to describe it and their personal stories about it.

In September we launched [Water Stories](#) to engage with customers across England and Wales. As well as going out on the road and interviewing customers face-to-face, we launched a microsite and encouraged people to engage with us on social media.

We reached more than 1.4 million people online and had 4,000 visits to the Water Stories microsite. We are now using this rich qualitative data to help us shape the future of water in England and Wales with the public voice at its heart.

## Holding water companies to account

We hold companies to account in England and Wales, through investigating poor performance and enforcing water companies' statutory and licence obligations. This allows us to take steps to protect customers and ensure companies and investors display the behaviours, including corporate behaviours, expected from essential public service providers.



## Thames Water investigation

In June 2018, our investigation found that Thames Water had breached two of its legal obligations through poor leakage management. The investigation concluded that Thames Water's Board and management did not pay enough attention to reducing leakage and that the company underestimated the significance of its underperformance on leakage.

We secured £120 million of payment penalties from Thames Water, of which £65 million will be paid to customers via bill rebates from 2018-19 to 2021-22. The remaining £55 million reflects automatic price review penalties Thames Water will incur under its PR14 price determination, which will be reflected in the level of customer bills in the 2020-25 period.

## Continuing to improve and develop the retail business market

Since April 2017, business, charity and public sector customers in England have been able to choose their water retailer. In July 2018, we published our first annual state of the business retail market report, ‘[Open for Business](#)’. This set out our assessment of the effectiveness of competition in the market’s first year, and our customer insight survey of eligible customers’ experiences of the market. In line with the Welsh Government’s policy on retail competition, these measures are not relevant to companies wholly or mainly in Wales.



### Open for business



From the opening of the business retail market to 31 March 2019, 9% of supply points (SPIDS) had switched retailer. So far the market has brought benefits to both those who have switched and those who have not.

We estimated that customers who switched or renegotiated in the first year (to 31 March 2018) saved:

- about £8 million from lower bills;
- approximately 270 million to 540 million litres of water through water efficiency measures from switching;
- time, from more convenient billing or better customer services – for example two-fifths of switchers who received consolidated bills said they saved money or saw other benefits.

However, progress over the year in expanding the benefits from this market has been slow. We will be working closely with the market operator, MOSL, and encouraging all market participants to address issues which are holding the market back, including cumbersome wholesaler-retailer interactions.

We aim to facilitate competition, innovation and choice in the business retail and developer services markets we regulate, to deliver improved customer outcomes around value for money, great customer service and a water and wastewater supply that is resilient and environmentally sustainable.

Through our market monitoring and policy work we identify where markets are not delivering for customers and consider what action may be needed, including through targeted action under the suite of [business retail market codes](#).

For example, in 2018-19 we:

- reviewed credit arrangements in the business retail market;
- consulted on protections for non-household customers on default tariffs; and
- launched a consultation on our appointments and variations (NAV) policy to increase competition in services for property developers.

## Improving licence processes

New entrants into markets help to promote competition and innovation. This can lead to better customer outcomes on value for money and customer service, and to improved water efficiency. Our thorough licence application process helps to ensure that companies that wish to enter markets demonstrate they have the managerial, financial and technical competency to do so.



In August 2018, in order to streamline the process of joining the market and make it easier for applicants to engage with, we published new application guidance for prospective new appointments and variations (NAV) and self-supply water supply and/or sewerage licence (WSSL) licensees. We clarified the information we require and the assessments we perform to give applicants a stronger basis on which to develop their applications. We also committed to processing applications faster.

### Changes to application processes



Over the year, we processed 40 NAV and WSSL (including self-supply licence) applications.

For NAV applications, we:

- reduced initial checks from 15 to five working days;
- reduced decision making from 110 to 85 working days; and
- amended the process to enable NAVs to submit combined applications for multiple sites.

For WSSL self-supply applications, we reduced decision making from 60 to 45 working days. See Appendix 2 page 121 for more information.

## And value for money, meeting the affordability challenges and needs of different customer groups

We directly control the prices that household customers pay for their water and wastewater services, through the price controls we set every five years. The current five-year period will end in March 2020. Our [price review 2019](#) (PR19) will enable, incentivise and encourage water companies to achieve more efficient ways of delivering services to customers from 2020.

### Cost savings to customers following PR14

PR14

Our efficiency challenge to companies in PR14 resulted in an estimated customer savings of at least £3 billion, compared with what water companies originally proposed in their business plans.

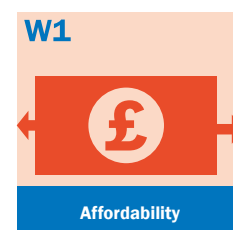
We anticipated half of that would materialise in 2015 to 2020 and the other half in the regulatory period of 2020 to 2025 – equating to savings of about £300 million a year.

Given that Ofwat's average annual budget is about £29 million, this means that through this intervention alone, our work saves customers £10 for every £1 that they spend to fund us.

## Making water affordable for all

Companies need to provide support to customers who are struggling to pay their water bills. Water and wastewater services must be affordable to customers overall, in the long term and for those struggling or at risk of struggling to pay.

In response to our [PR19 methodology](#), companies' [business plans](#) submitted in September 2018 already showed a step change in affordability for 2020-25, before the further challenge and scrutiny from our price review process. The overall proposed bill reduction across the sector, before inflation, was 5% between 2020 and 2025, with four companies proposing real bill reductions of more than 10%.



2020+

### Help for those in need

In 2018, nearly 800,000 low-income customers had signed up to water companies' [financial assistance schemes](#) that can help reduce their bills, including social tariffs.



**Through companies being resilient in the round** and protecting the sustainability of the ecosystem on which the sector is built, so that the needs of future customers as well as today's can be met

## Maintaining 'resilience in the round'

Customers expect reliable water and wastewater services that can avoid, cope with and recover from disruption. Water companies need to make the best short and long-term decisions about operations, maintenance and investment.

To do this they need the right information, systems, processes, governance and capabilities, as well as resilient balance sheets, cash flows and finances. They need to be resilient 'in the round'.



### Penalties through our last price review



As a result of the incentive mechanisms established in our last price review, we ensured that customers will be compensated for companies' failure to meet a range of targets.

In 2017-18, water companies incurred automatic penalties of £105 million. Most of those penalties – £80 million – were for companies' failure to meet leakage, supply interruption and water quality performance commitments. This money will be returned to customers.

Leakage decreased significantly in the first ten years after privatisation, but this trend has stalled since 2000. Last year, companies incurred penalties of more than £17 million for missing commitments on leakage, of which £13 million was incurred by Thames Water alone.

Company results for 2018-19 will be published by 15 July 2019.

Many companies' proposals on resilience in PR19 are backed up with improvements in performance commitments, such as reducing supply interruptions and improving asset health measures from 2020 onwards.

## Improvements where customers have seen benefits

PR14

The number of external sewer flooding incidents has reduced year-on-year since PR14, with an overall reduction of 29%. The number of pollution incidents caused by the unexpected release of contaminants has reduced by 39% on average across the industry. Many of those improvements are part of a longer-term trend. For instance, customers are eight times less likely to suffer sewer flooding and five times less likely to experience unplanned supply interruptions now than in the early 1990s.

## Challenging water companies on how they handle incidents and their customers



## Out in the cold



After the disruption caused by the ‘Beast from the East’ in late February 2018, we initiated a project to understand what happened, how the companies performed and what lessons the sector could learn. In June 2018 we published our review, ‘[Out in the cold: Water companies’ response to the ‘Beast from the East’](#)’.

One particular concern was that several companies appeared to act in isolation. There did not appear to be a common industry approach to preparation, sharing of information and best practice in key areas of emergency response.

[Companies responded](#) to this review and explained how they have and will continue to address the issues identified. We required four companies (Thames Water, Southern Water, Severn Trent Water and South East Water) to submit externally assured [detailed action plans](#).

[Water UK](#), the industry body for water companies agreed to co-ordinate work across the industry to tackle the issues. Their work has shown good progress, and we expect further progress in the coming year.

We have seen progress in the following areas.

- Companies are collaborating with more key partners, including resilience forums, local authorities and emergency services.
- Companies are collaborating with each other, showing a commitment to sharing best practice.
- Some companies have tested their approaches during the hot summer, incorporating the lessons they have learned since winter.
- Companies have increased their stocks of bottled water.

Companies must own this work, and push themselves to keep learning and do right by their customers.

## Ensuring customers are compensated when they do not get the service they are paying for

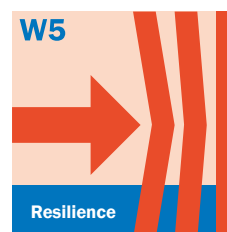
Our ‘Out in the Cold’ report found that the statutory [Guaranteed Standards Scheme](#) (GSS) for compensation is not fair, fast or free of hassle. We [published recommendations](#) to Defra and the Welsh Government on improvements that should be made to the GSS.



The proposed changes would significantly increase payments to residential customers – for example, we recommend a customer who does not have water for two days should receive £120, rather than the £80 they would currently receive. These recommendations received a positive response from consumer groups, and the majority of companies have agreed to implement our recommendations in full in 2019 or 2020.

## Environmental challenges

We worked with [Defra](#), the [Environment Agency](#) (EA) and [DWI](#) on responding to the [NIC recommendation](#) to improve the way the industry plans long-term water resources, including establishing a [National Framework for Water Resources](#). This involves promoting greater water efficiency and reducing wastage, and reducing the impact of water abstraction on the environment.



### Maintaining resilience

We support measures to maintain resilience. Following our initial assessment of company plans, we announced we would allow additional revenue to fund up to £360 million over the next price review period to help develop strategic water resources options.

This includes potential major new water resources in the South and South East of England and national transfers of water from the North West to the South East of England. This will enable companies to evaluate multiple options in more depth and ensure that they can take appropriate regional solutions forward in future investment plans.

We are creating a cross-regulatory team called 'RAPID' (Regulators' Alliance for Progressing Infrastructure Development) with the [Environment Agency](#) and the [Drinking Water Inspectorate](#) to facilitate large-scale regional and national water resources infrastructure projects. RAPID's work will be a key support in making the sector more resilient in the future.

We will work with the Welsh Government and other bodies to support appropriate planning for sustainable water resources in Wales.

## Financial resilience



We want companies to have clear and transparent structures that allow them to be financially resilient over the long term, enabling them to deliver sustainable services for customers now and in the future.

We have challenged companies on their complex ownership arrangements, and several have simplified their corporate structures this year. We considered the evidence companies provided on their long-term financial resilience in their business plans for 2020-25 and pushed them to increase the levels of transparency about their long-term assessment of financial resilience in business plan resubmissions and annual performance reports. Some companies have responded to our challenges and strengthened their balance sheets.

**And companies and investors committed for the long term – displaying corporate behaviours which match what is expected from essential public service providers**

It is important that companies maintain legitimacy and customer trust by setting high-level objectives for corporate behaviour, and that they are incentivised to focus on delivering for customers over the long term.

## Putting the sector in balance

Several companies have committed to share benefits from high gearing with customers. Most companies have confirmed they will apply our mechanism for sharing these gains; we have confirmed our intention to intervene where companies do not include mechanisms that deliver equivalent benefit to customers.

In response to our final methodology and ‘Putting the sector in balance’ position statement, companies have taken steps to reflect our expectations on executive pay and dividend policy. In our initial assessment of business plans, however, we found that companies needed to do more in these areas. Where companies fall short of our expectations, we will continue to challenge them to demonstrate that their policies on dividends and performance-related executive pay take appropriate account of with delivery for customers.



### Back in balance

2020+

In ‘Putting the sector in balance: position statement on PR19 business plans’ we set out our expectations for:

- highly-g geared companies to explain how they will share financing gains with customers;
- all companies to demonstrate their financial resilience; and
- all companies to align executive pay and dividend policies with delivery for customers.

## Investment levels

In 2017-18, companies spent approximately £9.25 billion improving services, improving resilience and protecting the environment, very close to what Ofwat anticipated at PR14 for that year in terms of total expenditure (data for 2018-19 is available in July 2019). In PR19, companies have proposed spending over £50 billion, although we anticipate that this figure will be reduced as we will challenge companies to deliver the same outcomes for less money. The work of the new RAPID unit will support well-targeted investment into the future.



## Trust levels

Trust in water companies has increased over the past seven years, from 7.33 in 2011 to 7.67 (maximum of 10) in 2017.

The trend is upwards in both England and Wales, although trust is significantly higher in Wales than in England (7.64 vs 8.16 respectively\*).

Water companies are still more trusted than energy companies (7.67 vs 7.24 respectively\*).

\* Source: CCWater ([Water Matters report – Household customer views report](#))

## Building London's 'super sewer'

The Thames Tideway Tunnel (TTT) will provide additional resilience to London's sewer network amid climate change and a growing population. The TTT will intercept, store and ultimately transfer sewage waste away from the River Thames, making it cleaner and improving the river habitat for wildlife.

The investment in infrastructure was split between Thames Water (about £1.4 billion) for preparatory works and Bazalgette Tunnel Limited (trading as Tideway) (about £3.4 billion in 2014-15 prices). The innovative TTT project funding model will ensure that the largest infrastructure project ever delivered by the privatised water industry will have a far lower impact on customers' bills than if delivered in the traditional way.



## Thames Tideway Tunnel funding

The TTT project is now 100% funded with much of the finance coming from 'Green Funds' which have strict environmental requirements. We continue to monitor the impact of the TTT on customer bills. The final cost to customers' annual bills is still within the £20 to £25 forecast in 2014-15 prices.

## Driving strong board leadership in water companies



Governance and leadership are critical factors in companies' ability to deliver excellent service and rise to long-term challenges. As part of our continued focus on corporate resilience, this year we met 28 non-executive directors before their appointment to ensure they understood clearly the special responsibilities of non-executive directors in regulated water companies.

In 2018-19 we reviewed our approach to board leadership, transparency and governance and introduced a [refreshed set of principles](#) that came into effect on 1 April 2019.

The revised principles focus on ensuring water company boards provide responsible business leadership that matches what is expected from essential public service providers. We plan to introduce a new condition into company licences that ensures we can hold companies to account for delivering the objectives of the new principles.



## Financial commentary

Our financial highlights are summarised below.

### Operating costs summary

**Table 1: Operating costs 2018-2019**

	2018-19 £000			2017-18 £000
	Core Regulation	Thames Tideway Project	Total	Total
<b>Income</b>				
Licence fees received	30,928	375	31,303	24,982
Other income	257	-	257	266
Credit note issued at end of year	-	(157)	(157)	(222)
	31,185	218	31,403	25,026
<b>Expenditure</b>				
Administration costs	(30,297)	(218)	(30,515)	(24,630)
<b>Net operating surplus</b>	<b>888</b>	<b>-</b>	<b>888</b>	<b>396</b>

### Core regulation budget

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

The core regulation operating budget set for the year, and included within our Estimate, was £31,185k. Our budget is set to meet our expected operational costs and includes a contingency to cover any unexpected requirements. At the end of the year we underspent by 2.8% against our core budget, which was broadly in line with our financial target.

The Board confirmed our core budget for 2019-20 at £36 million, which is an increase of 15% since 2018-19. This increase reflects most notably the funding required to complete the 2019 price review and new funds to establish a new team



focussed on facilitating the development of large scale regional and national infrastructure projects that will ensure secure water supplies into the future.

### **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 2018-19 was estimated at £500k. However, we only invoiced £375k of the licence fees at the beginning of the year. The underspend against budget arose because of lower utilisation of third party support than originally expected.

At the end of the year, we returned £157k of excess licence fees recovered to Thames Water Utilities Limited and Bazalgette Tunnel Limited by credit note. The budget for 2019-20 has been confirmed as £500k.

### **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 2018-19 was agreed at £170k. We had an underspend against our capital budget of £49k, part of which we held as contingency.

Our core budget for 2019-20 has been confirmed as £220k.

### **Provisions**

A provision has been made in relation to our Delivery Partner contract for their work on the PR19 Programme. Part of the payment for the work is based on performance criteria being met. If the performance milestones are met the payment will be due in December 2019 or early 2020.

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



**Rachel Fletcher**  
**Accounting Officer**

**17 June 2019**

## Sustainability

In terms of Ofwat's own approach to improving 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 183.98 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). The largest source of our emissions is electricity consumption, which accounts for 92.93 tonnes of CO<sub>2</sub>e (51% of the total). Business travel is responsible for 53.95 tonnes of CO<sub>2</sub>e (29% of the total). We do not have any direct (Scope 1) emissions.

**Table 2: Breakdown of annual greenhouse gas emissions by activity type for 2018-19**

Type of emissions	Activity	Units	(tCO <sub>2</sub> e)	% of total
Indirect energy (scope 2)	Purchased electricity (kWh)	328,280.15	92.93	50.5%
	<b>Subtotal</b>	<b>328,280.15</b>	<b>92.93</b>	<b>50.5%</b>
Other indirect emissions (scope 3)	Business travel (miles)	1,163,343.01	53.95	29.3%
	Flights (miles)	1780.00	0.85	0.5%
	Rail (miles)	1,152,655.30	50.99	27.7%
	Taxi (miles)	563.38	0.19	0.1%
	Motor mileage (miles)	6564.33	1.91	1.0%
	Car hire (miles)	-	-	0.0%
	Waste and water	142.14	3.78	2.1%
	Water use (m <sup>3</sup> )	123.01	0.13	0.1%
	Waste (tonnes)	19.14	3.65	2.0%
	Electricity T&D (kWh)*	328,280.15	22.88	12.4%
	WTT**	1,163,343.01	10.45	5.7%
	<b>Subtotal</b>	<b>2,652,438.33</b>	<b>91.06</b>	<b>49.5%</b>
<b>Total emissions (tCO<sub>2</sub>e)</b>		<b>183.98</b>		

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

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

## Carbon emissions

Our total carbon emissions have decreased by 20 tonnes of CO<sub>2</sub>e (10%) compared to 2017-2018. This is mainly due to a reduction business travel and a decrease in the emission factor for electricity. Figure 2 compares emissions for the last six years. Ofwat's overall emissions have decreased in 2018-19.

**Table 3: Year on year analysis of greenhouse gas emissions**

		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Type of emissions	Activity	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)
Indirect energy (scope 2)	Purchased electricity (kWh)	207.83	187.64	201.00	127.12	125.14	104.28	92.93
	<b>Subtotal</b>	<b>207.83</b>	<b>187.64</b>	<b>201.00</b>	<b>127.12</b>	<b>125.14</b>	<b>104.28</b>	<b>92.93</b>
Other indirect emissions (scope 3)	Business travel (miles)	58.55	71.98	60.49	48.36	79.81	56.33	53.95
	Flights (miles)	15.55	27.73	8.40	12.08	16.37	0.67	0.85
	Rail (miles)	37.04	37.46	46.84	30.36	57.21	51.24	50.99
	Taxi (miles)	1.00	1.43	0.74	0.68	0.40	0.31	0.19
	Motor Mileage (miles)	3.2	4.7	4.2	5.0	5.6	3.92	1.91
	Cars (miles)	1.69	0.66	0.27	0.25	0.25	0.18	0.00
	Waste and water	5.36	3.67	7.96	5.21	5.98	4.05	3.78
	Water use (m <sup>3</sup> )	0.97	0.96	0.92	0.25	0.15	0.15	0.13
	Waste (tonnes)	4.39	2.71	7.04	4.96	5.84	3.90	3.65
	Electricity T&D (kWh)*	32.12	28.81	32.92	20.82	20.49	27.93	22.88
	WTT**	27.24	26.95	28.53	19.42	24.57	11.32	10.45
	<b>Subtotal</b>	<b>123.27</b>	<b>131.42</b>	<b>129.90</b>	<b>93.81</b>	<b>130.86</b>	<b>99.63</b>	<b>91.06</b>
<b>Total emissions (tCO<sub>2</sub>e)</b>		<b>331.11</b>	<b>319.06</b>	<b>330.89</b>	<b>220.93</b>	<b>256.00</b>	<b>203.91</b>	<b>183.98</b>
	<b>Average FTE across reporting period</b>		<b>199.00</b>	<b>142.84</b>	<b>172.00</b>	<b>211.00</b>	<b>211.00</b>	<b>254.00</b>
	<b>Normalised emissions (tonnes of CO<sub>2</sub>e per FTE*)</b>		<b>1.60</b>	<b>2.32</b>	<b>1.28</b>	<b>1.21</b>	<b>0.97</b>	<b>0.72</b>

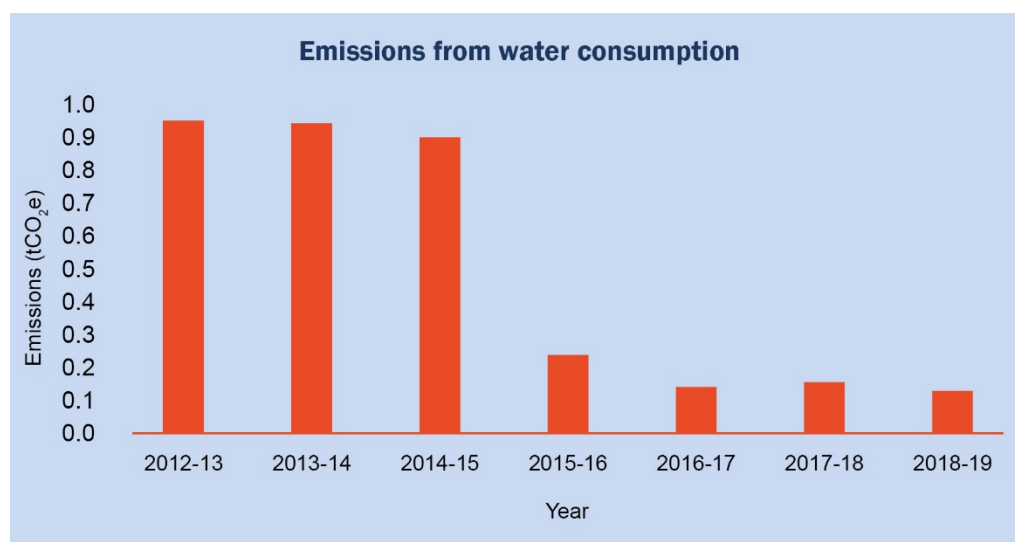
\*Transmission and distribution (T&D) are those emissions associated with grid losses (the energy loss that occurs in getting the electricity from power plant to the organisations that purchase it).

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

## Water

We used 123m<sup>3</sup> of water in our kitchen and toilet facilities, equivalent to 0.13 tonnes of CO<sub>2</sub>e in 2018-2019. This is a 16% decrease from the previous year. Water consumption at our London site was estimated based on consumption per FTE in the Birmingham office, which decreased compared to the previous year.

**Figure 1: Emissions from water consumption for the past six years**



## Waste

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

Recycled waste amounted to 13.4 tonnes, resulting in 0.29 tonnes of CO<sub>2</sub>e. Landfill waste has been estimated at 5.7 tonnes, resulting in 3.65 tonnes of CO<sub>2</sub>e. Waste figures at Ofwat's London site were estimated.

**Figure 2: Recycled waste for the past six years**

## Whistleblowing

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

As set out in the Prescribed Persons Order 2014<sup>1</sup>, Ofwat, as a Prescribed Person, has a responsibility to provide workers with a mechanism to make their public interest disclosure to an independent body, where the worker does not feel able to disclose the concern directly to their employer, and the Prescribed Person might be in a position to take some form of further action on the disclosure.

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

- a criminal offence;
- a breach of a legal obligation;
- a miscarriage of justice;
- a danger to someone’s health and safety;
- damage to the environment; and

<sup>1</sup> <http://www.legislation.gov.uk/ukxi/2014/2418>

- a deliberate attempt to conceal any of the above.

When we receive information from a worker in the water sector we will consider whether the information falls within the above definition of a qualifying disclosure and, if so, we will decide what, if any, further action or investigation is needed. This can include speaking to water companies, internal and external subject matter experts and the worker (if possible) to decide what, if any, steps we can take to resolve the issue or take the matter forward as appropriate. As a Prescribed Person, Ofwat has a duty to report annually on the number of qualifying disclosures made to us and a summary of the action taken in respect of these. This duty aims to increase transparency in the way that whistleblowing disclosures are dealt with and to reassure whistleblowers that their disclosures are taken seriously. This section of this Annual Report fulfils that duty for the 2018-19 reporting year.

The table below shows the number of qualifying disclosures made to Ofwat in 2018-19 and the resulting actions we have taken. Where disclosures and/or our initial enquiries do not provide sufficient evidence to warrant further action by us, we use the information as general intelligence about the sector and/or the company concerned. This enables us to monitor whether similar concerns are raised by others that could help build an evidence base sufficient for further action.

**Table 4: Number of qualifying disclosures made to Ofwat in 2018-19**

Metric	What is measured	Number
Whistleblowing	Number of qualifying disclosures of information made by water sector workers to Ofwat	10
	Number of qualifying disclosures where Ofwat took further steps to investigate the matter (these steps included taking internal subject matter expert advice on the issue and/or speaking with the worker making the disclosure to gather more information).	10
	Number of qualifying disclosures where Ofwat contacted the company concerned to seek further information and assurances regarding the matter.	9*
	Number of qualifying disclosures where, following its initial assessment Ofwat decided to open a formal investigation with a view to it taking enforcement or other regulatory action against the company concerned.	0

\* We're continuing to consider one qualifying disclosure where we as yet have not sought further information from the company.

# Part 2

**Our accountability report**

## **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.

### **Audit arrangements**

Our external auditor is the Comptroller and Auditor General (C&AG), who is appointed under statute and is required to audit our financial statements under the Government Resources and Accounts Act 2000, and report to Parliament on this examination. The notional cost of this audit service is £38,000 (2017-18: £38,000). 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.

Our internal audit service independently measures and audits the adequacy, reliability and effectiveness of management, risk management, and financial control systems. This is outsourced to Mazars LLP who were appointed as of 1 April 2018 through a competitive procurement process. The internal auditors make recommendations based on an appraisal of each system reviewed. The 2018-19 internal audit was performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

### **Protected personal data-related incidents**

We have an information and technology security policy and related procedures in place to manage the risks associated with protected personal data-related and other security incidents. These adhere to the HM Government Security Policy Framework



which sets out how all HM Government organisations and third parties handling HM Government information and other assets must apply protective security. We continually monitor the effectiveness of our policies to ensure we have a robust process in place for detecting, reporting, responding to and handling security incidents.

A breach of protected personal data is defined as “any circumstance that has arisen contrary to policy and that has the potential to compromise HMG assets”. Assets include people, property or information. The circumstance may include actions that are actual or suspected; accidental, deliberate or attempted. ‘Compromise’ is to bring the asset into disrepute or danger.

We have experienced no personal data incidents during 2018-19 that we considered sufficiently serious as to require the Information Commissioner to be informed, consistent with ICO guidance.

### **Supplier payment performance**

We achieved 84% against our target for paying 100% of agreed invoices within 30 days of receipt during the year. The corresponding figure for 2017-18 was 87%. We are reviewing internal procedures and working actively with suppliers to ensure that performance improves in 2019-20.

The Government set a target for paying 80% of agreed invoices within 5 days of receipt. In 2018-19, we achieved 11% against this target. The corresponding figure for 2017-18 was 13.7%. We will have difficulty in achieving this target given the size and resources required to undertake the frequency of payment runs that meeting the target would require. Nevertheless we are committed to paying suppliers promptly and we will work upon improving internal processes in order to make meaningful progress against this target.

### **Financial instruments**

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

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

**Rachel Fletcher**  
**Accounting Officer**

**17 June 2019**

## Statement of Accounting Officer's responsibilities

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

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofwat and 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 are 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 2018 to 31 March 2019 and, where appropriate, up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

#### **Scope of responsibility**

The Accounting Officer and Ofwat Board are responsible for maintaining corporate governance that supports the achievement of our strategy, while safeguarding public funds and departmental assets. 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 functions and duties are laid down by legislation, primarily the Water Industry Act 1991, as amended.

#### **Accountability**

Our Annual Report and Accounts are sent to the Department of Environment, Food and Rural Affairs, which lays copies before each House of Parliament, and to the Welsh Government, which lays copies before the Assembly. The Accounting Officer is responsible for ensuring that proper records are maintained, which disclose with reasonable accuracy, at any time, our financial position. In addition, the Accounting Officer 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 progressing the development of a Framework Agreement with Defra and are 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](#)').<sup>2</sup>

The governance statement sets out:

- a summary of the key elements of our governance framework;
- a review of our effectiveness in 2018-19; and
- the Accounting Officer's statement.

## Summary review of effectiveness and assurance

As Accounting Officer, I, along with Ofwat's Board, am responsible for reviewing the effectiveness of our performance management and internal control system, informed by both internal and external audit and the operation of the internal control framework. The Board and Audit and Risk Assurance Committee (ARAC) have 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 have full assurance on the maintenance of a comprehensive system of assurance and controls to support me as Accounting Officer to ensure compliance with the principles in Managing Public Money and in particular those in relation to governance, decision-making and financial management. 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 Committees, particularly 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 in the forward programme each year following consultation. This drives our work and, ultimately, each of our people's objectives. Directors, project managers and resource managers regularly review progress on programme and project plans. The Senior Leadership Team and Board review progress across our portfolio each quarter and adjustments are made where appropriate to reflect changes in the internal and

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<sup>2</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments>

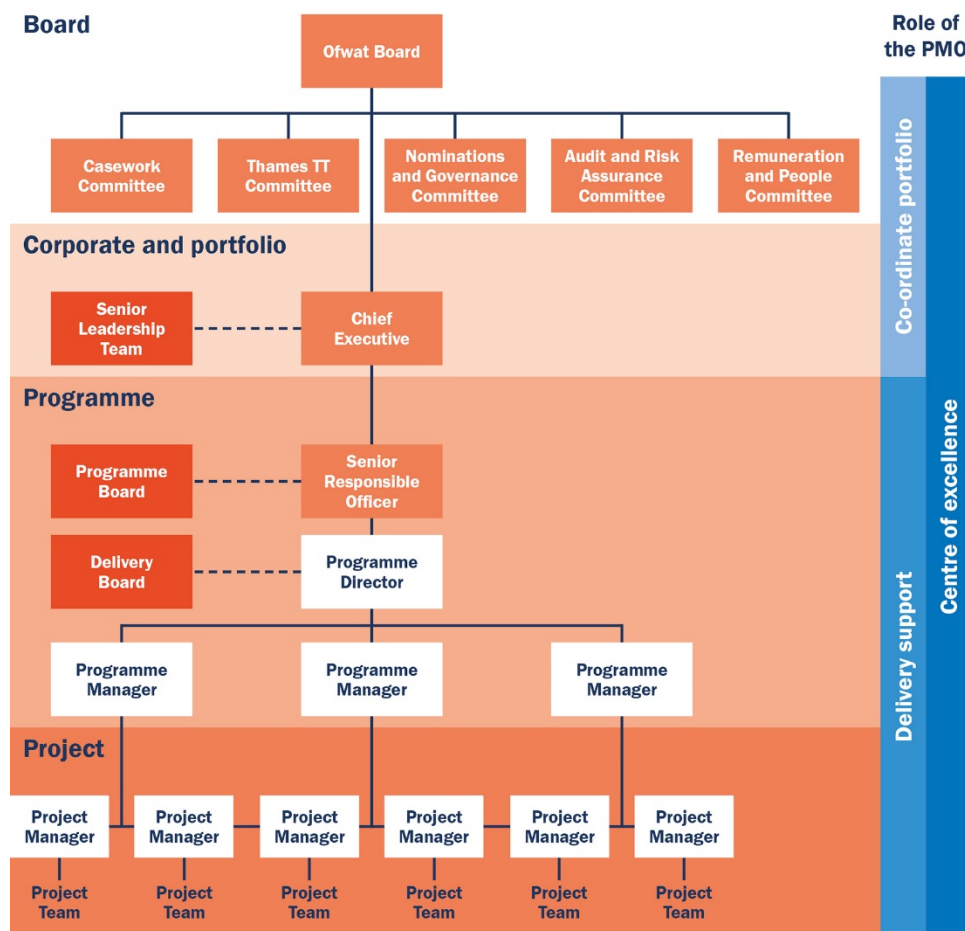
external environments, consistent with our duties. Our internal audit process reviews our controls, which cut across programme activity throughout the year, to provide assurance that those controls and the assurance we receive from them are effective throughout Ofwat. Mazars provided an assurance report at the end of the year on the basis of the internal audit programme agreed with ARAC. Progress against this programme was monitored by ARAC and internal audit assurance reports were shared with the Committee promptly.

In terms of our risks and opportunities environment, this is monitored closely through regular reviews of our strategic risk register by the Senior Leadership Team and through active management of 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 ARAC. Throughout the year I also received regular reports from our Senior Information Risk Owner (SIRO) on security (including information risks) and cyber risks, including input from our Data Protection Officer. The SIRO report is fully supported by the Security, Information and Assurance Group who meet regularly to discuss information, cyber or other security risks.

In addition, ARAC receives risk review presentations from strategic risk owners and on programme risks. A particular focus of the reviews by ARAC this year has been effective risk management of the PR19 programme, which is by far our biggest programme.

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

**Figure 3: Ofwat's governance framework**



## 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.

## Ofwat Board

As a non-Ministerial Government Department, the role of the Board is critical to our success. The Board, comprising a mix of Executive and Non-Executive members, help to guide us strategically and provide challenge and advice to the Chief

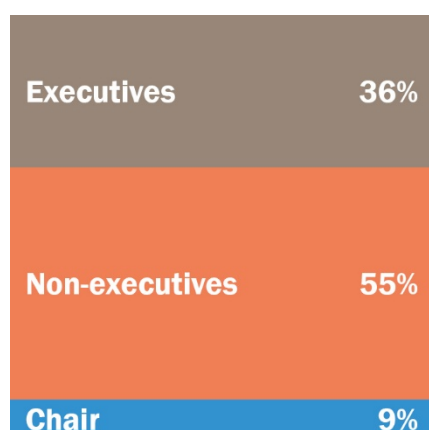
Executive and the executive team on their development and implementation of the strategy and our business plan and performance against that plan.

Ofwat's Board has a majority of independent Non-Executives with a Non-Executive Chairman. During 2018-19, the Board comprised six Non-Executive Directors in addition to the Chairman and four Executive Directors, including the Chief Executive.

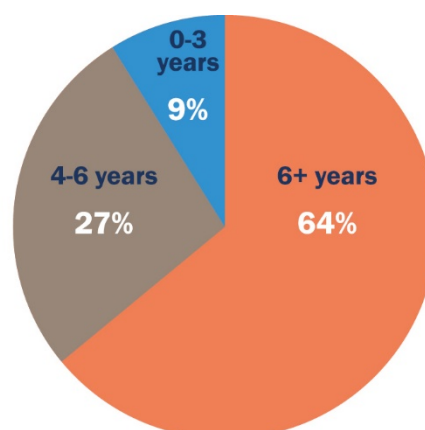
To strengthen the knowledge and skills mix of committee membership, we have an independent member on our Audit and Risk Assurance Committee.

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

**Figure 4: Board composition**



**Figure 5: Board length of service**



The Board provides:

- **Challenge:** the Board has a range of roles in providing challenge to the Executive in addition to its own decision-making role. This includes reviewing and challenging our business plan and performance against that plan, and providing challenge to proposed decisions Ofwat makes as a statutory body. In 2018-19 the Board played a key role in deciding on Ofwat's initial assessment of company business plans and focusing on strategic issues reserved to it, including matters that raised new major issues of principle or were considered particularly sensitive.
- **Expertise:** providing wider public and private sector expertise to help shape the development and delivery of Ofwat's 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. Towards the end of the year, the



Board worked with the Chief Executive in developing a new Ofwat strategy from 2020 onwards, on which we are currently seeking stakeholder views.

- **Support:** reviewing the comprehensiveness and reliability of assurances on the accuracy of the financial statements, setting Ofwat's risk appetite and ensuring that risk management and control processes across Ofwat are robust, appropriate and proportionate, supporting the Chief Executive, as Accounting Officer. The Board also provides assurance on the approval of material expenditure.

The Board does not have a role in day-to-day operational decision-making other than on matters reserved for the Board as set out in our [Board Rules of Procedure](#). The Rules of Procedure were revised and published on the [Ofwat website in June 2018](#).

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 twelve times in 2018-19 and received regular updates from business areas covering financial and operational 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.

## Register of interests

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

## 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

	<b>Audit and Risk Assurance</b>	<b>Remuneration and People</b>
<b>Roles and responsibilities</b>	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.	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.
<b>Chair</b>	<b>Alison Munro</b>	<b>Martin Lawrence</b>
<b>Issues covered</b>	During the period of this report, the Committee met five times. In May 2019, the Committee submitted its recommendation to the Board to approve the annual accounts. Other matters discussed by the Committee in 2018-19 included: <ul style="list-style-type: none"> <li>• regular deep dive reviews focusing on key strategic risks and programme risks;</li> <li>• governance and assurance of the PR19 programme;</li> </ul>	During 2018-19 the Committee met five times and focused on ongoing work led by the Business Improvement Programme. Matters discussed during 2018-19 included: <ul style="list-style-type: none"> <li>• the results of the Ofwat employee engagement survey and Pulse surveys;</li> <li>• management information relating to staff related issues and trends;</li> </ul>

	<b>Audit and Risk Assurance</b>	<b>Remuneration and People</b>
	<ul style="list-style-type: none"> <li>the results of a number of internal audit reports alongside a regular review of progress against the annual internal audit plan;</li> <li>a review of Ofwat's accounting policies and updates to its Anti-Fraud, Bribery and Corruption Policy and Whistleblowing Policy; and</li> <li>Regular reviews of our progress in implementing actions arising from internal and external audit and other reviews.</li> </ul> <p>All of the scheduled internal audit reviews were completed, as agreed by the Committee, with findings providing either substantial or adequate assurance (the latter reflecting that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control). Matters reviewed include:</p> <ul style="list-style-type: none"> <li>GDPR implementation;</li> <li>Core financial controls; and</li> <li>PR19 Risk Advisory review</li> </ul> <p>Overall for the 2018-19 financial year, Mazars have provided Moderate assurance of our systems of internal control, noting that all of their recommendations had been, or were in the process of being, addressed.</p>	<ul style="list-style-type: none"> <li>work on the People Strategy;</li> <li>pay and reward for the non-SCS and SCS pay remit; and</li> <li>the Senior Leadership Team draft objectives.</li> </ul>

	<b>Casework</b>	<b>Thames Tideway</b>	<b>Nominations and Governance</b>
<b>Roles and responsibilities</b>	The Casework Committee is responsible for making certain final decisions in strategic cases.	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, which is responsible for Ofwat's regulation of the project.	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.
<b>Chair</b>	<b>Catherine Waddams</b>	<b>Jonson Cox</b>	<b>Jonson Cox<sup>3</sup></b>
<b>Issues covered</b>	During the period of this report, the Committee met twice. Matters discussed by the Committee in 2018-19 included: <ul style="list-style-type: none"> <li>Making the final decision in the enforcement case against Thames Water and delegating finalisation of the final notice and undertakings to the Chief Executive.</li> </ul>	During the year the Committee met three times where they received updates on the Thames Tideway Project and discussed the project review. Decisions that were made included: <ul style="list-style-type: none"> <li>modifications to Thames Water's conditions of appointment;</li> <li>a number of delegations to Keith Mason, SRO for the Thames Tideway project, largely in relation to procurement matters; and</li> <li>other decisions required by Tideway's licence.</li> </ul>	The committee did not meet during 2018-19.

<sup>3</sup> Other than when dealing with matters relating to chairmanship of the Board.

## Board members' terms of appointment and committee attendance

**Table 5: Attendance at Board and sub-committee meetings from April 2018 to March 2019**

Board members*		Board Meetings (12)	Audit and Risk Assurance Committee Meetings (5)	Remuneration and People Committee Meetings (4)	Casework Committee Meetings (2)	Nominations Committee Meetings (0)	Thames Tideway Committee Meetings (3)
<b>Jonson Cox</b>		12/12	---	5/5	---	0	3/3
Chairman							
Term started	Term 2 ends						
01/11/2012	31/10/2020						
<b>Martin Lawrence</b>		12/12	---	5/5	2/2	0	---
Non-Executive Director							
Term started	Term 2 ends						
01/05/2013	30/04/2020						
<b>Catherine Waddams</b>		12/12	---	---	2/2	---	---
Non-Executive Director							
Term started	Term 2 ends						
01/05/2013	30/04/2021						
<b>Christine Farnish</b>		11/12	5/5	---	---	---	2/3
Non-Executive Director							
Term started	Term 2 ends						
01/01/2014	30/04/2020						
<b>Mark Bayley</b>		12/12	5/5	---	---	---	3/3
Non-Executive Director							
Term started	Term ends						
28/04/2016	27/04/2021						
<b>Alison Munro</b>		12/12	5/5	---	---	---	---
Non-Executive Director							
Term started	Term ends						
28/04/2016	27/04/2020						
<b>Tim Waggott</b>		12/12	---	5/5	---	0	---
Non-Executive Director							
Term started	Term ends						
28/04/2016	27/04/2020						
<b>Rachel Fletcher</b>		12/12	5/5	5/5	2/2	0	3/3
Chief Executive							
Term started	Term ends						
08/01/2018	06/01/2023						
<b>Aileen Armstrong</b>		12/12	---	---	---	---	---
Senior Director Finance and Governance							

Board members*		Board Meetings (12)	Audit and Risk Assurance Committee Meetings (5)	Remuneration and People Committee Meetings (4)	Casework Committee Meetings (2)	Nominations Committee Meetings (0)	Thames Tideway Committee Meetings (3)
Term started	Term ends						
16/05/2016	14/05/2021						
<b>John Russell</b>		11/12	----	----	----	----	----
Senior Director Strategy and Planning							
Term started	Term ends						
25/07/2016	23/07/2021						
<b>David Black</b>		12/12	----	----	----	----	----
Senior Director Water 2020							
Term started	Term ends						
29/05/2017	27/05/2022						

<b>Vanessa Howlison</b>		----	5/5	----	----	----	----
Independent Member							
Term started	Term 2 ends						
01/01/2015	31/12/2022						

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

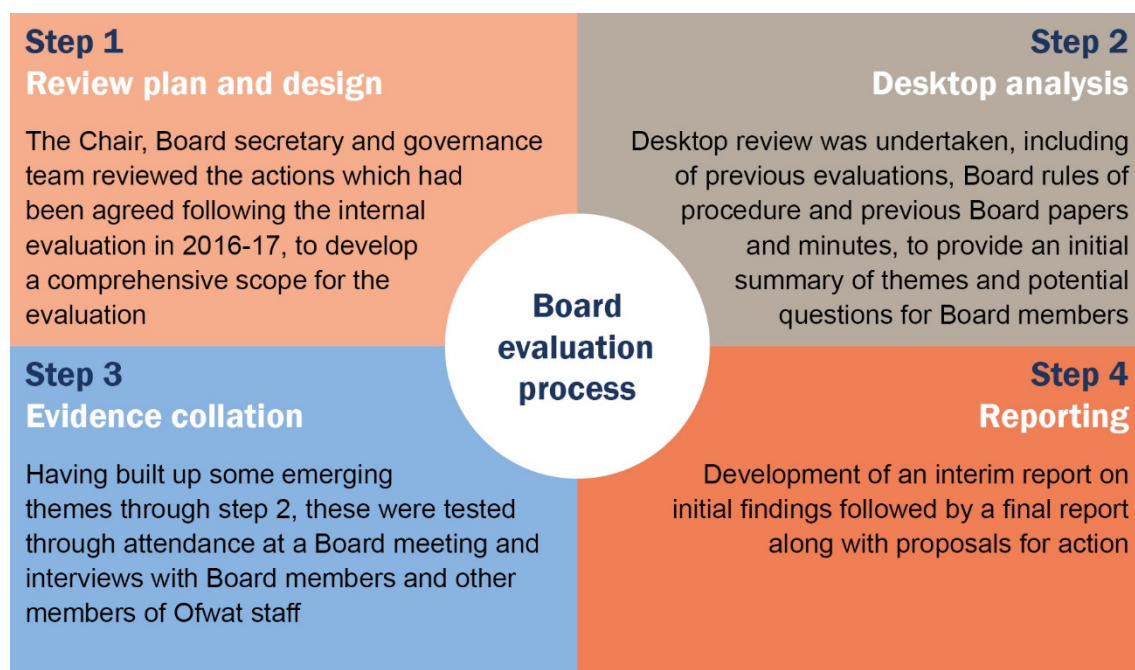
## Board effectiveness

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 throughout the year to enhance its cohesion as a team. Further to the survey of its effectiveness in 2016-17, the Board undertook a further formal assessment in 2018-19. Deloitte were commissioned to undertake an external Board effectiveness review.

Overall the review concluded that the Board was highly effective, with a clear focus on driving improvements within the sector. Many of the attributes of a high performing Board were evident throughout the review. Among the positive attributes identified were the strength, skills and cohesion of Board members and good levels of debate and contribution across the Board agenda. The review also suggested that to improve effectiveness further, the Board should consider how it can further clarify its role, the impact it wants to have, and the levels of agility required in order to oversee both the sector and Ofwat as an organisation; how space for broader

strategic debate can be made within the forward Board calendar; and how best to encourage all Board Members to confidently deliver their role across the breadth of the Board agenda.

### Board and committee evaluation process



### Senior Leadership Team

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

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

### Ensuring Ofwat has the right people, skills, systems, processes, culture and governance to deliver our strategy

We have improved our internal process and systems in a number of ways to enable us to be more efficient so we deliver value overall for water customers.

For example, we started implementing the Perform programme of work within our corporate services to optimise and shape the work that they do, how they do this work, and the tools they use. Alongside this, we improved business and operational planning to allow us to be more agile in allocating resources to match priorities and outcomes for water customers. This also helped to improve the alignment of our planning with our budget setting and monitoring work.

Internal relationships have also benefited from new ways of sharing information. This year we launched our new intranet, The Source, as well as implementing a new video conferencing solution. These changes allow us better collaboration between offices, pools and programmes as well as externally with our many partners/stakeholders. It also enables greater use of agile working practices to maximise the efficiency of our office estate and improve the working environment for our people.

Our annual Heartbeat survey advocacy score in December 2018 increased to +32 from +31 in May 2018. This is the highest score we have achieved in any of our Heartbeat or shorter and more frequent Pulse surveys for over two years. We continue to achieve strong engagement from our people in terms of their participation in our surveys and follow up work.

With fewer than 250 employees during 2017-18, we nevertheless have voluntarily chosen to publish our [gender pay gap](#) information for this year. Ofwat's approach to pay and reward supports the fair treatment of all our people irrespective of gender. As such, we are pleased to report some encouraging data from our analysis for 2017-18 which suggests we are moving in the right direction in terms of achieving gender equality in this area.

We continue to have success in attracting the skills we need as an organisation, including through our graduate scheme. This has been particularly important as this is a key year in our preparations for the 2019 price review. We also remain committed to a strong learning and development culture both in relation to our people's professional skills and their wider skills, with a continued focus on wellbeing. For more information, please see our Staff Report on page 75.

## **Risk management**

Our risk management framework is based on HM Treasury standard guidance in the [Orange Book](#). In July 2018, the Board conducted its annual strategic risk and opportunities review. This resulted in changes to our strategic risks and opportunities, and a full review of our risk appetite.



Our Senior Leadership Team oversees our response to the strategic challenges faced by Ofwat as a whole. A summary of these strategic risks follows. The SLT has responsibility for the strategic risks and opportunities, with a member of the SLT acting as an owner for each risk, nominating a responsible person for each of the mitigating actions. In addition individual programme risks can be escalated from programme directors to the SLT.

**Figure 6: Ofwat's risk framework**



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

**Figure 7: Assurance controls for risk management**

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

During the year we reviewed and updated our strategic and programme risks and opportunities to ensure we were appropriately managing those most likely to have a material impact on the delivery of our strategy and on the delivery of outcomes for customers. 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.

## Risk appetite

Our risk appetite is dynamic and is used as a guide for the Board's review of the effectiveness of risks and opportunities management. It is taken into account by anyone who is responsible for assessing and managing risks and taking decisions, whether at a strategic, portfolio, programme or resource pool level.

The Board regularly reviews our risk appetite and has agreed that Ofwat's risk appetite is generally 'Open'. This means that we are open to taking well thought through risks where the long-term rewards for customers are expected to be greater

than any short term negative impacts. Where we accept risks, we do so on an 'eyes wide open' basis, understanding the risks so that a judgement can be made.

Despite a generally open risk appetite, we expect our people to show maturity in their approach and to consider risk appetite on a case by case basis. For example, we have a minimalist appetite for risks that could cause significant damage to good customer outcomes and we do what we are reasonably able to do to mitigate the likelihood or impact of these things happening. We are not averse to taking risk ourselves (even to our reputation) if it looks like we can bring benefit or prevent harm to customers. We also take a minimalist approach to risks to our own efficiency, probity and standing as a well-run public body and as such we maintain good controls over matters such as spending and data handling, and we will not take unnecessary risks with the robustness of our analysis and policy making.

## Risk overview

Our success, and therefore our reputation, depends heavily on focusing on those things that will make the greatest difference for customers and on managing the delivery of these things well. This work can be challenging as it involves many uncertainties, both in taking decisions about which opportunities to pursue and in identifying and dealing with the many external and internal factors that could prevent us from achieving our strategic outcomes.

Our risk management is structured around identifying those risks that will impact most on delivery of these outcomes and targeting our activity accordingly. Through a focussed and effective management response, we can also ensure that we manage ourselves well in meeting our legal, financial, ethical and public accountability responsibilities.

The three broad areas of risks and opportunities on which we focussed throughout the year were as follows:

<b>Our regulatory approach</b>	<b>The way we work</b>	<b>External factors</b>
Whether our regulatory approach, framework and tools (including use of data) are fit for purpose and deliver in customers' short and long term interests.	We do not attract or have the right resource in place, nor the right level of resilience, to enable us to deliver Ofwat's strategic outcomes.	We do not lead our communications well enough or have the right relationships in place to create the narrative that allows us to influence and shape the agenda and are inadequately prepared to deal quickly and effectively with unexpected events.

## **Our regulatory approach**

We continue to consider proactively whether our regulatory approach, framework and tools are fit for purpose and deliver outcomes in customers' short and long term interests. It is also vital that we have the right information at our disposal and engagement to inform our work. 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 must continually explore what matters to customers and company performance, using those insights to reflect on how we regulate and prioritise the use of resources. Our lens looks beyond the short term issues of the day to longer term considerations including, for example, the need for the sector to continue to attract investment, and the long-term sustainability of assets and the environment. To address this we have ensured this risk is reflected in the full range of our work, from our assessment of companies' business plans in early 2019 and our approach to intervention on these plans, through to our revision of the board leadership, transparency and governance principles we have set out for water companies' boards, and our ongoing work on long-term financial and operational resilience.

## **The way we work**

If we are to be in a good position deliver outcomes for customers and discharge our responsibilities, it is vital that we are set up to operate efficiently and effectively with the right infrastructure, skills and people. We focus on mitigating potential risks to our resilience in terms of infrastructure and operations, e.g. our IT infrastructure, cyber security, physical estates and operational support, and being able to withstand external shocks to current plans (e.g. a new large piece of work, or a significant enforcement case, or a company failure).

Throughout the year we have focused on our people by ensuring we have effective ways of working in place with proportionate governance, enabling us to empower our people, manage risk and seek out opportunities, as well as to ensure compliance. During the year we have kept alert to any changes in how our people are feeling through various forms of engagement (e.g. the Pulse survey, Listening into Action sessions and more), working with our extended leadership team including our Directors, and through our resource management relationships. We remain proactive in addressing concerns where we can.

We continued to work in a flexible way to ensure we were 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 continually monitored this to ensure that they were not compromised and remained embedded, even at times of peak delivery.

We continued to review and embed our Governance Framework across the organisation, and carried on ensuring that effective delegations throughout Ofwat were in place and monitored. We also set up regular portfolio reviews to ensure our programme activity reflected our strategy and ensured effective prioritisation, as well as innovation in both our policy and enabling work.

## **External factors**

The landscape in which we operate is changing fast. This has never been plainer for the water sector than over the past year. Customer attitudes and expectations of water companies are changing and the sector is under increased scrutiny. Over the past year, the public debates about the ownership, cost and provision of water were accompanied by some important policy challenges and also opportunities to further our strategic objectives and improve customer outcomes. All of these will shape the work we do in the year ahead and are informing the development of our longer term strategy for the sector.

Our impact and effectiveness also rest on our ability to work through and with other stakeholders. Just as for water companies, effective collaboration in the face of the sector's strategic challenges is vital, as well as effective engagement in order to shape the future agenda and the priorities for action. We aim to ensure we have the right relationships in place to support and challenge our work, and to help us improve. This does not diminish the importance of our regulatory independence within suitably framed government strategic priorities.

In January 2018, Defra published its 25 Year Environment Plan, setting out a number of goals for the water sector, including reducing damaging levels of abstraction and supporting Ofwat's challenge to the sector to reduce leakage by at least 15% by 2025. This was followed in April by a stark warning from the Treasury-commissioned National Infrastructure Commission (NIC) about the risk of future supply shortages. The NIC called for a 'twin track approach' of creating additional infrastructure, such as a national water network, while achieving a significant reduction in demand. The pivotal importance of water transfers to increase supplies and resilience was highlighted also in the conclusions of the EFRA committee's inquiry into the regulation of the water sector published in September 2018. The Committee considered demand side measures as well, recommending that water

companies be given new powers to adopt compulsory metering outside water stressed areas.

To help us mitigate this risk we actively engaged with the NIC review of water and other utilities and undertook further work to establish a separate unit, with the participation of the EA and DWI, to support our work with the sector to overcome some of the regulatory, commercial and potentially institutional challenges to the development of regional infrastructure. We received funding from HM Treasury for this new unit (the “Regulators’ Alliance for Progressing Infrastructure Development” or RAPID), for the next financial year. Ongoing provision for RAPID will be a key component of our submission to the next Comprehensive Spending Review.

All of the above risks, issues and opportunities and our extensive work with customers, water companies, and other key stakeholders have informed the development of Ofwat’s proposed new vision for the sector and our medium term strategy, on which we continue to engage and seek views and new insights.

## **Information assurance**

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

We have a Senior Information Risk Owner, Senior Security Advisor (shared with other regulators within the Cluster Security Group<sup>4</sup>) and Deputy Security Advisor as well as Information Asset Owners for all of our programmes and pools. We have regular meetings of our Security and Information Assurance Group (SIAG) which provides governance of our security, information risk and information assurance measures. SIAG met three times during 2018-19.

An internal audit of Ofwat’s General Data Protection Regulations (GDPR) compliance was conducted in January 2019 and systems and processes were found to be adequate. The action plan to address residual issues identified will be progressed through 2019-20, and as at the start of the new financial year we have already made progress.

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<sup>4</sup> Ofgem, Ofqual, Ofsted and ORR

## Training and security

A number of largely minor incidents were reported in 2018-19 and the confidentiality of Ofwat data was not compromised. None of the reported issues required reporting to the Information Commissioner's Office.

To raise staff awareness we have continued to run training and awareness campaigns (e.g. increased communications regarding the need to protect Ofwat issued equipment over the Christmas period). We have updated our induction materials for new starters on security matters.

Our Departmental Security Health Check return in 2018, key elements of which were subject to internal audit, demonstrates we have robust systems and processes in place to manage our information and security recognising that there are some areas for improvement on which we are taking appropriate action. Ofwat has maintained its Cyber Essentials accreditation through 2018-19.

Under the Transforming Government Security Programme (TGSP), Ofwat has adopted free training and security services as well as the costed vetting service. Ofwat has also begun to implement a number of the free active cyber defence initiatives. As part of the migration off the .gsi domain, Ofwat is implementing 'MailCheck', a service that prevents malicious actors from impersonating Ofwat in emails. We hope to introduce 'WebCheck', a service to protect the corporate website, and Active DNS, a service to help protect against malicious links, over the next year.

We updated our Business Continuity Plan and Incident Management plan over the course of the year and conducted some testing of the revised plans. Further developments will continue into 2019 to test and refine these plans.

## Quality assurance of analytical models

We have well-established arrangements for the quality assurance of analytical models and we have continued to test and build on these arrangements during 2018-19. The key elements of our quality assurance arrangements are:

- **Standardised approach to excel modelling** – except in exceptional circumstances, Excel models are built following the FAST modelling Standard (flexible, appropriate, structured, transparent). This reduces the risk of error and makes the review of models easier. To date, over 45 staff have been trained in the FAST modelling standard.



- **Quality assurance manual** – a quality assurance manual based on modelling best practice is available to staff. This provides a central resource which provides advice on activities to ensure analytical quality, and provides tools and processes to ensure high quality modelling.
- **External review** – external review is an important part of our approach to quality assurance. We use advisors to carry out external audit or review of particularly important or contentious models. Where possible and feasible we publicly consult on the analytical models we use.

We will continue to look for opportunities to build on our quality assurance arrangements in 2019-20.

## **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.

To build on our data quality, this year we have reviewed and rationalised our management information to ensure we are efficient in the way we use data and that its use is effective across Ofwat.



## Accounting Officer's review of effectiveness

As Accounting Officer, I am personally responsible and accountable to Parliament for Ofwat as an organisation, its management, use of public money and stewardship of public assets. My review of the effectiveness of the system of internal controls was informed by assurance from Senior 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, 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, 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 undertook a review of a number of elements of our governance arrangements with a view to making them as streamlined as possible and ensuring they remained proportionate and fit for purpose. This did not lead to a fundamental review of our governance arrangements.



**Rachel Fletcher**  
**Accounting Officer**

**17 June 2019**

## 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
John Russell*°	Senior Director, Strategy and Planning
David Black*°	Senior Director, PR19
Aileen Armstrong*°	Senior Director, Finance and Governance
Emma Kelso°	Senior Director, Markets and Enforcement
Keith Mason°	Senior Director, Thames Tideway
Claire Forbes°	Senior Director, Corporate Communications
Lisa Commane°	Senior Director, Business Improvement
Alena Kozakova°	Chief Economist
Jenny Block°	General Counsel

\*Denotes Board member

°Denotes member of the Senior Civil Service

#### 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](http://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) and those agreed by the Cabinet Office.

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.

For the 2018-19 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 of 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 2018-19**

	Salary £000		Bonus payments £000		Benefits in kind £000 (to nearest £100)		Pensions benefits £000 (to nearest £1000)		Total £000	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
<b>Rachel Fletcher</b> Executive Director (from 8 January 2018)	160-165	35-40 (full year equivalent 160-165)	-	-	6.3	0.5	60	24	230-235	60-65
<b>Cathryn Ross</b> Executive Director (until 7 January 2018)	-	125-130 (full year equivalent 160-165)	-	-	-	5.3	-	45	-	175-180
<b>Jenny Block</b> General Counsel	120-125	120-125	10-15	15-20	5.1	2.0	48	48	185-190	185-190
<b>Alena Kozakova</b> Chief Economist	120-125	75-80 (full year equivalent 120-125)	-	-	-	-	48	30	165-170	105-110
<b>John Russell</b> Senior Director, Strategy and Planning	120-125	120-125	-	-	-	-	39	126	160-165	295-300
<b>Emma Kelso*</b> Senior Director, Customers and Casework (from 1 September 2017)	110-115 (full year equivalent 120-125)	65-70 (full year equivalent 120-125)	-	-	4.6	2.5	59	64	170-175	130-135
<b>Richard Khaldi</b> Senior Director, Customers and Casework (until 26 May 2017)	-	20-25 (full year equivalent 120-125)	-	-	-	1.1	-	7	-	25-30
<b>Aileen Armstrong*</b> Senior Director, Finance and Governance	90-95 (full year equivalent 120-125)	85-90 (full year equivalent 120-125)	-	-	4.4	4.8	28	84	120-125	175-180
<b>David Black</b> Senior Director, PR19	130-135	120-125	10-15	15-20	-	1.4	51	48	190-195	185-190
<b>Keith Mason</b> Senior Director, Thames Tideway	120-125	120-125	-	-	0.1	-	8	9	125-130	125-130
<b>Claire Forbes*</b> Senior Director, Corporate Communications	95-100 (full year equivalent 100-105)	90-95 (full year equivalent 100-105)	0-5	0-5	2.9	2.6	38	36	135-140	130-135
<b>Lisa Commene</b> Senior Director, Business Improvement	120-125	70-75 (full year equivalent 120-125)	10-15	-	2.5	2.4	49	28	185-190	100-105

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

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

	Salary £000		Benefits in kind £000 (to nearest £100)		Total £000	
	2018-19	2017-18	2018-19	2017-18	2018-19	2017-18
<b>Jonson Cox</b> Chairman	125-130	115-120	2.3	2.3	125-130	120-125
<b>Martin Lawrence</b> Non-executive Director	15-20	15-20	0.6	1.1	15-20	20-25
<b>Christine Farnish</b> Non-executive Director	15-20	15-20	0.9	0.3	15-20	15-20
<b>Catherine Waddams</b> Non-executive Director	15-20	15-20	1.4	1.3	20-25	20-25
<b>Alison Munro</b> Non-executive Director	15-20	15-20	0.5	0.6	15-20	15-20
<b>Mark Bayley</b> Non-executive Director	15-20	15-20	0.4	0.5	15-20	15-20
<b>Tim Waggott</b> Non-executive Director	15-20	15-20	1.6	1.4	20-25	20-25

The following information was subject to audit.

## Independent Members' remuneration

The following information was subject to audit.

**Table 7: Independent Members' remuneration 2018-19**

	Salary £000		Benefits in kind (to nearest £100)	
	2018-19	2017-18	2018-19	2017-18
<b>Martin Crouch</b> Independent Member, PR19 Board	10-15	-	-	-
<b>Vanessa Howlison♦</b> Independent Member	-	-	-	-

♦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.

## **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 2018-19 was £160,000 to £165,000 (2017-18: £160,000 to £165,000). This was 3.6 times (2017-18: 3.4 times) the median remuneration of the workforce, which was £48,785 (2017-18: £48,406).

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 2017-18.

## Senior managers' pension benefits

The following information was subject to audit.

**Table 8: Senior management remuneration 2018-19**

	Accrued pension at age 65 at 31 March 2019 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31 March 2019 £000	CETV at 31 March 2018 £000	Real increase in CETV £000
<b>Rachel Fletcher</b> Chief Executive	35-40	2.5-5	684	557	56
<b>Jenny Block</b> General Counsel	5-10	2.5-5	91	50	26
<b>Alena Kozakava</b> Chief Economist	5-10	2.5-5	76	40	20
<b>John Russell</b> Senior Director, Strategy and Planning	35-40 lump sum:- 90-95	0-2.5 lump sum:- 0	642	544	16
<b>Emma Kelso</b> Senior Director, Customers and Casework	25-30	2.5-5	387	302	32
<b>Aileen Armstong</b> Senior Director, Finance and Governance	30-35 lump sum:- 70-75	0-2.5 lump sum:- 0	507	427	11
<b>David Black</b> Senior Director, PR19	15-20	2.5-5	213	154	25
<b>Keith Mason</b> Senior Director, Thames Tideway	35-40 lump sum:- 110-115	0-2.5 lump sum:- 0-2.5	895	838	9
<b>Claire Forbes</b> Senior Director, Corporate Communications	10-15	0-2.5	145	104	19
<b>Lisa Commene</b> Senior Director, Business Improvement	0-5	2.5-5	45	14	19

Cash Equivalent Transfer Value (CETV), 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 2018-19 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 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](http://www.civilservicepensionscheme.org.uk).

## **Cash Equivalent Transfer Value**

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

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

## **Real increase in CETV**

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

## Staff report

**Table 9: Analysis of Ofwat's staff costs for 2018-19**

The following information was subject to audit:

	2018-19 £000				2017-18 £000
	Permanently employed staff	Other staff	Non-exec directors	Total	Total
Wages and salaries	13,099	997	241	14,337	11,852
Social security costs	1,588	-	25	1,613	1,307
Other pension costs	2,733	-	-	2,733	2,385
Other staff costs	-	-	-	-	-
<b>Sub Total</b>	<b>17,420</b>	<b>997</b>	<b>266</b>	<b>18,683</b>	<b>15,544</b>
Less recoveries in respect of outward secondments	(257)	-	-	(257)	(247)
<b>Total net costs</b>	<b>17,163</b>	<b>997</b>	<b>266</b>	<b>18,426</b>	<b>15,297</b>

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

## Pension contributions

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

The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation <http://www.civilservicepensionscheme.org.uk>.

For 2018-19, employers' contributions of £2,675,585 were payable to the PCSPS (2017-18 £2,278,026) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands.

The Scheme Actuary usually reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 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 £43,574 (2017-18: £90,634) 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 £3,876, 0.5% of pensionable pay (2017-18: £2,986), 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.

**Table 10: Average number of whole-time equivalents**

The following information was subject to audit.

	2018-19				2017-18
	Permanently employed staff	Other staff	Non-exec directors	Total	Total
Business Improvement	44.07	1.96	0.16	46.19	-
Communications Hub	7.63	0.24	0.16	8.03	-
Compliance and Assurance	-	-	-	-	29.50
Finance and Governance	18.73	-	0.16	18.89	22.68
Fit for the Future	-	-	-	-	18.20
Market Outcomes and Enforcement	32.30	2.42	0.16	34.88	33.22
PR19	112.19	0.84	0.16	113.19	-
Strategy and Planning	-	-	-	-	26.31
Strategy Hub	13.23	0.59	0.16	13.98	-
Water 2020	-	-	-	-	76.46
Thames Tideway Project Regulation	2.91	-	0.16	3.07	3.65
<b>Total</b>	<b>231.06</b>	<b>6.05</b>	<b>1.10</b>	<b>238.21</b>	<b>210.02</b>

## Civil Service and other compensation scheme exits

There have been no redundancy or other departure costs paid in 2018-19 (2017-18 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 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 2019**

	Number of arrangements
Existing at 31 March 2019	5
Existed for less than one year at the time of reporting	5

**Table 12: New off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019 for more than £245 per day and that last for longer than six months**

	1 April 2018 to 31 March 2019
Number of new engagements for more than £245 per day and that last longer than 6 months	5
Of which:	
number assessed as being caught by IR35	5
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 2018 and 31 March 2019**

	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	17

## **Consultancy expenditure**

Our expenditure on other consultancy and professional services in 2018-19 was £6.4m, per note 4 of the accounts (2017-18: £3.9m). 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 services support to obtain access to specialists who provide professional or legal advice in relation to the delivery of our portfolio of work, as well as those that provide specialist delivery support where it is not economic to maintain this expertise in-house.

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

## **Sickness absence**

Our policy is to reduce employee absence and we rely on early intervention by our Resource Managers conducting a return to work interview after each period of absence to mitigate and manage this effectively. Resource 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.

Wellbeing Works 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)**

<b>2018-19</b>				<b>2017-18</b>		
	<b>Short term</b>	<b>Long term</b>	<b>Total</b>	<b>Short term</b>	<b>Long term</b>	<b>Total</b>
Days lost	465	1664	2,129	377	636	1,013
Average working days lost per person			8.58			4.4

A long-term absence is any absence running over a consecutive period of 14 working days or more. Our sickness absence figures are above the Civil Service average of 5.9 working days lost per person. This is due to an increase in long term absence, some of which is critical illness. The impact of a few instances of longer term absence will be more pronounced given that we are a small organisation.

## Employee involvement

Learning and development continues to be a focus for us and we have further developed our offering for Resource Managers by providing two sessions; ‘RM and PM as Coach’ and ‘Employee Relations essentials for RMs’. We are currently commissioning a series of further masterclasses to be delivered by ACAS, around ‘managing performance and absence’, ‘wellbeing and resilience’ and ‘Delivery and Development Conversations (DDCs) and objective setting’ to be delivered on a needs basis rather than a blanket approach. It was good to see that we are scoring well in comparison to other Civil Service organisations with respect to learning and development. Our last Pulse survey saw over two-thirds of our people saying they have access to the right learning and development activities and we rank in the 90th percentile for this area.

We are also focusing on our Director population with a range of leadership interventions to strengthen the management and leadership skills of this group and also some bespoke interventions such as ‘Leading through People’. We have also invested in development for our SLT, focusing on coaching and Steve Radcliffe’s leadership module ‘Future, Engage, Deliver.’

For the fourth 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.



Our Ofwat Learning Framework continues to embed and grow, with our Ofwat Essentials training programme consisting of 14 modules; covering a variety of areas including ‘performance and monitoring’, ‘legislation and licences’ and ‘vulnerable customers’. Our ‘giving and receiving feedback’ workshops are still ongoing and we also continue to be an active participant in the regulator mentoring network programme with a good level of interest shown. We also now have our own internal coaching cohort consisting of seven trained individuals, which is to be launched in Q1 of 2019-20.

## **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:

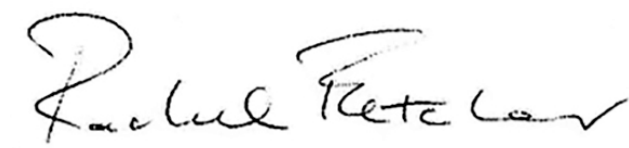
- race;
- sex;
- sexual orientation;
- age;
- marital status;
- disability;
- religion and belief;
- gender reassignment;
- pregnancy and maternity; or
- working pattern.

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 50 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 8, on page 137.

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

**Rachel Fletcher**  
**Accounting Officer**

**17 June 2019**

## Parliamentary accountability and audit report

### Statement of Parliamentary Supply

#### For the 12 months ended 31 March 2019

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.

**Table 15: Summary of resource and capital outturn 2018-19**

	2018-19 £000								2017-18 £000
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-voted	Total	Voted	Non-voted	Total		Total
<b>Departmental Expenditure Limit</b>									
- Resource	SOPS1.1	141	-	141	(888)	-	(888)	1,029	(396)
- Capital	SOPS1.2	170	-	170	121	-	121	49	338
<b>Annually Managed Expenditure</b>									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
<b>Total Budget</b>		<b>311</b>	-	<b>311</b>	<b>(767)</b>	-	<b>(767)</b>	<b>1,078</b>	<b>(58)</b>
Total Resource		141	-	141	(888)	-	(888)	1,029	(396)
Total Capital		170	-	170	121	-	121	49	338
<b>Total</b>		<b>311</b>	-	<b>311</b>	<b>(767)</b>	-	<b>(767)</b>	<b>1,078</b>	<b>(58)</b>

The variance between outturn and estimate on our resource Departmental Expenditure Limit (DEL) relates to unrequired contingency budget, part of 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 and was partly 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 31.

**Table 16: Net cash requirement 2018-19**

<b>2018-19 £000</b>				<b>2017-18 £000</b>
<b>Note</b>	<b>Estimate</b>	<b>Outturn</b>	<b>Outturn compared with Estimate: saving/ (excess)</b>	<b>Outturn</b>
SOPS3	<b>2,313</b>	<b>(878)</b>	<b>3,191</b>	<b>1,269</b>

The variance between outturn and estimated net cash requirement is £3.19 million. During the year we only drew £0.31 million as cash from the Consolidated Fund for settlement of 2017-18 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 2018-19**

The £0.14 million 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 97 to 116 form part of these accounts.

## SOPS1: Net Outturn

For the 12 months ended 31 March 2019

### SOPS1.1: Analysis of net resource outturn by section

	2018-19 £000										2017-18 £000
	Outturn							Estimate			Total
	Administration			Programme			Total	Net total compare to Estimate	Net total compared to Estimate, adjusted for virements		
	Gross	Income	Net	Gross	Income	Net					
Spending in Departmental Expenditure Limit Voted:											
A	30,515	(31,403)	(888)	-	-	-	(888)	141	1,029	1,029	(396)
Total	30,515	(31,403)	(888)	-	-	-	(888)	141	1,029	1,029	(396)

Section A - Water Services Regulation Authority.

### SOPS1.2: Analysis of capital outturn by section

	2018-19 £000						2017-18 £000
	Outturn			Estimate			Total
	Administration			Net total	Net total compare to Estimate	Net total compared to Estimate, adjusted for virements	
	Gross	Income	Net				
Spending in Departmental Expenditure Limit Voted:							
A	121	-	121	170	49	49	338
Total	121	-	121	170	49	49	338

Section A - Water Services Regulation Authority.

The notes on pages 97 to 116 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 2019

	2018-19 £000			
	Note	Estimate	Outturn	Net total outturn compared with estimate; saving (excess)
<b>Resource Outturn</b>	SOPS1.1	141	(888)	1,029
<b>Capital Outturn</b>	SOPS1.2	170	121	49
<b>Accruals to cash adjustments:</b>		2,003	(111)	2,114
of which:				
Adjustments to remove non-cash items:				
Depreciation	4	(360)	(253)	(107)
New provisions and adjustments to previous provisions	4	(140)	(966)	826
Other non-cash items	4	(30)	(38)	8
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables	10	-	(61)	61
(Increase)/decrease in payables	11	2,390	1,017	1,373
Use of provisions	13	143	190	(47)
<b>Net cash requirement</b>		<b>2,313</b>	<b>(878)</b>	<b>3,192</b>

## SOPS4: Income payable to Consolidated Fund

For the 12 months ended 31 March 2019

	Note	2018-19 £000		2017-18 £000	
		Outturn		Outturn	
		Income	Receipts	Income	Receipts
Excess cash surrenderable to the Consolidated Fund	9	1,191	1,191	-	-
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
<b>Total income payable to the Consolidated Fund</b>		<b>1,191</b>	<b>1,191</b>	<b>-</b>	<b>-</b>

The notes on pages 97 to 116 form part of these accounts.

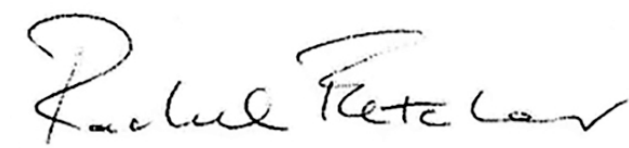
## **Parliamentary Accountability Disclosures**

The following information was subject to audit.

We do not have anything to report for 2018-19 in respect of:

- losses and special payments;
- fees and charges disclosures;
- remote contingency liabilities; or
- long-term expenditure trends.

The notes on pages 97 to 116 form part of these accounts.

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', is positioned above the printed name and title.

**Rachel Fletcher**  
**Accounting Officer**

**17 June 2019**

## **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 Regulation Services Authority (Ofwat) for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: Ofwat'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 Ofwat's affairs as at 31 March 2019 and of Ofwat's Comprehensive net expenditure 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 2019 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.



## **Basis 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 Regulation Services 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.

## **Conclusions relating to going concern**

We are required to 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 Ofwat's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

## **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 Ofwat's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated 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 Ofwat 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 Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Report**

I have no observations to make on these financial statements.

**Gareth Davies**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SP**

**19 June 2019**

# Part 3

**Financial statements**

## Statement of Comprehensive Net Expenditure

For the 12 months ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Licence fees		(31,146)	(24,760)
Miscellaneous		(257)	(266)
<b>Total operating income</b>		<b>(31,403)</b>	<b>(25,026)</b>
Staff costs	3	18,683	15,544
Purchase of goods and services	4	9,704	7,935
Rental costs	4	871	812
Depreciation and impairment charges	4	253	220
Other non cash	4	1,004	119
<b>Total operating expenditure</b>		<b>30,515</b>	<b>24,630</b>
<b>Net income for the 12 months ended 31 March 2019</b>		<b>(888)</b>	<b>(396)</b>
<b>Other comprehensive net expenditure</b>			
Items which will not be reclassified to net operating costs:			
Actuarial (gain)/loss on pension scheme liabilities	13.3	7	(151)
<b>Comprehensive net expenditure for the 12 months ended 31 March 2019</b>		<b>(881)</b>	<b>(547)</b>

The notes on pages 97 to 116 form part of these accounts.

## Statement of Financial Position

As at 31 March 2019

	Note	31 March 2019 £000	31 March 2018 £000
<b>Non-current assets:</b>			
Property, plant and equipment	5	858	987
Intangible assets	6	2	5
Trade & other receivables	10	-	3
<b>Total non-current assets</b>		860	995
<b>Current assets:</b>			
Trade & other receivables	10	490	548
Cash and cash equivalents	9	1,191	241
<b>Total current assets</b>		1,681	789
<b>Total assets</b>		<u>2,541</u>	<u>1,784</u>
<b>Current liabilities:</b>			
Trade and other payables	11	(4,695)	(4,762)
Provisions	12	(900)	-
<b>Total current liabilities</b>		(5,595)	(4,762)
<b>Total assets less current</b>		<u>(3,054)</u>	<u>(2,978)</u>
<b>Non-current liabilities:</b>			
Provisions	12	-	-
Pension liabilities	13	(2,547)	(2,664)
Other payables	11	-	-
<b>Total non-current liabilities</b>		(2,547)	(2,664)
<b>Total assets less total liabilities</b>		<u>(5,601)</u>	<u>(5,642)</u>
<b>Taxpayers' equity and other reserves:</b>			
General Fund		(5,601)	(5,642)
Revaluation Reserve		-	-
<b>Total equity</b>		<u>(5,601)</u>	<u>(5,642)</u>



**Rachel Fletcher**  
Accounting Officer

**17 June 2019**

The notes on pages 97 to 116 form part of these accounts.

## Statement of cash flow

	Note	2018-19 £000	2017-18 £000
<b>Cash flows from operating activities</b>			
Net operating income		888	396
Adjustments for non-cash transactions	4	1,257	339
(Increase)/decrease in trade and other receivables	10	61	71
Increase/(decrease) in trade payables	11	(67)	(1,592)
Less movements in payables relating to items not passing through the Comprehensive Statement of Net Expenditure		(856)	(3)
Use of provisions	13	(190)	(198)
<b>Net cash (inflow)/outflow from operating activities</b>		<b>1,093</b>	<b>(987)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(121)	(333)
Purchase of intangible assets		-	(5)
Net movement in capital receivables (payables)		(95)	55
<b>Net cash outflow/(inflow) from investing activities</b>		<b>(216)</b>	<b>(283)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - current year		313	1,510
Advances from the contingencies fund		6,000	5,000
Payments to the contingencies fund		(6,000)	(5,000)
Capital element of payments in respect of finance leases		-	1
<b>Net financing</b>		<b>313</b>	<b>1,511</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
		1,191	241
Receipts due to the Consolidated Fund which are outside the scope of the Departments activities		-	-
Payment of amounts due to the Consolidated Fund		(241)	(293)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>950</b>	<b>(52)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	9	<b>241</b>	<b>293</b>
<b>Cash and cash equivalents at the end of the period</b>	9	<b>1,191</b>	<b>241</b>

## For the 12 months ended 31 March 2019

The notes on pages 97 to 116 form part of these accounts.



## Statement of changes in taxpayers' equity

### For the 12 months ended 31 March 2019

	Note	General Fund £000	Total Reserves £000
<b>Balance at 1 April 2017</b>		(7,496)	(7,496)
<b>Changes in taxpayers' equity for 2017-18</b>			
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)
<b>Balance at 31 March 2018</b>		<b>(5,642)</b>	<b>(5,642)</b>
<b>Changes in taxpayers' equity for 2018-19</b>			
Net Parliamentary Funding		313	313
Comprehensive Net Expenditure for the year		881	881
Notional Auditors' Remuneration	4	38	38
<b>Amounts issued from consolidated fund but not spent at year end</b>	9	<b>(1,191)</b>	<b>(1,191)</b>
<b>Balance at 31 March 2019</b>		<b>(5,601)</b>	<b>(5,601)</b>

The notes on pages 97 to 116 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 **2018-19** 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.

From 1 April 2018, our policy is to pool purchases of property, plant and equipment assets when the total purchase value is in excess of £100,000. (During 2017-18, the threshold for individual items to be classified as grouped assets was £500,000.)

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 17: Estimated useful lives of property, plant and equipment classes**

Asset classification	Asset life
Leasehold improvements	Term remaining on lease
Furniture, fixture and fittings	7 years*
ICT equipment	3-5 years
Office machinery and telecommunications	5 years

\*The Asset life has reduced from 10 years to 7 in 2018-19 following a review of our accounting policies.

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 **0.10%** real per annum to **0.29%** real per annum from **31 March 2019**.

### **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 2019 shows negative taxpayers' equity of £5.6 million (2017-18: £5.6 million).

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

Our budget for 2019-20 was agreed via our Main Estimate, presented to the House of Commons on 9 May 2019.

### **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 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 was effective from periods beginning on or after 1 January 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 does not have a material impact on our financial statements. See note 8 for further details on financial instruments.

## **IFRS 15**

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.

Under statute we are permitted to generate and retain revenue from licence fees within each accounting period, and under HMT guidance this revenue is treated as arising from a contract under IFRS 15. From our review our current policy is considered to be in line with the standard.

Other income generated is not usually of a material nature, therefore additional disclosure of this income is not required under the standard. This income is only invoiced once our performance obligation has been satisfied with the customer.

Our overall assessment of the impact of IFRS 15 concludes there are no material impacts 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 2020 (to be adopted by government for annual periods beginning 1 April 2020).

Management are working with PricewaterhouseCoopers (PwC) to assess the impact of IFRS 16 on our leases which are of a material value. Necessary disclosures will be considered in 2019-20 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

Description of Programme:	2018-19 £000	2017-18 £000
Business Improvement	7,342	-
Communications Hub	807	-
Compliance and Assurance	-	4,993
Finance and Governance	1,980	2,906
Fit for the Future	-	2,989
Market Outcomes and Enforcement	2,878	3,025
PR19	16,053	-
Strategy and Planning	-	2,349
Strategy Hub	1,236	-
Water 2020	-	8,090
Thames Tideway Project Regulation	218	278
<b>Total Expenditure</b>	<b>30,515</b>	<b>24,630</b>
<b>Total Income</b>	<b>(31,403)</b>	<b>(25,026)</b>
<b>Net income</b>	<b>(888)</b>	<b>(396)</b>

## 3. Staff costs

Staff costs:	2018-19 £000	2017-18 £000
Wages and salaries	14,337	11,852
Social security costs	1,613	1,307
Other pension costs	2,733	2,385
Other staff costs	-	-
<b>Total</b>	<b>18,683</b>	<b>15,544</b>

## 4. Expenditure

	2018-19 £000	2017-18 £000
Purchase of goods and services:		
Consultancy services	6,282	3,943
Contingent labour	903	1,136
Training	244	286
Travel and subsistence	495	478
Taxation charges	18	8
Rates	235	228
Information Technology	633	914
Other hire and maintenance	32	15
Seminars, meetings and conferences	64	82
Publications, books and periodicals	97	73
Telecommunications	279	256
Recruitment costs	109	87
Office consumables	24	122
Accommodation expenses	84	92
Internal Audit fees	51	37
External Audit fees		-
Records management	21	29
Other	133	149
	<b>9,704</b>	<b>7,935</b>
Rentals under operating leases:		
Accommodation	857	789
Office equipment	14	23
	<b>871</b>	<b>812</b>
Non cash items:		
Depreciation	250	184
Amortisation	3	28
Loss on disposal of assets	-	2
Addition/(release) of provision	900	-
Restructuring provisions		-
Lease exit costs provision	-	-
Incentive payment provisions	-	-
Other finance costs	66	79
Unwinding of discount on provisions	-	-
Overnight change to provision	-	-
Past service costs	-	-
External Auditors' remuneration	38	38
Provision utilised in year	-	-
Impairment of assets	-	8
	<b>1,257</b>	<b>339</b>
<b>Total</b>	<b>11,832</b>	<b>9,086</b>

Consultancy services spend increased in the period as a result of work on PR19, and the addition of provision relates to the performance-related element of the delivery partner contract with payment dependent on performance metrics being achieved.

Information technology costs increased in 2017-18, as we purchased IT equipment as part of a desktop refresh to replace equipment which was at end of life.

## 5. Property, plant and equipment

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

2018/19	Assets under construction £000	Furniture & Fittings £000	Office machinery & Telecomms £000	Leasehold Improvements £000	Information Technology £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2018	-	131	13	960	783	1,887
Additions	53	-	-	8	59	121
Disposals	-	-	-	-	-	-
<b>At 31 March 2019</b>	<b>53</b>	<b>131</b>	<b>13</b>	<b>968</b>	<b>842</b>	<b>2,008</b>
<b>Depreciation</b>						
At 1 April 2018	-	41	13	332	515	901
Charged in year	-	30	-	136	83	249
Disposals	-	-	-	-	-	-
Impairments	-	-	-	-	-	-
<b>At 31 March 2019</b>	<b>-</b>	<b>71</b>	<b>13</b>	<b>468</b>	<b>598</b>	<b>1,150</b>
<b>Carrying amount at 31 March 2019</b>	<b>53</b>	<b>60</b>	<b>-</b>	<b>500</b>	<b>244</b>	<b>858</b>
<b>Carrying amount at 31 March 2018</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>628</b>	<b>268</b>	<b>986</b>
<b>Asset Financing:</b>						
Owned	53	60	-	500	244	858
Finance Leased	-	-	-	-	-	-
<b>Carrying amount at 31 March 2019</b>	<b>53</b>	<b>60</b>	<b>-</b>	<b>500</b>	<b>244</b>	<b>858</b>

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

## 6. Intangible assets

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

<b>2018/19</b>	<b>Purchased software licences £000</b>	<b>Total £000</b>
<b>Cost or valuation</b>		
At 1 April 2018	360	360
<b>At 31 March 2019</b>	<b>360</b>	<b>360</b>
<b>Amortisation</b>		
At 1 April 2018	355	355
Charged in year	3	3
<b>At 31 March 2019</b>	<b>358</b>	<b>358</b>
<b>Carrying amount at 31 March 2019</b>	<b>2</b>	<b>2</b>
<b>Carrying amount at 31 March 2018</b>	<b>5</b>	<b>5</b>

<b>2017/18</b>	<b>Purchased software licences £000</b>	<b>Total £000</b>
<b>Cost or valuation</b>		
At 1 April 2017	417	417
Additions	5	5
Disposals	(62)	(62)
<b>At 31 March 2018</b>	<b>360</b>	<b>360</b>
<b>Amortisation</b>		
At 1 April 2017	389	389
Charged in year	28	28
Disposals	(62)	(62)
<b>At 31 March 2018</b>	<b>355</b>	<b>355</b>
<b>Carrying amount at 31 March 2018</b>	<b>5</b>	<b>5</b>
<b>Carrying amount at 31 March 2017</b>	<b>28</b>	<b>28</b>

## 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.

	2018-19 £000	2017-18 £000
<b>Obligations under operating leases comprise:</b>		
Buildings		
Not later than one year	874	874
Later than one year and not later than five years	2,219	3,094
Later than five years	-	-
<b>Total</b>	<b>3,093</b>	<b>3,968</b>
Other		
Not later than one year	27	12
Later than one year and not later than five years	76	2
Later than five years	-	-
<b>Total</b>	<b>103</b>	<b>14</b>

## 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 2019.

### 9. Cash and cash equivalents

Any cash held at 31 March 2019 must be surrendered to the Consolidated Fund per note 1.6.

	2018-19 £000	2017-18 £000
Balance at 1 April 2018	241	293
Net change in cash and cash equivalent balances	950	(52)
<b>Balance at 31 March 2019</b>	<b>1,191</b>	<b>241</b>
The following balances at 31 March 2018 were held at:		
Government Banking Services (GBS)	1,191	241
Commercial banks and cash in hand	-	-
<b>Total</b>	<b>1,191</b>	<b>241</b>

## 10. Trade receivables and other current assets

	2018-19 £000	2017-18 £000
<b>Amounts falling due within one year</b>		
Trade receivables	39	56
Deposits and advances	48	50
Other receivables	-	-
HM Revenue and Customs (VAT)	44	75
Prepayments and accrued income	359	367
<b>Total</b>	<b>490</b>	<b>548</b>
<b>Amounts falling due after more than one year:</b>		
Prepayments and accrued income	-	3
<b>Total</b>	<b>-</b>	<b>3</b>

## 11. Trade payables and other current liabilities

	2018-19 £000	2017-18 £000
<b>Amounts falling due within one year</b>		
Trade payables	706	883
Other payables	323	308
Other taxation and social security	456	437
Accruals	1,932	2,783
Deferred income	87	110
Licence Fee income in advance	-	-
Amounts due to the Contingencies Fund	-	-
Amounts issued from the consolidated fund for supply but not spent at year end	1,191	241
<b>Total</b>	<b>4,695</b>	<b>4,762</b>



## 12. Provisions for liabilities and charges

Provisions	2018-19 £000		2017-18 £000
	Incentive Payment Costs	Total	Total
Balance at 1 April 2018	-	-	15
Provided in the year	900	900	-
Provisions utilised in the year	-	-	(15)
Provisions not required written back	-	-	-
<b>Balance at 31 March 2019</b>	<b>900</b>	<b>900</b>	<b>-</b>

Analysis by type	2018-19 £000		2017-18 £000
	Incentive Payment Costs	Total	Total
<b>Amounts falling due within one year</b>	900	900	-
	<b>900</b>	<b>900</b>	<b>-</b>
<b>Amounts falling due after more than one year</b>	-	-	-
	-	-	-
<b>Total</b>	<b>900</b>	<b>900</b>	<b>-</b>

Analysis of expected timing of discounted flows	2018-19 £000		2017-18 £000
	Incentive Payment Costs	Total	Total
Not later than one year	900	900	-
Later than one year and not later than five years	-	-	-
Later than five years	-	-	-
<b>Balance at 31 March 2019</b>	<b>900</b>	<b>900</b>	<b>-</b>

A provision of £900k has been made in relation to the Delivery Partner contract for PwC's work on the PR19 Programme. Part of the payment for the work is based on performance criteria being met. If the performance milestones are met the payment will be due in December 2019 or early 2020.

## 13. Pension liabilities

### 13.1 Pension liabilities

Pension liabilities	2018-19 £000	2017-18 £000
Balance at 1 April 2018	2,664	2,919
<b>Analysis of the amount charged to the Statement of Comprehensive Net Expenditure</b>		
Interest costs	66	79
<b>Benefits paid</b>		
Benefits paid	(190)	(183)
<b>Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity</b>		
Experience (gain)/loss	55	40
Actuarial (gain)/loss	(48)	(191)
<b>Balance at 31 March 2019</b>	<b>2,547</b>	<b>2,664</b>

The former Directors General are covered by 'by-analogy' pension schemes that offer similar benefits to the PCSPS. They are unfunded, defined benefit schemes with the benefits being paid when they fall due, and Ofwat undertakes 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 2019.

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 the UK principal population projections from the Office for National Statistics.
- All members are assumed to have a spouse or eligible partner from the date their pension is assumed to be paid. Male members are assumed to be three years

older than their partners and female members are assumed to be two years younger than their partners.

The main financial assumptions used to assess liabilities at 31 March 2019 are as follows.

- The gross discount rate is assumed to be 2.90% a year (31 March 2018: 2.55%);
- The consumer price index (CPI) is assumed to be 2.60% (31 March 2018: 2.45%); and
- Net (of CPI) discount rate is assumed to be 0.29% (31 March 2018: 0.10%).

### **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 £124,000;
- Increasing the CPI inflation assumption by 0.5% would result in a corresponding increase in liabilities of approximately 5.0%, or £126,000; and
- Increasing the assumed life expectancies in retirement to equal those of people one year younger would result in a corresponding increase in liabilities of approximately 3.0%, or £86,000.

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

Analysis of actuarial (gain)/loss	2018-19 £000	2017-18 £000	2016-17 £000
Experience (gains)/losses arising on the scheme liabilities	55	40	13
Changes in assumptions underlying the present value of scheme	(48)	(191)	322
Per Statement of Changes in Taxpayers' Equity	7	(151)	335

### 13.4 History of experience losses

History of experience losses	2018-19 £000	2017-18 £000	2016-17 £000	2015-16 £000	2014-15 £000
Experience (gains)/losses arising on the scheme liabilities					
Amount	55	40	13	(20)	4
Percentage of the present value of the scheme liabilities	2.2%	1.5%	0.4%	(0.7)%	0.1%
Total amount recognised in Statement of Taxpayers' Equity					
Amount	7	(151)	335	(130)	161
Percentage of the present value of the scheme liabilities	0.3%	(5.7)%	11.5%	(4.9)%	5.6%

## 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.

We received a letter from representatives of a company requesting the re-opening of a determination made in 2015 and threatening to challenge us if we did not agree to reopen our decision. We responded on 19 March 2019, declining to re-open the determination. To date we have received no further correspondence.

## 15. Related party transactions

### 15.1 Defra/CCWater

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

We transferred £5.5 million to Defra in respect of CCWater's operating costs in 2018-19 (2017-18: £5.2 million).

## **15.2 Highways England (Highways) CFO, Vanessa Howlison, Independent Member**

Ofwat received £155k from Highways England in relation to the provision of services by Ofwat employees loaned to them under a secondment agreement (2017-18: £64k).

## **15.3 Civil Aviation Authority (CAA)/UK Regulators Network (UKRN)**

Ofwat received £48k 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 (2017-18: £102k).

## **15.4 Cory Environmental Management Ltd (Cory), Jonson Cox, Chairman**

Ofwat received £3k from Cory for the provision of shared secretariat services for Jonson Cox during the year (2017-18: £12k).

## **15.5 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 65), 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 2019 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**

## Appendices

**The appendices are not subject to audit.**

### A1 Progress on projects described in ‘Ofwat’s forward programme 2018-19’

Below we highlight our progress against the projects we outlined in [Ofwat’s forward programme 2018-19](#). The status shown reflects progress against the forward programme during the year as a whole.

What we said	Status
<b>April to June 2018</b>	
Publish and lay our annual reports and accounts 2017-18 before the UK Parliament and National Assembly for Wales to account for our work and expenditure during the year, and explain how we have contributed to delivering the strategic priorities and objectives set for us by the UK and Welsh Governments.	Met
Consult on revised board leadership, transparency and governance principles. We will revise the principles to make sure that they remain fit for purpose, reflect recent developments in corporate governance and that companies are operating to the highest standards. This will help make companies more resilient and build the trust and confidence of stakeholders in the companies.	Met
Publish our feedback to appointed companies on their allocation of their Regulatory Capital Value to the Water Resources price control.	Met
Pilot the Customer Measure of Experience (C-MeX) and Developer Measure of Experience (D-MeX) with appointed companies. These pilots are important to help us understand how we can best use these incentives to encourage companies to improve customer experience and innovate.	Met
Provide analysis and advice to the National Infrastructure Commission in developing its first National Infrastructure Assessment.	Met
Two-year review of progress on Thames Tideway Tunnel considering lessons learned and potential wider use of approach.	Met
We will review the significant water supply issues customers experienced in England and Wales during the freeze and thaw of February and March 2018. The review will look at the causes of the problems, the preparedness of companies, the support given to customers and communication with them during and after the incident and whether the compensation offered to those affected was fair and speedy.	Met
Launch a conversation with the sector, and wider society, to understand perceptions and priorities for the sector. As part of this we will look to the sector to step forward with their own analysis, and suggestions for future developments.	Met

What we said	Status
<b>July to September 2018</b>	
Publish our first Annual State of the Market report setting out our assessment of the effectiveness of competition in the first year of the business retail market and our customer insight survey setting out eligible customers' views of the market.	Met
Publish the rules that companies based wholly or mainly in Wales must use in setting their charges.	Delayed until 2022-23
The Welsh Government have delayed the introduction of our powers to make charging rules about new connection services. This is due to a delay in the process of aligning devolved competence for water and sewerage undertakers with the geographical boundary between Wales and England.	
Receive each appointed company's business plan for 2020-25 (by 3 September 2018). This represents the start of the 15-month process leading to our final determinations in December 2019.	Met
Following our selection scheme, our 2018-19 graduates will start with us in September to support critical skills development as part of our strategic workforce plan.	Met
Conclude the first phase of a strategy review, to refresh our approach to regulation and our objectives for the sector.	Met
<b>October to December 2018</b>	
Consult on and determine the in-period underperformance penalties and outperformance payments for three regional water and wastewater companies, based on their performance during 2017-18. This process incentivises companies' management to deliver what matters to their customers, and also ensures that bills reflect recent service performance.	Met
Working together with UKRN we will build on our 2017 report on data sharing, by reporting progress made by companies to share data to assist customers in situations of vulnerability, and consider whether there are any regulatory barriers to effective data sharing which we and other regulators need to remove.	Met
As part of our code for adoption agreements, consider and approve the guidance and model agreement the sector has developed for water infrastructure adoption agreements to ensure the effectiveness of the new connections market and contribute to housing growth in England.	Delayed until 2019-20
Within the continuous improvement of our systems and processes, we will deliver a new intranet and payroll service to ensure Ofwat is efficient and effective and providing value for money.	Met – intranet New payroll service delayed and timing under review
Publish guidance to appointed companies in preparing their annual performance report for 2018-19.	Met
<b>January to March 2019</b>	
Publish our initial assessment of appointed companies' business plans. We want companies to produce high-quality, ambitious and innovative business plans, pushing forward the performance and efficiency of the sector for customers. We will categorise company business plans into four categories	Met



What we said	Status
(significant scrutiny, slow-track, fast-track, or exceptional) depending on the level of quality, ambition and innovation demonstrated.	
Make our draft decisions ('draft determinations') of appointed companies whose plans we categorise as 'exceptional' or 'fast track' (March-April 2019).	Met
Publish our assessment of appointed companies against our company monitoring framework to challenge them to publish good quality information about their performance for customers and others.	Met
Develop a new IT and Digital Strategy, to optimise our IT capability and maximise the potential for digital transformation in Ofwat. We will now align the timing of this with the development of our new strategy.	Delayed until 2019-20
Develop and implement our refreshed People Strategy for getting the most from our people. We will now align the timing of this with the development of our new strategy.	Delayed until 2019-20
Consult on our draft forward programme of work for 2019-20 to get feedback from our stakeholders on our plans, and publish the final version ahead of the new financial year.	Met
Publish our updated two-year rolling business plan for 2019-20 to 2020-21. We will review our approach to this as part of our new strategy development.	Delayed
<p>Publish a discussion paper about how our codes for adoption agreements ensure the market for new connections works more effectively for companies operating wholly or mainly in Wales.</p> <p>We decided not to proceed with this commitment but to engage informally with companies. Since then, the Welsh Government has delayed the commencement of Water Act 2014 changes to the Water Industry Act 1991 requiring Ofwat to issue statutory codes for adoption agreements for companies operating wholly or mainly in Wales. This is due to a delay in the process of aligning devolved competence for water and sewerage undertakers with the geographical boundary between Wales and England. We will work with the Welsh Government to keep this under review and will look to revisit our informal engagement with companies in due course.</p>	Delayed until 2022-23

## 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 complaints customers may have with their water company. Nevertheless, we receive a significant number of contacts from customers and stakeholders each year. We also have a role in investigating particular types of dispute.

We have standards of service within which we aim to respond to customer contacts and to complete our investigations. Below we set out how we performed against them during 2018-19.

### General enquiries

We receive enquiries (by telephone, email and letter) covering a wide range of topics including people asking for details about how we regulate; how companies set bills; our price review; and the business retail market. We seek to respond to all enquiries within ten working days and have a target to do this in at least 95% of cases.

**Table 18: Performance against our standard of service for general enquiries**

Metric	What is measured	Number received	Target 2018-19	Actual 2018-19
General enquiries	The proportion of enquiries responded to within ten working days of receipt	994	95%	97.9%

### 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, including Ofwat. They place a number of obligations on us and also set out exemptions to rights of access.

We have a responsibility to respond to any written request, normally within 20 working days. There are some exceptions to this deadline; for example where 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. The target was not met throughout the year due to a change in personnel and a short gap before the position was filled. Since the year end we have consistently met our performance targets.

Detailed information on the FOIA and EIR is available from the Cabinet Office and the Information Commissioner's Office (ICO). The Cabinet Office 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 their website.

**Table 19: Performance against standard for information requests**

<b>Metric</b>	<b>What is measured</b>	<b>Number of requests 2018-19 [2017-18]</b>	<b>Actual 2018-19 [2017-18]</b>
FOIA and EIR requests	Information requests responded to within deadline	142 (127 FOIA 15 EIR) [126 (103 FOIA 23 EIR)]	86% [100%]
Subject Access Requests	Information requests responded to within deadline	21	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, including 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 a 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.

When we receive a customer complaint, we consider if it falls within the scope of our legal powers. Many of the customer complaints we receive are not issues we have powers to consider, but rather matters on which CCWater can provide assistance. If CCWater is unable to resolve the matter, it can refer the customer to an alternative dispute resolution scheme.

We encourage customers to raise any complaint first with their water company so it has an opportunity to resolve it. Where this is unsuccessful, we often signpost to CCWater if a customer has 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 them to us. Table 20 sets out the numbers of complaints we have responded to during 2018-19 where we have no legal powers to consider or take action on the matter.

**Table 20: Performance against our standard of service for responding to complaints where Ofwat has no legal role**

<b>Metric</b>	<b>What is measured</b>	<b>Number received</b>	<b>Target 2018-19</b>	<b>Actual 2018-19</b>
Complaints – Ofwat has no role	The proportion of complaints where Ofwat has no legal role responded to within ten working days of receipt	1,468	95%	98.6%

When we receive a complaint it is not always clear whether Ofwat has a role to formally investigate the matter. We often need to gather further information from the customer and, where appropriate, the water company concerned to help establish if we have a formal role to play. In such cases we aim to acknowledge such complaints within ten working days and to respond within 20 working days, or 40 working days for complaints which might relate to our powers under the Competition Act 1998, with a detailed response explaining whether or not we have a role to investigate the matter further. Table 21 sets out our 2018-19 performance against these standards.

**Table 21: Performance against our standards of service for acknowledging receipt and providing a detailed response where there is a need to clarify Ofwat's role**

<b>Metric</b>	<b>What is measured</b>	<b>Number received</b>	<b>Target 2018-19</b>	<b>Actual 2018-19</b>
Acknowledging contact	The proportion of acknowledgements preceding detailed responses within ten working days of receipt	19	95%	100%
Detailed response within 20/40 working days of receipt	The proportion of detailed responses completed within 20 /40 working days	19	95%	89%

During 2018-19 we had fewer complaints where we needed to provide a detailed response than in previous years (down from 25 in 2017-18), however we responded to a smaller proportion within our standard of service, down from 100% in 2017-18. This was because a number of complaints in this year raised more complex issues, resulting in the need for more detailed discussions with our subject matter experts to reach a decision and provide a full response to the customer. Where responses are delayed beyond our levels of service, we do our best to keep the customer updated.

We have a formal duty to investigate some types of customer complaint, whilst for others, legislation provides us with discretion as to whether it is appropriate for us to investigate. When we receive a customer complaint that clearly falls within our legal powers, we complete a preliminary assessment to confirm this jurisdiction, consider any discretion we have, and make our decision on whether to open a formal case to investigate further.

In line with our [casework strategy](#), where appropriate, we work with customers and water companies to resolve issues before they become formal investigations. This helps customers to get a quicker resolution and ensures that water companies take greater ownership of their customer relationships. In most instances, during our preliminary assessment we contact the relevant water company to confirm if it might be able to resolve the dispute directly with its customer. This often results in renewed discussions and earlier resolution of the matter.

We aim to acknowledge all complaints where we undertake a preliminary assessment within ten working days and to make a decision on whether we will open a formal case or not within 20 working days, or 40 working days for complaints relating our powers under the Competition Act 1998. Table 22 sets out how we performed against these standards in 2018-19.

**Table 22: Performance against our standards of service for acknowledging and completing a preliminary assessment.**

<b>Metric</b>	<b>What is measured</b>	<b>Number received</b>	<b>Target 2018-19</b>	<b>Actual 2018-19</b>
Acknowledging a complaint requiring a preliminary assessment	The proportion of acknowledgements of preliminary assessments within ten working days of receipt	16	95%	100%
Preliminary assessment completed within 20/40 working days of receipt	The proportion of preliminary assessments completed within 20/40 working days	16	95%	75%

In 2018-19 we had fewer preliminary assessments to consider than in previous years (down from 45 in 2017-18). The proportion that we closed within our standard of service increased compared with 2017-18 (65%), but remains below our target of delivering 95%.

Whilst encouraging water companies to resolve complaints directly often resolves the matter, it can add to the time it takes us to complete our assessment whilst we allow the company to confirm it has been able to progress this. This is the main reason why we have not delivered all of our preliminary assessments within our standard of service of 20/40 working days during 2018-19.

## Investigations we carry out

Where we have powers to investigate a customer's complaint, we aim to do this as quickly as possible. 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.

Encouraging informal resolution of disputes when we undertake preliminary assessments has reduced the number of formal investigations we open. It has sometimes also enabled us to close formal cases before we have reached a final decision because the parties have re-entered discussions and resolved the matter directly. Greater use of informal resolution means that where we do open formal investigations they are often about novel or particularly complex or entrenched issues that can take longer for us to determine.

In 2018-19, we had significantly fewer non-strategic cases<sup>5</sup> to consider than in previous years; we closed ten cases in 2018-19 compared to closing 20 cases in 2017-18. Of these ten cases closed in 2018-19, four were not delivered within our standard of service (60%), compared with three cases in the previous year (85%). The main reason for this drop in performance is the complexity of the cases that we have processed and the new and varied issues the parties to the disputes have raised as the cases have progressed.

In addition to our non-strategic cases, during 2018-19 we concluded a large-scale enforcement investigation into Thames Water's leakage performance. We have an ongoing enforcement investigation regarding Southern Water, considering the performance of its wastewater treatment sites and the company's reporting of relevant compliance information to us. Details can be found on the [open cases](#) page of our website.

**Table 23: Non-strategic cases closed within our standards of service**

Metric	What is measured	Number received	Actual 2018-19
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 customer).	10	60%

## 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 [complaints process](#) sets out how we review complaints.

In 2018-19, 11 internal reviews were started. Case decisions were unchanged but process changes were recommended and have been implemented in two cases. In one case, relating to a Freedom of Information Act request, the original response was revised. Deadlines for two further Freedom of Information Act reviews extended into the next financial year.

<sup>5</sup> As set out above, the term non-strategic case refers to formal disputes between customers and companies where we have a role and it refers to all our cases that we have not designated as being strategic. A strategic case (typically a large-scale enforcement and/or competition law investigation) is one where our intervention could address a significant occurrence of customer harm or have sector-wide significance in terms of the precedent it sets to prevent similar cases in the future and/or encourage beneficial changes across the sector.

**Table 24: Internal reviews undertaken**

<b>Metric</b>	<b>What is measured</b>	<b>Number of internal reviews 2018-19 (2017-18)</b>
Internal Reviews	Internal reviews undertaken	11 (4)

## 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 vary its existing appointment in order for it to cover the new site (a “variation”).

In 2018-19 we responded to the challenge set by stakeholders to reduce the time it takes us to decide on NAV applications we receive. We published new guidance in August 2018 setting out improvements. We now aim to undertake an initial check of any NAV application to ensure it is complete within five rather than 15 working days. We then aim to assess and make a decision on the application within 85 rather than 110 working days of confirming that we have received a complete application.

Our new guidance also improved the information available to applicants to enable them to submit a complete application with all the information we need to process it quickly and efficiently. These improvements came into effect in September 2018.

We also improved our stakeholder engagement with NAVs by allocating relationship managers for NAVs submitting multiple applications. This has enabled us to better co-ordinate applications, be more aware of the potential pipeline of applications coming to us and have earlier discussions on complex issues that might otherwise delay our ability to make a decision on the application.

In 2018-19 we received more NAV applications (37) than in previous years (20 in 2017-18). As in 2017-18 we completed 95% of our initial checks of applications within our standard of service. The proportion of NAV applications we processed within the standards of service we had in place at the time of their receipt rose by over 20 percentage points in 2018-19 (up from 58% to 81%). For applications received since we published our new guidance we have maintained our performance against our standard of service for initial checks and improved our performance in



making our decision on applications, despite us receiving increased numbers of applications and the shorter standards of service we now provide.

We have made better use of “stop the clock”<sup>6</sup> to ensure the reporting of our performance in processing NAV applications better reflects the stages of the application process that rely on us and to encourage applicants to submit complete applications we can rely on for our assessment. Table 25 sets out our performance against our standards of service in place at the time the application was received.

**Table 25: Performance against our standards of service for processing New Appointment and Variations (NAVs) applications**

<b>Metric</b>	<b>What is measured</b>	<b>Number of applications completed</b>	<b>Completed within our service standards 2018-19</b>
NAV applications	The proportion of NAV applications for which we completed our initial check within five working days of receipt	37	95%
	The proportion of NAV applications fully processed within the standard applicable on the date of receipt	27	81%

## Water supply and sewerage licences

Since April 2017, eligible business, charity and public sector customers in England have been [able to choose their water and wastewater retailer](#). These retailers must 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 competence to hold the type of WSSL requested, including managerial, financial and technical competencies.

We aim to undertake our initial checks to confirm a WSSL application is complete within five working days. We then aim to make a decision on a standard application within 60<sup>7</sup> working days of confirming that we have received a complete application. During 2018-19 we reviewed our process for assessing WSSL applications limited to self-supply to better recognise the differences in the information applicants need to

<sup>6</sup> When processing applications we have the ability to ‘stop the clock’ where we are waiting for information from the applicant to complete our assessment.

<sup>7</sup> This service standard is extended to 90 working days if the application requires us to modify a standard licence condition.

provide and we need to assess compared with standard WSSL licence applications. As a result we improved our standard of service for making a decision on a WSSL application limited to self-supply to 45 working days.

We also made a number of improvements to ensure applications include all of the information needed for our assessment. This included introducing a separate application form for self-supply applicants and publishing an updated application form for standard WSSL applications.

We now also meet with applicants during our assessment process, with a view to gathering further assurance that the applicant has the necessary knowledge and competence to hold a WSSL licence. We use these meetings to ensure the applicant is engaging with other key stakeholders involved in our assessment process (e.g. Drinking Water Inspectorate, Environment Agency/Natural Resources Wales, MOSL, CCWater, a suitable alternative dispute resolution provider), to help minimise potential delays further on in the process. The meetings also help to establish a constructive working relationship with the applicant that will support our future engagement with them if they are successful in obtaining a licence.

Table 26 sets out our 2018-19 performance against our standards of service for processing WSSL applications. We processed fewer standard WSSL applications during 2018-19 compared to the previous two years, but saw an increase in self-supply applications: six compared with none in 2017-18. We improved our performance in completing initial checks (up from 90% in 2017-18). Our combined performance for WSSL and self-supply applications against our standard of service for making our decision slightly increased from 87% last year.

**Table 26: Performance against our service standards for processing Water and Sewerage Supply Licences (WSSLs)**

<b>Metric</b>	<b>What is measured</b>	<b>Number of applications completed</b>	<b>Completed within our service standards</b>
WSSL applications	The proportion of WSSL applications (including self-supply) for which we completed our initial check within five working days of receipt	9	100%
	The proportion of standard WSSL applications fully processed within 60 working days of a complete application	5	100%
	The proportion of self-supply applications fully processed within 45 working days of a complete application	4	75%

## **A3 List of impact assessments carried out during 2018-19**

Putting the sector in balance: position statement on PR19 business plans  
– July 2018

## A4 Progress in reducing regulatory burdens

### Background

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

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

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

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

### Report on progress

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 our needing to intervene formally, although we will do so where appropriate.
Market Outcomes and Enforcement	<p>We reviewed our assessment processes for New Appointments and Variation (NAV) applications and considered ways to reduce the burden and cut administrative barriers for applicants. As a result of this work, we streamlined our processes, raised our service standard for making a decision on NAV applications and created an application form and supporting templates for applicants to use.</p> <p>In addition, we modified our Water Supply and Sewerage Licence (WSSL) application process for applications limited to self-supply. We published separate guidance and a separate application form tailored to self-supply applications to recognise where different information is required to assess them. This resulted in us streamlining the process for these types of</p>

Programme	How we intend to reduce regulatory burdens
	<p>applications, enabling us to improve the standard of service for making a decision and to apply a lower application fee.</p> <p>In November 2017, we published our Code for Adoption Agreements, which covers agreements that developers or self-lay providers enter into when they want an appointed water or sewerage company to take over responsibility for infrastructure that they have constructed. As required by the Code for Adoption Agreements, appointed companies have since submitted draft water and sewerage sector documents for our approval. Once we approve these documents during 2019-20, we anticipate these documents will reduce regulatory burdens on businesses (both developers and self-lay providers) constructing new connections infrastructure by ensuring that water companies operating wholly or mainly in England take a consistent approach to the procedures for entering into adoption agreements.</p> <p>We are reviewing the Retail Exit Code (REC), which places requirements on the default price and non-price terms and conditions that apply to non-household customers. In December 2018, we consulted on our proposals for amendments to the code. These proposals included a simplification of the way the Code is implemented. This would reduce the regulatory burden by reducing the amount of information retailers need to collect from customers. We also proposed to relax the level of protections to some extent, which would give retailers more flexibility over their pricing. We expect to make a final decision in summer 2019, which will come into force from April 2020.</p>
PR19	<p>Our PR19 final methodology included measures to encourage markets, where appropriate, in water resources and bioresources. Over time, these could allow a reduction in prescriptive price and service regulation in these parts of water and wastewater service delivery. The PR19 methodology has also placed greater emphasis on risk-based assurance-focused regulation rather than prescriptive regulatory interventions.</p> <p>In January 2019, we awarded three companies fast-track status in the initial assessment of business plans (IAP), and these companies are benefitting from a reduced regulatory burden. As these companies submitted plans that set a new standard for the sector, we gave those companies the green light, so they could get started on delivering their plans for customers - they are benefitting from early draft determinations in April 2019, with a relatively minimal level of interventions from Ofwat.</p>
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. An example of this was making the process for project variations on the TTT simpler and more efficient.</p>
Business Improvement Programme	<p>This programme has helped improve the way we work, and to deliver value for public money and more of what matters for customers. The aim has been to ensure that we deliver best value from licence fees and help reduce the burden on companies and, in turn, their customers.</p>

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

None

## **A6 Final and provisional orders made and penalties imposed**

We [imposed a financial penalty](#) under s22A of the Water Industry Act 1991 on Thames Water Utilities Limited in August 2018.



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

None

## A8 Staff composition 2018-19

**Table 27: Staff recruitment (by gender and ethnic group)**

	2018-19			2017-18			2016-17		
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	13	62	8	14	57	7	5	40	60
Band 3 – £31,449 to £47,146	22	68	23	31	58	13	18	50	16
Band 4 – £47,147 to £72,114	17	47	6	18	33	22	19	57	21
Band 5 – £72,115 to £108,171	3	67	0	6	67	33	8	62	12
Total	55	61	13	69	52	19	50	54	22

All figures rounded to the nearest whole number.

**Table 28: Staff in post**

Type	31 March 2019	31 March 2018	31 March 2017
Employed staff head count	248	233	190
Agency staff and consultants head count	17	4	13

**Table 29: Employed staff information**

Area	31 March 2019	31 March 2018	31 March 2017
Full-time equivalent staff	240	201	161
Proportion of women (%)	50	50	47
Proportion from ethnic minorities (%)	15	15	17
Proportion disabled (%)	4	3	1
Members of the Senior Civil Service	10	7	9
Number of fixed-term and casual contracts	50	47	31
Number of staff working part-time	39	37	31
Staff turnover (%)	16	13	9

\*FTE figure rounded up to nearest whole number

**Table 30: Staff training attendance (by ethnic group)**

Ethnic group	2018-19 <sup>1</sup>		2017-18		2016-17	
	Number of training days <sup>2</sup>	%	Number of training days <sup>2</sup>	%	Number of training days <sup>2</sup>	%
White	–	-	–	–	–	–
Other ethnic groups	–	-	–	–	–	–
Unknown	2125	100	1,972	100	1,673	100
Total number of training days			1,972	100	1,673	100

1. We did not collect information on training days by ethnic group in 2016-17, 2017-18 or 2018-19

2. Rounded up to the nearest whole number

**Table 31: Staff by gender**

Area	31 March 2019	31 March 2018	31 March 2017
Employed staff head count	248	233	190
Number of women	124	117	90
Number of men	124	116	100

**Table 32: Senior Directors by gender\***

Area	31 March 2019	31 March 2018	31 March 2017**
Employed head count	10	9	7
Number of women	7	6	3
Number of men	3	3	4

\* These figures exclude the role of the Chief Executive

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

**Table 33: Members of Senior Civil Service by gender**

<b>Area</b>	<b>31 March 2019</b>	<b>31 March 2018</b>	<b>31 March 2017</b>
Employed head count	10	7	8
Number of women	7	5	3
Number of men	3	2	5

## **A9 Ofwat's compliance with the public sector equality duty**

### **Background**

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

In December 2017 we published our methodology for PR19, our programme to set water companies' price and service packages for their customers for the 2020–25 period. In our methodology we required water companies to engage extensively with their customers to understand their preferences for the outcomes they want to see their companies deliver. We emphasised the importance of companies engaging with representative samples of their customers, including hard-to-reach customers and customers in circumstances that make them vulnerable.

One of the nine areas on which we tested companies' PR19 business plans is affordability and vulnerability. The test included assessment of how companies are addressing affordability for all customers in the short term and long term and for those struggling or at risk of struggling to pay their bills. In relation to vulnerability, we assessed how well companies are providing an inclusive service that 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, testing this further by running a pilot in this financial year.

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

# We are Ofwat

**We aspire to act in line with our values in everything we do**



Our 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 Ofwat 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. For more information on our equal opportunities policy, please refer to page 80.

One of our equality objectives is to put the SAILOR values we introduced in 2015-16 at the forefront of everything we do (Support, Ambition, Integrity, Learning, Ownership and Respect). Our values and behaviours are core to our people management practices such as recruitment, reward and recognition schemes and induction of new staff. We initially asked our employees to first sign up to our values in July 2016 and we continue to ask all new starters to sign up when they join Ofwat.

Our 2018 People Survey results indicated that our people are more likely to think that we put our values and behaviours at the heart of everything we do (73% up 4% from last year) compared to 2015 (57%). This means we have exceeded our target.



We continue to promote and develop a community of Dignity at Work advisors who support people across the organisation to live out our Equality and Dignity at work policy. During 2018, we added new members to the network, provided refresher training and enhanced the leadership of the group.

Our work in 2019 to develop our people strategy alongside the strategy for the organisation will reflect our future plans to further enhance our approach to harnessing the opportunities of a diverse and inclusive workforce. Our equality objectives will remain consistent for 2019. Related measures are yet to be defined.

**Table 34: Equality objectives for 2014-19**

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>Our May 2018 Heartbeat survey reported that 73% of people felt that our values are at the heart of everything that we do. Our Ofwat Advocacy score has continued to increase year on year.</p> <p>There is an improvement in our staff survey responses.</p>	By the end of 2019
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 (75% were proud to recommend Ofwat as a great place to work, Heartbeat survey, May 2018).</p> <p>At least 80% of our people are proud to say they work at Ofwat (77%, Heartbeat survey, May 2018).</p> <p>We fare well against benchmarked organisations.</p>	<p>By the end of 2019</p> <p>Our average number of applications per role has continued to increase over this period.</p>

## A10 Trade Union Time

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

**Table 35: 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
4	0.05 FTE

**Table 36: 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
0-0.99%	4
1-50%	0
51%-99%	0
100%	0

**Table 37: 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	£2.7k
Total pay bill	£18,512m
Percentage of the total pay bill spent on facility time	0.01%

**Table 38: 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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