

# Water Services Regulation Authority (Ofwat) Annual report and accounts 2010-11

For the period 1 April 2010 to 31 March 2011



Water today, water tomorrow

# **Water Services Regulation Authority (Ofwat)**

## **Annual report and accounts 2010-11**

**For the period 1 April 2010 to 31 March 2011**

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

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This is part of a series of Annual Reports and Accounts which, along with the Main Estimates 2011-12 and the document Public Expenditure: Statistical Analyses 2011, present the Government's outturn and planned expenditure for 2011-12.

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## About this report

This report sets out our annual report and accounts for the period 1 April 2010 to 31 March 2011.

It includes a description of the work we carried out during the year to deliver our strategy and our vision of sustainable water.

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

Our duties are primarily laid out in the Water Industry Act 1991 (WIA91) as amended. 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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## Chairman's foreword



Since privatisation 22 years ago, the water and sewerage sectors in England and Wales have substantially improved the services they deliver to consumers and the environment. Services are safer, better and more secure. For three-quarters of households, their water and sewerage bills still account for less than 3% of their annual disposable income.

Our regulatory framework has contributed significantly to this success, including giving investors and lenders the confidence to invest more than £90 billion in the sectors. And we have challenged the monopoly companies to improve on all aspects of the services they provide.

But there is no room for complacency.

There is now broad agreement that the challenges that lie ahead are considerable. These include climate change, population growth and – for a small but important minority of customers – affordability concerns. Overcoming them will require us all to be more innovative, flexible and sustainable in what we do. And we cannot wait. This is a long-term industry and the decisions we take now will not only determine plans for the next five years, but also influence the services we receive decades from now. This is why – last year – our Board published ‘Delivering sustainable water – Ofwat’s strategy’, which set out our long-term approach for regulating the sectors.

Delivering sustainable water and sewerage services now and for future generations means putting the value of this precious resource at the heart of our decisions. It means providing incentives for the right investment in the right place, at the right time for the right price. And it means smarter regulation – reducing the regulatory burden and targeting our resources where we can make most difference. This is why we launched our future regulation programme of work during 2010-11 – to review fundamentally why and how we regulate. We want to build on the achievements of the sectors and deliver a regulatory framework that enables continued success.

There have been developments in the wider environment in which economic regulators work that will affect Ofwat. We have seen the publication of principles of economic regulation by the Department for Business, Innovation and Skills (BIS). And the Government is also

reviewing the competition and consumer protection frameworks. Close to home for Ofwat, there have been a number of independent reviews of aspects of the water and sewerage sectors in recent years – on flooding ('Pitt'), competition and innovation ('Cave') and charging ('Walker'). Most recently, there has been a review for the UK and Welsh Governments, led by David Gray, of our responsibilities and those of the Consumer Council for Water (CCWater) – although this has not yet reported.

We welcome these reviews and the fresh thinking they bring. We have something to learn from all of them. And we will strive to remain flexible and responsive to the changes we need to make, while preserving the independence of our regulatory decisions.

In the coming year, there will be changes in the Ofwat Board. I will be stepping down as Chairman, along with a number of my non-executive director colleagues, as our terms of office end. We will leave confident that we are handing over a vibrant and effective organisation to a new Chairman and Board. In the meantime, we continue the important work that is being carried out.

As this is my last contribution to Ofwat's annual report, as Chairman I would like to put on record my thanks to all those seeking to serve the interests of water consumers over the short and long term. They include:

- the regulated companies and new entrants;
- CCWater;
- fellow regulators;
- Government departments;

- interest groups; and
- individual commentators and advisers.

I particularly want to thank my colleagues on the Ofwat Board and all Ofwat staff. Together, you have made my last 11 years – first as Director General, then as Chairman – both stimulating and constructive. We have achieved a great deal together. And I am confident that the sectors will continue to go from strength to strength in delivering sustainable water and sewerage services now and for future generations.

**For three-quarters of households, water and sewerage bills still account for less than 3% of their annual disposable income**

**Philip Fletcher  
Chairman**

## Chief Executive's report

**O**ur vision is for sustainable water: meeting our needs for water and sewerage services while enabling future generations to meet their own.

The sustainability of water and sewerage services is dependent on the sectors' legitimacy with a wide range of stakeholders. Crucially, it relies on customers who receive the service and pay the bills. In addition, it is dependent on investors who fund, and need to receive a return on, ongoing investment. The water environment, and the wide range of people who enjoy and use it, are also vital.

The decisions we took in 2009, on the price limits each company can charge their customers between 2010 and 2015, mean the

average bill for customers (before inflation) will remain stable until then. Even so, for some customers paying their bills continues to be a struggle. So, this year we delivered significant new research to understand which customers are at risk

of being unable to afford to pay for their water and sewerage services, and why. This will help inform decisions on how these customers can best be supported.

If customers are to view the bills they pay as fair and legitimate, they need to know that

their needs and expectations are reflected in the services that are delivered. This is why we developed proposals – on which we recently consulted – for increasing the involvement of customers in planning and decisions by the companies. We also introduced a new incentive (the 'service incentive mechanism') to encourage the companies to focus on improving their customers' experience when things go wrong and resolving complaints first time.

Delivering choice is also an important way to encourage a sharper focus on what customers want. This is why we continued to encourage the growth and effectiveness of markets where they already exist. For example, we were pleased that – following advice we provided – the UK Government announced its decision that an additional 25,000 non-household customers in England will soon be able to choose their water supplier.

Ensuring the long-term sustainability of our water and sewerage services is also dependent on the companies delivering effective investment where and when it is needed. This year, we made substantial progress with our extensive review of how we regulate – including publishing for discussion a potential model of how we might set prices in 2014. We want to encourage the companies to make best use of water, and find new and innovative solutions to the challenges ahead. We also worked with the Environment Agency, Defra and the Welsh Government to consider short- and long-term

**This year, we took the first steps to reduce significantly the volume of information we require the companies to provide us on their annual performance**



changes to the way water resources are managed. This could include using abstraction and water trading to better reveal the true value of water to enable the sectors to make more sustainable decisions.

The companies will need to deliver more responsive, innovative and sustainable services over the coming years. Our regulatory framework needs to enable and incentivise them to do this, and to take action if they fail. We need to deliver smarter, more effective regulation. For example, we know that our regulatory processes impose data burdens and costs on the companies. So this year, we took the first steps to reduce significantly the volume of information we require from the companies on their annual performance. And through our regulatory

compliance project we have been developing a performance framework for future years that will enable us to take targeted and proportionate action – without imposing unnecessary burdens.


It has been a challenging year. And so I would like to extend my thanks to our Chairman and Board. In particular, I would like to thank those who are stepping down or moving on in 2011. Their experience, guidance and challenge have been invaluable and leave Ofwat – and the sectors we regulate – in an excellent position to tackle the challenges ahead.

I would also like to thank our stakeholders. Across our work this year – particularly in delivering our future regulation programme – we have been learning from, and working and engaging with many individuals and organisations. I would like to thank them for their continued partnership, co-operation and input into our work. Together, we can deliver sustainable water.

**Regina Finn**  
**Chief Executive**



# Our strategy – a summary

<p>This is our long-term aspiration.</p>	<p><b>Vision</b></p> <p>A sustainable water cycle in which we are able to meet our needs for water and sewerage services while enabling future generations to meet their own needs (<b>'Sustainable water'</b>).</p>
<p>Our mission and goals set out how we will contribute towards delivering our vision.</p>	<p><b>Our mission and goals</b></p> <p>To ensure customers continue to receive safe, reliable, efficient and affordable water and sewerage services that promote positive social, economic and environmental impacts today, tomorrow and over the long term (<b>'Water today, water tomorrow'</b>).</p> <ul style="list-style-type: none"> <li>• Ensuring a fair deal for customers</li> <li>• Keeping companies accountable</li> <li>• Making monopolies improve</li> <li>• Harnessing market forces</li> <li>• Contributing to sustainable development</li> <li>• Delivering better regulation</li> </ul>
<p>Our values describe how our organisation, and individuals in it, will behave in delivering all aspects of our work.</p>	<p><b>Responsibility</b></p> <p>We have values that underpin our vision, mission and goals. We will operate to the highest standards of public office and conduct our business in a responsible and ethical way.</p> <ul style="list-style-type: none"> <li>• Excellence</li> <li>• Leadership</li> <li>• Respect</li> <li>• Integrity</li> </ul>
<p>Our vision, mission and goals provide the basis of our annual priorities, which we set out in our forward programme each year.</p> <p>These annual priorities form the basis of our senior management team's objectives. These in turn cascade down the organisation to the objectives of all Ofwat staff.</p> <p>This ensures actions required to deliver our strategy are allocated and aligned with individual responsibilities.</p>	<p><b>Delivery</b></p> 
<p>Our annual report and accounts show what we have delivered each year and report on progress in delivering our strategy.</p>	<p><b>Progress and accountability</b></p> <p>Each year, we review how well we have done in delivering our work programme, and report on the efficiency and effectiveness of our organisation in our annual report and accounts. This document is laid before Parliament.</p>

## Our Board



From left: Keith Mason (Director of Finance and Networks), Philip Fletcher (Chairman), Penny Boys, Gillian Owen, Regina Finn (Chief Executive), Jane May, Mike Brooker, Cathryn Ross (Director of Markets and Economics), Peter Bucks

Non-executive directors: Penny Boys, Gillian Owen, Jane May, Mike Brooker, Peter Bucks

## 2010-11 highlights

Here, we set out some of our main achievements this year. We describe them in more detail in the report, along with our other achievements during 2010-11. Further information is also available on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

### Ensuring a fair deal for customers

The average water and sewerage bill remained flat in 2010-11.

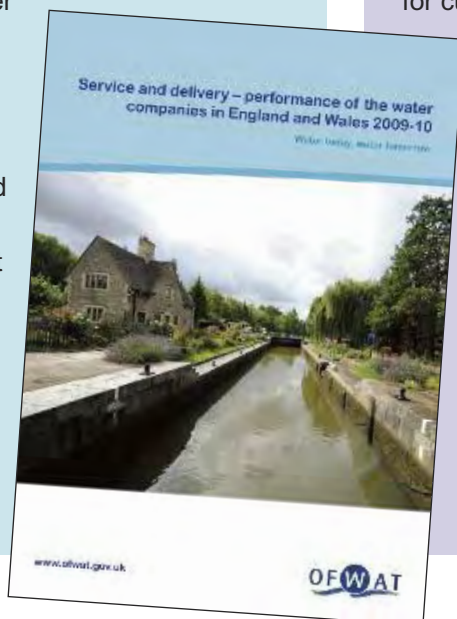
Because of price control decisions we took in 2009, the average bill before inflation will remain broadly stable until 2015. See page 14.



### Keeping companies accountable

We took action against a number of companies that failed their leakage targets, and those that failed to maintain their infrastructure adequately. See page 17.

We introduced a new incentive for monopoly water companies to improve the services their customers experience and resolve any complaints first time. See page 19.



### Making monopolies improve

We began a root and branch review of how we will set limits on the prices the companies can charge their customers in future. Our aim is to develop an approach that encourages the companies to deliver more responsive, innovative and sustainable services. See page 21.

We developed proposals for new ways for customers to have more of a say over the companies' plans and decisions in future. See page 22.



## Harnessing market forces

The UK Government announced that an additional 25,000 non-household customers in England will be able to switch their water supplier. We provided advice on how this could be implemented. See page 24.

We asked the Office of Fair Trading (OFT) to carry out a market study on organic waste treatment and disposal, including sewage sludge, so that we could consider opportunities for market reform in this area. See page 25.



## Contributing to sustainable development

On 1 April 2010, we introduced new water efficiency targets for the companies to incentivise them to promote more water efficient solutions.

We started to explore different ways the sectors can encourage customers to waste less water. See page 26.



## Delivering better regulation

We contributed to a number of UK and Welsh Government reviews to shape the future regulation of the sectors. This included the review of our responsibilities and those of CCWater, chaired by David Gray. See page 29.

We made changes to the way we regulate, which are helping to reduce regulatory burdens. See page 31 and appendix 5.





# Part 1

## Annual report

# Ensuring a fair deal for customers



One of our primary duties is to protect the interests of consumers, wherever appropriate by promoting competition. Customers continued to be at the heart of our work during the year.

## Taking action now

The average household water and sewerage bill remained broadly flat in 2010-11.

During the year, we announced that the average bill for 2011-12 would increase broadly in line with inflation. It will rise by 4.6% (or about £16) to £356. This took account of a reduction in the average bill of 0.1%, before inflation of 4.7%.

The bills of individual customers will vary depending on where they live, their method of charging and – if they have a water meter – how much water they use. But as a result of the decisions we took in 2009 on how much the companies could charge customers between 2010 and 2015, average bills are set to remain

broadly stable until then (before inflation is factored in) – and about 10% lower than what companies asked for.

Our decisions also meant that the companies are investing £22 billion between 2010 and 2015, delivering real benefits to customers and the environment. This includes investing more than £1 billion on maintaining or improving drinking water quality and addressing sewer flooding problems at more than 6,300 properties.

To inform the decisions we make, we need to understand what customers want. This year,

we continued to work with CCWater and other consumer representatives. We also set up, and met with, a group of business customers (our 'Business Customer Forum') to engage with non-household customers directly. And we carried out research to explore household customers' expectations and aspirations for the services they get from their water company. The research also considered their:

- perceptions of risk in relation to service failure and what the response should be when things go wrong; and
- interest and willingness to engage with their water company on issues that concern customers, including future price reviews.

This research is helping to inform our decisions on our regulatory compliance project (see page 18) and on involving customers in decisions about water and sewerage services (see page 22).

People with disabilities, the chronically sick and elderly may have particular service needs from their water company. We held a workshop with the companies, consumer experts and stakeholders from the water and energy sectors to share good practice for communicating with these customers. We also updated our guidance to the companies on the essential elements of their policy and procedures for meeting the needs of vulnerable consumers. For example, our expectation is that each company will offer bills in formats that suit different customers' needs. We want to encourage the companies to be innovative in how they help customers.

We dealt with almost 1,000 cases where customers had a dispute with or complaint against their company. As a result, the companies carried out extra work – to the value of £4.3 million – to resolve customers' problems. It compares with the 2,317 cases

**We want to encourage the companies to be innovative in how they help vulnerable customers**

we handled in 2009-10, which resulted in extra work valued at £20 million to redress problems. The reduction in the number of cases, and the amount of extra work they needed to carry out, demonstrates an improvement in performance by the companies.

When two companies – Bristol Water and Bournemouth & West Hampshire Water (now named Sembcorp Bournemouth Water) – changed hands, we updated their licence conditions. The changes we made safeguard customers' interests by ensuring the companies keep their regulated activities separate from their other business interests. This means water customers do not have to pay for anything they should not.

Complaints from customers alerted us to a problem of repeated sewer flooding around the Kensington and Chelsea area. While one solution might seem to be to build bigger sewers, this could be very expensive for customers who would have to pay for the work through their water and sewerage bills. So, we asked Thames Water to work with an independent group of sustainable drainage experts to find a better solution that is cheaper and more sustainable. We expect the company to complete its analysis and identify the best option by 2012.

### Planning for the future

For some people, paying their water and sewerage bills is a real problem. They may need help with this. But the companies do not always understand who is at risk and how best to target that help. We carried out new research and analysis during the year to help inform possible new company social tariffs under the Flood and Water Management Act 2010, and any new UK and Welsh Government policy in this area. We considered what factors might result in



households being at risk of not being able to pay their water and sewerage bills ('water affordability risk'). We also considered the issues raised by the independent review of charging and metering for water and sewerage services (the 'Walker review') about whether the companies are doing enough to help. Key outcomes include:

- a new method for identifying customers at risk of experiencing difficulty paying their water and sewerage bills;
- an initial analysis identifying those customers at most risk of being unable to afford their bills, and the reasons why;
- new tools to analyse the impacts of different types of social tariffs designed to help those with water affordability problems;
- evidence about customer requirements and water company performance in

dealing with affordability and debt; and

- analysis of options for the UK Government to address high bills for customers of South West Water.

This work is important to policy-makers as they consider wider approaches to help customers. And it will help individual companies to assist customers who find it difficult to pay their water and sewerage bills. Finally, we will use it to help inform our regulation decisions in this complex but important area.

We want to make sure that water customers in England and Wales do not have to pay unnecessarily high costs arising from new legislation or obligations in the future, particularly those arising at a European level. So, with Defra we set out the historic costs associated with existing legislation and highlighted issues and lessons learned, and



## Ensuring a fair deal for metered customers

During the year, Southern Water began implementing a metering programme for its household customers. This is to help ensure there is enough water – both for customers today and also in the future.

The Secretary of State for Environment, Food and Rural Affairs has designated the company's area as seriously water stressed. Southern Water chose to include universal metering as a key part of its water resource management plan.

The programme will mean that by 2015, nearly all of Southern Water's one million household customers will have a water meter. This compares with only 41% in 2009-10.

Moving to metered charges affects customers' bills. This is because instead of paying a fixed charge every year, each customer will pay according to the volume of water they use. Some customers will see reductions in their bill as a result; others could face increases.

We worked with Southern Water to make the change more manageable for customers. As a result, the company has developed a package of support that includes:

- advice to customers on how to use water efficiently; and
- a transition tariff that gives them time to adapt before their new metered bill takes full effect.

The company will also be providing help for those customers who may find it difficult to afford their new metered bills.

We have also been working with South East Water and Thames Water as they develop their own metering programmes.

provided this to the European Commission's review of future EU water policy.

We continued to work with a wide range of stakeholders on the expected transfer of ownership of private sewers to the water and sewerage companies. The transfer will increase the length of the public sewer network by about 70%. It will also increase the number of sewage pumping stations for which the companies are responsible. The

maintenance costs associated with the transferred assets will have an impact on all customers' bills. We want to ensure this impact is no higher than it needs to be. So, this year, we:

- responded to Defra's and the Welsh Government's consultation on the draft regulations that will allow the transfer to take place;
- continued to advise the UK and Welsh Governments on the likely impact of the transfer on customers' bills; and
- set up a group with Water UK and individual companies to examine how to minimise the impact of the costs that will be borne by customers during the current pricing period (2010-15). We also want to ensure fair cost recovery by the companies.

We continued to check that Thames Water's customers receive value for money from the company's 'Thames Tideway' project. The project, which could take a further ten years to complete, involves constructing two super sewers beneath London and improvements to a sewage treatment works. It is by far the largest project that the UK water industry has carried out since privatisation. During the year, to make sure that the costs to customers are justified, we:

- reviewed Thames Water's engineering design and its processes for managing risk and estimating costs;
- commented on the company's planning approach, including consultation processes and materials;
- checked that the significant resources it is using are procured competitively and managed effectively; and
- discussed alternative options for financing the project with the company, Defra and HM Treasury.

# Keeping companies accountable



We expect the companies to meet their customers' expectations and their legal obligations – and put things right where they go wrong. We hold them accountable on behalf of customers if they fail to do this.

## Taking action now

During the year, we took action against those companies that failed to deliver the level of service their customers expect.

We required four companies – Southern Water, Northumbrian Water, Veolia Water Central and Dŵr Cymru – to deliver action plans to restore stable serviceability. They did this at their own expense, not that of customers. ('Serviceability' means they must show that their assets are capable of delivering the right level of service to consumers now and in the future.)

Yorkshire Water and Southern Water failed their annual leakage targets in 2009-10. So, during 2010-11, we secured an informal undertaking (a written commitment to put things right) from them. Each company will have to spend its own money on increased activity to ensure it achieves its targets over the remainder of the current price review period (2010-15). We receive quarterly progress reports to check all is on track.

We also required three other companies that failed their targets (Northumbrian Water, Veolia Water Central and Dee Valley Water) to increase reporting to us on their

performance to ensure things were getting back on track. Cambridge Water also provided us with an extra report on its performance. This will allow us to take appropriate action quickly should these companies fail to recover progress on their leakage targets in the future.

We agreed and published a revised joint statement with the Secretary of State and Welsh Ministers on imposing financial penalties on the companies. This is so customers and the companies can see the type of action we might take. The document sets out the general approach we will all take. For example, we stated that penalties should provide an adequate incentive both to the company in question and to all companies to comply. Within the statement, we also included our own process for pursuing financial penalties, so that stakeholders can understand it more easily.

And we published the principles we will use in deciding whether to open or continue investigations under the Competition Act 1998 (CA98) and in deciding on any enforcement action. We opened investigations into alleged misconduct by water companies on two occasions in 2010-11. We expect to report on the outcome of these cases by 2012-13.

## Planning for the future

We want to develop a more effective way to ensure that the companies are held

**We will now require much less supporting information from each company as part of their annual submission**



accountable for meeting their customers' expectations and their legal obligations. Through our regulatory compliance project we are developing a framework where:

- the onus is on the companies to be accountable to their customers and put problems right rather than focusing on our targets;
- we take a more targeted and proportionate approach when we do need to intervene; and
- regulatory burdens are minimised.

We will do this by focusing our attention on the biggest risks to consumers, the

environment or society – and taking appropriate action where necessary.

This will require a change in how we and the companies work. For example, they will need to take greater responsibility for meeting their customers' expectations. We will need to focus our attention only on areas where there are the biggest risks if the companies fail.

We need our stakeholders' input to get this right. So, we sought to involve others during the year in developing our future approach. We received positive feedback on the proposals we set out in '[Getting it right for customers – how can we make monopoly water and sewerage companies more accountable?](#)', which we published in

## Keeping companies accountable on customer service

November 2010. This set out how a more proportionate approach could work. We held a number of workshops throughout the year to make sure that our stakeholders were involved in the development of our risk-based framework and the regulatory tools to support it. We are using the feedback we received to develop a proposal on which we will formally consult in 2011-12.

As part of this approach, we have already begun to implement changes to reduce the amount of reporting we require from the companies. For example, we removed the requirement for the companies to provide supporting written information to the data return for 2010-11. (See appendix 5 for more information.)

In April 2010, we started using the new service incentive mechanism (SIM) to make sure the monopoly water companies improve the way they deal with customers' complaints.

The SIM primarily uses a survey to measure customer views on how well the company has handled their complaint or service request.

The aim of the SIM is to make the companies focus on:

- identifying and meeting their customers' expectations;
- getting things right first time; and
- reducing the number of complaints they receive by improving their services overall.

The companies will have a financial incentive to improve. We will also publish information about their SIM performance during 2011-12.

Informal feedback we received during the year tells us that some companies are already making changes to improve their services to customers. For example, Anglian Water has set itself the target of ensuring that 100% of its customers are very satisfied with its service.

Further details about the SIM can be found in our focus report '[Putting water consumers first – how can we challenge monopoly companies to improve?](#)', which we published in March 2010.

# Making monopolies improve



Most people receive their water and sewerage services from one of 22 monopoly companies. In the absence of customer choice, we challenge the companies to deliver improved services, innovation and value for money for their customers.

## Taking action now

One of the ways we make monopolies improve is by setting limits on what each regulated company in England and Wales can charge its customers. We last did this in November 2009, when we set price limits for 2010-15. As we reported last year, only one company – Bristol Water – appealed to the Competition Commission against our final decision. In 2010-11, we provided evidence to inform the Competition Commission's decisions on Bristol Water's price limit.

The Competition Commission announced its final decision in September 2010. Its judgement showed that our decision to put customers at the heart of the price review was right. This means the sectors remain attractive to investors, and that customers are not paying higher bills for unnecessary investment. The higher price limits that the Competition Commission allowed

were largely based on new information provided by Bristol Water during the appeal process on its investment needs.

We reviewed and published the lessons we learned from the 30-month process we used to set price limits. We also asked our stakeholders for their views. One of the concerns we identified was that our approach has become increasingly complex, which can reduce transparency and effectiveness. We are using these lessons as part of our project to consider how we set prices in the future.

One of our aims in setting price limits is to encourage innovation. Another way we did this during the year was by working with Defra as part of a Water Sector Innovation Leadership Group, along with:

- the Environment Agency;
- the Drinking Water Inspectorate;
- Water UK and
- the Technology Strategy Board.

The group developed a list of priority areas in water and sewerage service delivery where innovation is needed. For example, innovation in reducing leakage and adapting infrastructure to a changing

climate were identified as the top priorities.

### Planning for the future

As part of our future price limits project, we are considering how best to ensure that the companies (among other things):

- make best use of water resources;
- engage effectively with customers;
- find new and innovative solutions; and
- deliver the right investment at the right price in the right time and place.

Involving our stakeholders in reviewing and developing a future price control framework is vital as price setting involves many other organisations. It is important that our stakeholders have plenty of opportunity to contribute their ideas and have their say on our overall approach. Finding new and better ways to do things requires a range of views and ideas.

In July 2010, we published ‘Beyond limits – how should prices for monopoly water and sewerage services be controlled?’, which set out how and why we intended to carry out the project. And, over the course of the year, we also published a number of discussion papers that considered different aspects of price setting. This included:

- the [form of the price control](#) for monopoly water and sewerage services in England and Wales;
- [involving customers](#) in the price-setting process;
- the [treatment of regulated and unregulated](#)

- [business](#) in setting price controls;
- [the role and design of incentives](#);
- [allocating risk and managing uncertainty](#);
- [financeability and financing the asset base](#); and
- [what price limits should deliver in terms of outcomes](#).

The documents we published, the responses we received, as well as the workshops and individual discussions we held with stakeholders have helped to inform the development of our future approach to price setting.

Some of the feedback we received included requests that we make clear our thinking about future price limits while it was still at an initial stage. Stakeholders commented that it would be helpful for them to see a high-level model of how we could set prices – if only for illustrative purposes – in order to take forward the debate.

So, in early April 2011, we published an informal consultation that set out [one possible model of how we might set price limits in 2014](#). This invited the views of our stakeholders about alternative approaches, or how we could adjust the model we describe. We will formally consult on our proposed approach to future price setting during 2011-12.



**The sectors remain attractive to investors, but customers are not paying for unnecessary investment**

## Making monopolies improve in engaging with their customers

Customer engagement is an important element of price reviews. The challenges facing the sectors over the coming years, including climate change and population growth, mean that substantial investment will continue to be needed. So, effective customer engagement will be even more important – both to ensure the companies deliver the right investment and that their customers view it as legitimate.

During the year, we explored different ways of engaging customers. In October 2010, we published [‘Involving customers in the price-setting process – a discussion paper’](#) to stimulate debate among our stakeholders about the best approach. We also had individual discussions and held a number of workshops. We used the responses we received, as well as the initial results of Defra’s review of CCWater (and Ofwat), to develop our approach.

In our initial discussions, the companies and other stakeholders argued that exploring, understanding and responding to customers’ views should be clearly distinguished from our role in protecting consumers. We agreed. The companies should be responsible for engaging with their customers and for developing plans that take full account of their views. This is reflected in our formal consultation on [‘Involving customers in decisions about water and sewerage services’](#), which we published in April 2011.

Our consultation sets out the key elements of our proposed approach to customer engagement during the price-setting process. It draws on aspects that will help deliver effective engagement, without introducing an intrusive new role for the regulator or burdensome new processes. We will publish our conclusions in summer 2011.

# Harnessing market forces



We make sure that where markets for water and sewerage services exist they operate efficiently and effectively to deliver benefits to consumers and the environment. We also make recommendations to the UK and Welsh Governments where we consider introducing or expanding markets could deliver further benefits.

## Taking action now

New appointments and variations allow companies to provide water, sewerage or water and sewerage services in place of the previous service provider. This can deliver benefits to customers and developers (see page 25). When we assess applications, we make sure customers will be no worse off than if the former provider was still supplying them.

This year, to help streamline the process for granting new appointments and variations, and make it easier for companies to apply, we published:

- the [policy principles](#) and [process](#) we will use to assess applications; and
- the [policy principles we will use when making determinations on the supply of wholesale water, sewerage or water and sewerage services](#) from one appointed water company to another ('bulk supplies').

During 2010-11, we used our principles to inform our draft decision on the terms and conditions for the bulk supply of potable and non-potable water from Dŵr Cymru to Albion Water. We will publish our final decision during 2011-12.

We successfully defended a judicial review by Thames Water of our decision to grant Independent Water Networks Limited a variation to its appointment to serve the King's Cross redevelopment in London. Thames Water is appealing that judgment.

Water supply licensing is another means to give some non-household customers a choice of water supplier. During the year, Avon Valley Water entered the market to supply retail services to non-household customers. This new company will now be able to purchase a wholesale supply of water and serve non-household customers in England and Wales that currently use more than 50 million litres of water a year. We also improved the application process to make it easier for other new companies to apply for water supply licences.





### Planning for the future

In February 2011, the UK Government announced its intention to reduce the legal threshold for water supply licensing in England to allow customers using five million litres a year to switch suppliers. We provided advice to the Government on how this should be implemented. This will allow an additional 25,000 customers to switch their water supplier. The threshold in Wales will remain

at 50 million litres of water a year.

Following recommendations from the Cave review, the UK and Welsh Governments

are considering other changes on market reform, including the possibility of abolishing the threshold, which would extend choice to all non-household customers. We continue to work to help inform those policy decisions. Our role is to develop plans for how those decisions could be implemented, including how our regulatory approach would need to change.

Our work this year has included:

- engaging with business customers on the arrangements they would like to see put in place and learning lessons from Scotland;
- scoping out the market arrangements, such as switching systems and market governance, that would be needed to support a retail market for water in England

and Wales where all non-household customers could choose their supplier;

- identifying how the recommendations set out in the final report of the independent review of competition and innovation in water markets (the 'Cave review') could be implemented; and
- working with the Market Reform Finance Forum to identify how the necessary confidence and support of debt providers and capital markets can be retained if there are regulatory and other changes to the sectors.

We also worked with stakeholders on proposals to develop a common access code and common contract to replace the current access codes guidance. We consider – and others agree – that a more standardised approach would help to reduce barriers to new companies entering the water supply licensing market and give non-household customers more choice.

As well as our work on reforming retail markets, during the year we published our thinking on [developing wholesale markets](#). This will help us provide advice to the UK and Welsh Governments should they decide to introduce reforms. It will also tell us how we need to change our regulatory approach to make it flexible enough to cope with these changes.

During the year, we worked with the Environment Agency, Defra and the Welsh Government on short- and long-term changes

**We made it easier for new companies to apply for a water supply licence**

in the way water resources are managed. This includes considering possible reforms to the system that licenses the abstraction of water from the environment. Harnessing markets in these areas could deliver benefits to the environment by revealing the value of water and provide incentives for more efficient use across the water cycle.

In January 2011, we asked the Office of Fair Trading (OFT) to carry out a market study to consider organic waste treatment and disposal. We are working closely with the OFT in carrying it out. Broadly speaking, from the study's findings, the OFT could make recommendations to us on whether we change the way we regulate the economic framework for treating and disposing of sewage sludge, and if so what those changes should be. The study will conclude during 2011-12. We will report on the outcome then.

## Harnessing market forces to deliver better services

We granted six appointment variations during the year. These are where an existing company provides water, sewerage or water and sewerage services to a specific area in place of the previous supplier.

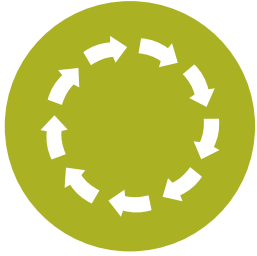
New appointments and variations can benefit customers in different ways. For example:

- four of the six variations we granted offered customers a discount on the charges they would have paid to their previous supplier; and
- at all six sites developers are being supplied with water, sewerage, gas and electricity infrastructure by a single company. This means developers have only one supplier to deal with. It can also mean that the infrastructure is installed together, which is quicker and sometimes cheaper.

Three of the sites are supplied by SSE Water Limited (previously known as Scottish and Southern Energy). Two are supplied by Independent Water Networks.

More than 12,000 household customers and almost 50 non-household customers will be supplied at these sites.

# Contributing to sustainable development



We have a duty to contribute to the achievement of sustainable development. We take this duty seriously – considering social and environmental issues is part of our work as economic regulator.

## Taking action now

Climate change poses significant challenges to the sectors we regulate. This is why, in 2010-11, we helped develop a better understanding of how they need to respond to reduce greenhouse gas emissions and to adapt to new rainfall patterns.

In April 2010, we published [‘Climate change – good practice from the 2009 price review’](#).

We also sought to stimulate debate with [‘Playing our part – how can we cut greenhouse gas emissions in the water and sewerage sectors?’](#), which included information on the considerable embedded carbon in the sectors for the first time. And we considered how to ensure long-term secure services in the face of hazards that are outside of the sectors’ control in [‘Resilient supplies – how do we ensure secure water and sewerage services?’](#), which we published in November 2010. We will take account of the outcome of these discussions with stakeholders when we next set price limits for water and sewerage services in 2014.

We contributed to the Cabinet Office’s Critical Infrastructure Resilience Programme and its March 2011 consultation, ‘Keeping the

Country Running: Natural Hazards and Infrastructure’. This will help inform the standards to which companies should plan, while also taking into account what costs customers should have to bear.

During the year, we continued to highlight the part the sectors have to play in protecting and enhancing the natural environment. We contributed to Government thinking by responding to separate consultations published by the UK and Welsh Governments. We called for measures to tackle diffuse pollution at source. We also called for mechanisms to reveal the value of water to help improve decision-making.

We also contributed to the development of European policy. For example, we responded to the European Commission’s consultation on reforms to the Common Agricultural Policy (CAP) beyond 2013. We called for the CAP to be consistent with broader EU environmental goals, such as those set out in the Water Framework Directive. We also called for incentives for farmers and landowners to prevent contamination of water sources. This would help prevent customers paying unnecessary clean-up costs.

## Planning for the future

The challenges the sectors face will mean we have to manage our precious water resources more carefully and sustainably. On 1 April 2010, we introduced water efficiency

targets for the companies. And as part of our wider work, we published the following two reports to stimulate debate.

- 'Waste not, want not – making the best use of our water' explored how the sectors can contain the demands we all place on the water system.
- 'Push, pull, nudge – how can we help customers save water, energy and money?' discussed how we can help customers use water more efficiently.

These are helping us consider with the companies how to improve the evidence on water efficiency measures, and the way we monitor leakage performance.

Building on analysis from the Walker review, we carried out further work to understand the potential costs and benefits of water metering in England and Wales. We will publish the results during 2011-12.

We continued to support Waterwise's 'Evidence base for large-scale water efficiency' project. The project provides information on the effectiveness of different approaches to water efficiency. It will help to ensure that the companies choose the best approach to balancing the supply and demand for water.

Climate change means we are increasingly likely to experience rainfall patterns that could



**We built a better understanding of how the sectors need to adapt to new rainfall patterns**

## Contributing to sustainable development by thinking 'smart' on water and energy

By 2020, the energy sector will roll out smart meters to all households in England and Wales. This could provide an opportunity for the water companies to use the communications infrastructure that will support these new smart meters. In particular, they could:

- reduce their data collection costs by transmitting meter readings through the energy communications infrastructure; and
- present water usage information to consumers using the same in-home displays that the energy sector will use.

When they install smart meters, energy suppliers will provide households with advice about energy efficiency. We think this presents an excellent opportunity to deliver water efficiency information at the same time. Providing advice jointly would reduce costs and reinforce the efficiency message. Water and energy efficiency are closely linked – consumers save both water and energy when they use less hot water.

During 2010-11, we set up a Smart Metering Advisory Group. The group will advise us on the role of smart metering in delivering benefits for water consumers and the environment. The group includes:

- the companies;
- the Environment Agency;
- Defra;
- the Department of Energy and Climate Change;
- CCWater; and
- the Energy Saving Trust.

We also prepared a submission to Ofgem, the economic regulator for gas and electricity markets, on the water and sewerage sectors' requirements for a smart meter communications network.

overwhelm our current drainage infrastructure in the future. This is why we launched our sustainable drainage project during 2010-11. The project will also help address challenges from the independent review of lessons learnt from the 2007 floods (the 'Pitt review').

As a result of our decisions at the 2009 price review, Dŵr Cymru implemented a scheme that has reduced the risk of internal flooding at four properties and external flooding at six properties in Caldicot in South Wales. Instead of building expensive concrete storage tanks, the company diverted the storm water to a local water course and reprofiled the local playing fields so that the flood water will collect there in severe storms before draining away, rather than flooding homes. The sustainable drainage project will help us understand how more of these innovative schemes can be encouraged.

# Delivering better regulation



the sectors we regulate can adapt and innovate to address future challenges. But they will also allow us to deliver better regulation. (See page 31 for an example.)

The changes we are making must be consistent with UK and Welsh Government policies. This is why we welcomed the external reviews that took place during the year.

- We contributed to the UK and Welsh Governments' review of Ofwat and CCWater being led by David Gray. We have worked closely with the review team, so that we can respond to their emerging findings. We look forward to the review's final report during 2011-12.
- We also responded to the Department for Business, Innovation and Skills' (BIS) call for evidence on the principles for economic regulation. We welcomed the principles and the UK Government's work to define the boundary between government and regulator. We particularly welcomed recognition of the importance of independence in providing a stable and transparent regulatory framework.
- In March 2011, BIS published 'A competition regime for growth: a consultation on options for reform'. We have been discussing the proposals with BIS, competition authorities and other regulators. We will be submitting a formal response during 2011-12.



Delivering better regulation means targeting our efforts on the biggest risks and taking consistent and proportionate action. It also means being transparent and accountable for the decisions we take, and reducing the regulatory burden.

## Taking action now

The sectors need to adapt to meet the challenges they face. As the economic regulator we have an important role to play. So, in 2010-11 we began to make a number of changes to the way we work. Many of these, which we describe elsewhere in this report, are primarily intended to ensure that

We also understand that being a better regulator means working in closer partnership with our stakeholders. This is particularly important as we make changes to our

regulatory approach, so that those we regulate and others we work with understand and can help shape our new ways of working.

So, we engaged directly with our stakeholders during 2010-11 to find out their views on our work.

- We held almost 80 meetings and events – ranging from small topic-specific workshops to industry-wide events. In total, more than 1,100 people attended our events.
- We met more than 120 investors in one-to-one and group meetings. We also held two City briefings about our future plans.

Regulatory certainty, transparency and consistency are crucial for maintaining investor confidence in the sectors.

- We listened to customers' views by, for example, setting

up a Business Customer Forum. This provides business customers with an opportunity to speak to us directly about what they want from their water suppliers. It also allowed us to communicate what we have been doing to develop our policies and practices – and seek feedback to inform further development.

We also continued to improve our operational effectiveness and efficiency. This included reviewing our own environmental impact by, for example, investing in energy-efficient information technology and lighting. We also used the Regulators' Procurement Group to make use of collective buying power to get better value for money.

### Planning for the future

During the year, we started work on a project to reform the licences that each company must hold, and comply with, to supply their customers. We want licences that:

- are less complex and easier to understand;
- are easier to change, without removing the necessary tests to ensure this is in the public interest; and
- potentially allow a wider range of companies, offering different combinations of services, to hold licences.

This will also help us enact any changes that may arise from the UK and Welsh Governments' decisions about competition and the structure of the sectors.

We also continued to deliver our project to implement full accounting separation of all the water and sewerage and water only companies in England and Wales that currently provide us with yearly regulatory

**We want the companies to be more accountable to their customers, rather than to us**

## Delivering better regulation by changing the way we work

accounts. This will enhance the transparency of costs for all stakeholders and enable more sustainable choices to be made. It will allow the development of markets in contestable parts of water and sewerage service delivery. It will also enable us to examine the options for setting separate price controls as part of our future price limits project.

Through our regulatory compliance project we want the companies to be more accountable to their customers – rather than to us. To do this, we have been developing a risk-based framework to guide the approach we take to regulate the sectors and the regulatory tools that will support this. Risk-based regulation means focusing more of our efforts on those areas, issues and companies where poor performance will most affect customers and the environment.

We recognise that introducing a more risk-based approach will need significant cultural change – both within Ofwat and the water companies. We will be asking the companies to tell us how they are complying with their obligations and managing their risks, rather than analysing a wealth of data across all areas. We are seeking a more mature relationship between the regulator and the regulated companies.

This year, we started to make this type of change to how we work. For example, we reduced the amount of information we collected from the companies for 2010-11. We have asked them to highlight any material issues to us.

Risk-based regulation means we will continue to hold the companies to account and ensure that customers know we are doing this. It is important that customers know that they are receiving value for money from their water company – and that we will take action on their behalf if they are not.





# Part 2

## Accounts

## Financial commentary

The financial highlights for Ofwat are summarised below.

### Operating costs summary

	2010-11 £000	Restated 2009-10 £000
<b>Income</b>		
Deferred income prior year	4,999	4,014
Licence fees received	17,892	18,108
Other income	13	80
	<b>22,904</b>	<b>22,202</b>
<b>Expenditure</b>		
Administration costs	(17,423)	(17,516)
	<b>5,481</b>	<b>4,686</b>
Licence fee income deferred to the following period	(5,361)	(4,999)
<b>Net operating cost</b>	<b>120</b>	<b>(313)</b>

Ofwat is funded by fees charged to the regulated companies. Fees are recovered annually from appointed companies and licensed suppliers. Our fee income is subject to the constraints set out in the appointed companies' licence conditions. Our budget is subject to negotiation with HM Treasury.

The operating budget set at the start of the year was £18.7 million. This included an estimate of £0.4 million to cover our costs relating to the Thames Tideway project. At the beginning of the financial year, we recovered £17.7 million in general licence fees. During the year, the requirements of regulating the Thames Tideway project reduced and a £0.19 million special fee was recovered from Thames Water Utilities Ltd.

Excluding the Thames Tideway project, the underspend against budget was 6%. This was mainly because of the UK Government's freeze on pay increases, non-business critical staff posts and consultancy.

We continued to draw on provisions made in 2009-10 to cover redundancy and early retirement costs.

#### HM Treasury Alignment Project Clear Line of Sight

This project set out to achieve better alignment between

budgets, estimates and accounts, and to simplify and streamline the Government's financial reporting documents, thereby improving Parliament's ability to scrutinise planned and actual expenditure. As a result of implementing this change, the cost of capital credit is no longer included in the accounts.

#### Financial instruments

We do not have borrowings and rely primarily on licence fee income and Contingency Fund repayable advances for our cash requirements. So, we are not exposed to significant liquidity risks. Further details are provided at note 20 to the accounts.

#### Going concern

Our statement of financial position at 31 March 2011 shows negative taxpayers' equity of £9.1 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the Consolidated Fund. This is primarily made up of deferred income and the pension provision for the retired Directors General of Water Services. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that

required for the specified year, nor retained in excess of that need. All unspent monies, including those derived from Ofwat's income, are surrenderable to the Consolidated Fund.

In common with other government departments, the future financing of our liabilities is met by future grants of supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. We confirm our funding for 2011-12 has been approved. The accounts for 2010-11 have been prepared on a going concern basis.

### Roles and responsibilities

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

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

#### Chief Executive

Regina Finn

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

#### Non-executive directors

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

Director General of Water Services, 2000-06. Member of the Archbishops' Council for the Church of England and until 31 March 2010 a member of the Committee of the Office of the Qualifications and Examinations Regulator (Ofqual); both positions unpaid. From 1 April 2010, a member of the statutory Ofqual Board for which a small salary is payable.

Penny Boys CB (Member of the Audit Committee), 2-3 days a month.

Deputy Chairman of the Horserace Betting Levy Board. Former executive director of the Office of Fair Trading.

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

Non-executive director of the Water Industry Commission

for Scotland and the Executive Board of the Natural Environment Research Council. Member of the Audit and Risk Management Committee of Wales Audit Office. Former Chief Executive of Dŵr Cymru Cyfyngedig (Welsh Water Ltd).

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

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

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

Non-executive director with the Information Commissioner's Office and Government Actuary's Department. Previously non-executive director of the Office of Rail Regulation and to 31 March 2010 SITA Trust and the Public Guardianship Office. Former customer services director of Thames Water.

Gillian Owen, 2-3 days a month.

Independent Consultant and Senior Research Fellow at the Centre for Management Under Regulation (Warwick University to April 2010) and Policy and Regulation Adviser to the Renewable Energy and Energy Efficiency Partnership. Deputy Chair of the Fuel Poverty Advisory Group and former member of the Competition Commission.

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

Non-executive director appointments are generally for five years. The appointments of Philip Fletcher, Jane May, Peter Bucks, Gillian Owen and Michael Brooker ran until 31 March 2011, and Penny Boys until 31 March 2014. Philip Fletcher, Peter Bucks, Mike Brooker and Jane May are not seeking reappointment. Philip Fletcher has agreed a contract extension up to 31 December 2011 and Peter Bucks, Mike Brooker and Jane May up to 30 September 2011, pending the appointment of the new chairman and three non-executive directors. Gillian Owen has had her appointment extended for three years to 31 March 2014.

Non-executive director appointments have no entitlement to performance-related pay or pension entitlements.

## Annual report and accounts 2010-11

Compensation in the event of early termination is at the discretion of the Secretary of State.

### Audit Committee

Our systems of internal control, risk management and governance are scrutinised by the Audit Committee. Members of the committee in 2010-11 were Peter Bucks (Chairman), Penny Boys and Richard Kennett (Independent member). Richard Kennett is a chartered accountant with extensive experience in audit, business and risk management, and is an independent member of the Audit Committee of Hanover Housing Group and a Council Member of the Health Professions Council, where he is the Chairman of the Finance and Resources Committee.

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

### Equal opportunities policy

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

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

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

During the year, we carried out 16 separate recruitments, which – in some cases – sought more than one member of staff. Everyone was recruited through open competition, with the exception of one casual staff.

### Employee involvement

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

During the year, we established an Institute of Leadership and Management (ILM) level 3 award course for junior managers, and specialist courses in project and programme management.

### Sickness absence

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

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

- three periods of absence in a rolling period of six months; and
- four periods of absence in a rolling period of twelve months.

The Positive People Company provide us 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.

	Short term	Long term	2010-11 total	Short term	Long term	2009-10 total
Days lost	737	728	1,465	863	1,088	1,951
Percentage lost			3%			4%

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

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

#### **Supplier payment performance**

We achieved 96.2% against our target for paying 100% of agreed invoices within 30 days of receipt during 2010-11. The corresponding figure for 2009-10 was 95.8%.

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

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

There were no protected personal data related incidents in 2010-11.

#### **Internal audit**

PricewaterhouseCoopers LLP (PwC) provided our internal audit services in 2010-11. The service provides an independent appraisal service for management by measuring and auditing the adequacy, reliability and effectiveness of:

- management;
- risk management; and
- financial control systems.

The internal auditors make recommendations based on the appraisal of each system reviewed.

During the year, no remuneration was paid to PwC for non-audit work.

#### **External audit**

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

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

The notional cost of this service is £41,000 (2009-10: £47,500).

**Regina Finn, Accounting Officer**  
**27 June 2011**

# Remuneration report

### Executive Team

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

Regina Finn\*  
Chief Executive

Keith Mason\*  
Director of Finance and Networks

Cathryn Ross\*  
Director of Markets and Economics

Rob Ashley (until 30 September 2010)  
Interim Director of Policy and Communications

Marian Spain (from 7 December 2010)  
Director of Policy and Communications

Stuart Crawford (from 1 April 2010)  
Director of Corporate Services and Programme Management

\*Denotes Board member.

### Service contracts

Remuneration of members of the Executive Team (with the exception of Rob Ashley and Stuart Crawford) is set out in their contracts and subject to annual review in line with awards recommended by the Senior Salaries Review Body.

Stuart Crawford was appointed Director of Corporate Services and Programme Management from 1 April 2010 on a two-year fixed-term contract.

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

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

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

Senior managers and Board members have declared that they have no company directorships or significant interests that might have caused a conflict with their Ofwat responsibilities.

### Interim directors

During the financial year, we continued to employ the services of an externally appointed Interim Director, Rob Ashley, until we successfully recruited Marian Spain into the role of Director of Policy and Communications from 7 December 2010.

### Staff remuneration

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

Salaries are set on the basis of recruiting and retaining high-calibre staff within the framework of controlling public expenditure set by the Government. PRP is determined by the appraisal system and limits set by HM Treasury.

### Non-executive directors

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

### Remuneration Committee members

During the year, the committee members were:

- Jane May (Chair);
- Philip Fletcher CBE; and
- Michael Brooker.

### Pension liabilities

The main pension scheme for Ofwat staff is the Principal Civil Service Pension Scheme (PCSPS). This is a defined benefit, unfunded scheme. The payment of benefits from the scheme is borne by the Civil Service Superannuation Vote. The pension liabilities arising from our employees' membership of the PCSPS are not provided for in these

accounts in accordance with HM Treasury's instructions and as described on page 41.

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

A full provision has been made in the accounts for liabilities arising in respect of the by-analogy pension schemes for both the former Directors General as required by HM Treasury (note 17.2). Claims are made on the Exchequer to cover the pension costs that relate to employment other than with Ofwat.

### Early departure costs and compensation payments

Following the restructuring provision set up in 2009-10, there was no further restructuring provision required in 2010-11. The use of this provision in 2010-11 is detailed in note 17.1.

## Senior managers' remuneration

The following information was subject to audit.

	Salary £000	Bonus payments £000	2010-11 Benefits in kind (to nearest £100)	Salary £000	Bonus payments £000	2009-10 Benefits in kind (to nearest £100)
Regina Finn Chief Executive	140-145	10-15	3,700	140-145	10-15	–
Keith Mason Director of Finance and Networks	105-110	5-10	100	100-105	10-15	–
Cathryn Ross Director of Markets and Economics	130-135	5-10	100	115-120	10-15	–
Stuart Crawford Director of Corporate Services and Programme Management (from 1 April 2010)	120-125	–	600	–	–	–
Marian Spain Director of Policy and Communications (from 7 December 2010 )	30-35 (100-105 full year equivalent)	–	100	–	–	–

## Third party payments\*

### Provision of interim manager services

The following information was subject to audit.

	2010-11 Payment £000	2009-10 Payment £000
Sand Resources Ltd Rob Ashley** Interim Director of Policy and Communications (until 30 September 2010)	190-195	285-290
Interim Performers Ltd Stuart Crawford Interim Director of Corporate Services and Programme Management (until 31 March 2010)	N/A	135-140

\*Civil Service pension rights are not applicable to members of the senior Executive Team while contracted through a third party.

\*\*Between October and December 2010, there was a consultancy contract with Robert Ashley Ltd. This covered a range of consultancy services. The total value was £38,000.



### Non-executive members of the Authority remuneration

The following information was subject to audit.

	2010-11		2009-10	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Philip Fletcher CBE, Chairman	105-110	1,500	105-110	500
Penny Boys CB, Non-executive Director	15-20	1,800	20-25	3,300
Michael Brooker, Non-executive Director	15-20	1,200	20-25	1,200
Peter Bucks, Non-executive Director	15-20	3,400	20-25	2,100
Jane May, Non-executive Director	15-20	1,300	20-25	1,600
Gillian Owen, Non-executive Director	15-20	1,000	20-25	1,000

Non-executive Director commitment reduced in 2010-11 following the completion of the price review in 2009-10.

### Independent member of the Audit Committee remuneration

The following information was subject to audit.

	2010-11		2009-10	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
Richard Kennett, Independent Member	0-5	800	0-5	700

#### Salary

'Salary' covers both pensionable and non-pensionable amounts and includes:

- gross salary;
- performance pay or bonuses;
- overtime;
- recruitment and retention allowances;
- private office allowances; and
- any other allowance to the extent that it is subject to UK taxation.

#### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by

HM Revenue and Customs as a taxable emolument. Payments outlined above were net of tax and the tax amounts were paid over to HM Revenue and Customs. Items that fell into this category were subsistence and travel arrangements.

#### Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2010-11 relate to performance in 2009-10, and the comparative bonuses reported for 2009-10 relate to the performance in 2008-09.

## Senior managers' pension benefits

The following information was subject to audit.

	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2011 and related lump sum £000	CETV at 31 March 2010 £000	CETV at 31 March 2011* £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Regina Finn, Chief Executive	0-2.5: lump sum –	10-15: lump sum –	84	120	19	–
Keith Mason, Director of Finance and Networks	0-2.5: lump sum 0-2.5	20-25: lump sum 65-70	385	451	11	–
Cathryn Ross, Director of Markets and Economics	0-2.5: lump sum 5-10	15-20: lump sum 45-50	140	178	17	–
Stuart Crawford, Director of Corporate Services and Programme Management	2.5-5: lump sum –	5-10: lump sum –	73	140	54	–
Marian Spain, Director of Policy and Communications	tbc					

\*The actuarial factors used to calculate CETVs were changed in 2010-11. The CETVs at 31 March 2010 and 31 March 2011 have both been calculated using the new factors for consistency. So, the CETV at 31 March 2010 differs from the corresponding figure in last year's report, which was calculated using the previous factors.

### Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements.

From 30 July 2007, civil servants may be in one of four defined benefit schemes – either a final salary scheme (classic, premium or classic plus), or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement of a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for

service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

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

## Annual report and accounts 2010-11

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

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

### Cash Equivalent Transfer Value (CETV)

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

The figures include the value of any pension benefit in another scheme or arrangement that the individual has

transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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 effectively 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.

**Regina Finn, Accounting Officer**  
27 June 2011

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## Statement of Accounting Officer's responsibilities

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

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

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

- observe the accounts direction issued by HM Treasury, including relevant accounting and disclosure

requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

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

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

## Statement on internal control

### Scope of responsibility

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

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

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

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. So, it only provides reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in Ofwat for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance. Assurance is provided to the Accounting Officer by each budget holder (directors and team leaders) who have signed a statement of internal control covering the period from 1 April 2010 to 31 March 2011.

### Capacity to handle risk

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

The Board recognises the importance of leadership to create an environment where risk management is effective. The Board, Audit Committee and Executive Team review regularly the strategic risk register and

current priority risks from the operational risk register. The Audit Committee also receives presentations on a rolling basis from each director on their management of risk in their division. Risk assessment is embedded into the work of the office. Senior managers, and their staff, are committed to managing risk. To strengthen its oversight we have an independent member to our Audit Committee, who is not a Board member.

### The risk and control framework

#### The Board

The Board reviews our strategy and its implementation regularly. This includes assessing changing external economic, political, environmental and social factors and our capacity. The strategic risks and overall performance are reviewed quarterly. The Audit Committee meetings include presentations by executive directors on risk management with a focus on demonstrating evidence that key assurance processes are applied effectively.

The overall risk environment increased during the year because of the uncertainty over the Government's plans to reform regulation and its legislative plans for regulation in the water and sewerage sectors. In autumn 2010, Defra commissioned David Gray to carry out an independent review of Ofwat's role and resources. This review took place alongside other sectoral regulatory reviews. To address the increased risks to the strategy, a project was initiated to ensure Ofwat engaged effectively with the Defra and other reviews and that its strategy was actively promoted. The Defra review is expected to be published in the first quarter of 2011-12.

#### Risk management

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

- the goal of risk management is to support the delivery of our strategy;
- risk ownership responsibilities have been clearly allocated from the Accounting Officer and Board to specific members of staff;
- risk appetite is balanced proportionately between threats, opportunities and resources, and factors such as desired outcomes and maintenance of reputation;
- potential risk areas have been identified with mitigating

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actions for areas such as decision taking, failure in quality assurance, inability to recruit the right staff, failure in business continuity, breaches of security, financial procedures and corporate governance;

- annual risk management workshops are held with each division;
- divisional risk registers are reviewed each month;
- directors attend the Audit Committee to provide briefings on risk management at a divisional level;
- risk registers are updated regularly and reports prepared for Executive Team and Audit Committee; and
- actions are followed up from internal audit studies to the agreed timetable.

Key risks that we addressed during the year were:

- the current legislative framework, which does not promote competition in the water and sewerage sectors. We addressed this risk by working with Defra on new legislative proposals designed to achieve market development within the sectors;
- the reorganisation of the office to apply programme/project management for the delivery of the strategy goals has included embedding risk management into all projects. We strengthened this by establishing a programme office with regular risk assessments across the programme interdependent projects;
- the key projects covering market reform, future price limits, the Water White Paper and the Defra review are critical to the strategy. We appointed Director-level posts to lead these projects;
- the promotion of the strategy with key stakeholders is

fundamental to its delivery. To address this risk, we published a series of focus reports and held 'sustainable water' events designed to influence and secure the support of government, regulated companies, consumers, investors and other regulators; and

- the recruitment of a new chairman and three non-executive members of our Board is key priority. We have supported Defra in providing the resources and background information to promote these roles, which should be filled by quarter three 2011-12. There will be a managed handover involving current Board members and the new chairman and non-executive members.

Our internal audit plan 2010-11 covered:

- financial systems;
- risk management;
- the case management system project; and
- programme and project management.

The internal audit findings were satisfactory, apart from the review of the case management systems (CMS) project. As this has been assessed as a high-risk project, we had asked for an early internal audit study. This identified a requirement to strengthen the project management. This follow-up action was completed by March 2011.

### Information security statement

We hold a range of information covering commercial and personal data. We have an Information Risk Policy (IRP)

and related procedures in place. In June 2010, we reported our Annual Security Report to the Cabinet Office. No areas of concern were identified.

#### **Review of effectiveness**

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

We consult on and publish our forward programme each year. This sets out our high-level objectives for the coming financial year, as well as a look forward to the following two years. This forward programme drives divisional plans, programme projects and – ultimately – each member of staff's objectives. Directors and team leaders review progress on divisional and team plans regularly. The Executive Team reviews the progress of key projects each month. The Executive Team and the Board review progress on the strategy each quarter. We have a process of individual performance review for staff in place. We assess our resource requirements regularly against the forward programme and developing priorities.

The non-executive directors also provide me with an independent view of our performance.

The Board, Audit Committee and Executive Team regularly assess and monitor our performance and related systems of internal control. Our internal auditors in 2010-11, PwC, review and advise on our risk management processes and internal controls, and during the year reviewed systems and procedures in respect of finance and information security.

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

**Regina Finn, Accounting Officer**  
**27 June 2011**

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

I certify that I have audited the financial statements of Water Services Regulation Authority for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Statement of Comprehensive Net Expenditure and the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Accounting Officer and auditor

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

### Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition, I read all the financial and non-

financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Opinion on regularity

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

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn and net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given in the Financial Commentary 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;
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**  
**National Audit Office**  
**157-197 Buckingham Palace Road**  
**Victoria**  
**London**  
**SW1W 9SP**  
**29 June 2011**



## Statement of Parliamentary Supply

for the year ended 31 March 2011

### Summary of resource outturn 2010-11

Request for resources	Note	Estimate			Outturn			2010-11	2009-10
		Gross expenditure	A in A	Net total	Gross expenditure	A in A	Net total	£000	£000 outturn
								Net total outturn compared with Estimate: saving/ (excess)	Net total
1: Regulation of the Water Industry	2	18,804	(18,699)	105	17,423	(17,543)	(120)	225	46
Total resources		18,804	(18,699)	105	17,423	(17,543)	(120)	225	46
Non-operating cost A in A		–	–	–	–	–	–	–	–

### Reconciliation of prior period adjustment

	Note	£000
Net resource outturn at 31 March 2009	1.1	46
Removal of the cost of capital credit		267
Net resource outturn at 1 April 2010		313

### Net cash requirement 2010-11

	Note	Estimate	Outturn	2010-11	2009-10
				£000	£000
				Net total outturn compared with Estimate: saving/ (excess)	Outturn
Net cash requirement	4	1,362	116	1,246	115

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

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

	Note	Income	Forecast 2010-11	Outturn 2010-11
			£000	£000
		Receipts	Income	Receipts
Total	5	–	965	1,394

Explanations of variances between the Estimate and outturn are given in note 3 and in the financial commentary.

The notes on pages 53 to 74 form part of these accounts.

## Statement of Comprehensive Net Expenditure

for the year ended 31 March 2011

Administration costs: Request for resources 1:				2010-11 £000	Restated 2009-10 £000
	Note	Staff costs	Other costs	Income	
Staff costs	8	11,270	–	–	10,749
Other administration costs	9	–	6,153	–	6,767
Operating income	10	–	–	(17,543)	(17,203)
<b>Totals</b>		<b>11,270</b>	<b>6,153</b>	<b>(17,543)</b>	<b>313</b>
<b>Net operating cost</b>				<b>(120)</b>	<b>313</b>

There is no other comprehensive expenditure.

## Statement of Financial Position

as at 31 March 2011

As the cost of capital change goes in and out of the performance statement and does not affect the balance sheet, no third balance sheet has been produced in accordance with HM Treasury guidance.

	Note	2011 £000	Restated 2010 £000
<b>Non-current assets:</b>			
Property, plant and equipment	11	646	860
Intangible assets	12	137	120
<b>Total non-current assets</b>		<b>783</b>	<b>980</b>
<b>Current assets:</b>			
Trade receivables	13	726	1,179
Cash and cash equivalents	14	965	1,063
<b>Total current assets</b>		<b>1,691</b>	<b>2,242</b>
<b>Total assets</b>		<b>2,474</b>	<b>3,222</b>
<b>Current liabilities:</b>			
	16	(8,863)	(8,097)
<b>Total current liabilities</b>		<b>(8,863)</b>	<b>(8,097)</b>
<b>Non-current assets less net current liabilities</b>		<b>(6,389)</b>	<b>(4,875)</b>
<b>Non-current liabilities:</b>			
Provisions	17	(167)	(747)
Pension liabilities	17	(2,516)	(2,897)
Other payables	16	–	(4)
<b>Total non-current liabilities</b>		<b>(2,683)</b>	<b>(3,648)</b>
<b>Assets less liabilities</b>		<b>(9,072)</b>	<b>(8,523)</b>
<b>Taxpayers' equity:</b>			
General Fund		(9,112)	(8,545)
Revaluation Reserve		40	22
<b>Total taxpayers' equity</b>		<b>(9,072)</b>	<b>(8,523)</b>

Regina Finn, Accounting Officer  
27 June 2011

The notes on pages 53 to 74 form part of these accounts.

## Statement of Cash Flows

### for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
<b>Cash flows from operating activities</b>			
Net operating cost	3	(120)	46
Adjustments for non-cash transactions	9	(434)	(981)
Increase/(decrease) in trade and other receivables		(453)	236
Less movements in receivables relating to items not passing through the OCS		429	(429)
(Increase)/decrease in trade payables		(762)	1,119
Less movements in payables relating to items not passing through the OCS		(471)	(1,560)
Use of provisions	17	700	237
<b>Net cash (inflow)/outflow from operating activities</b>		<b>(1,112)</b>	<b>(1,332)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		225	218
Purchase of intangible assets		93	85
Net movement in capital receivables (payables)		(55)	81
<b>Net cash outflow from investing activities</b>		<b>263</b>	<b>384</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) – current year		(116)	(115)
Advance from the Contingencies Fund		3,000	3,000
Repayment to the Contingencies Fund		(3,000)	(3,000)
Capital element of payments in respect of finance leases		–	–
<b>Net financing</b>		<b>(116)</b>	<b>(115)</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
		<b>965</b>	<b>1,063</b>
Net cash requirement		116	115
From the Consolidated Fund (Supply) – current year		(116)	(115)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		429	–
Payment of amounts due to the Consolidated Fund		(1,492)	(2,986)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>(98)</b>	<b>(1,923)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>14</b>	<b>1,063</b>	<b>2,986</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>14</b>	<b>965</b>	<b>1,063</b>

The notes on pages 53 to 74 form part of these accounts.

## Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011

		General Fund	Revaluation Reserve	Total reserves
	Note	£000	£000	£000
<b>Balance at 1 April 2009</b>		<b>(6,797)</b>	<b>29</b>	<b>(6,768)</b>
<b>Changes in taxpayers' equity for 2009-10</b>				
Net gain on revaluation of property, plant and equipment		–	(2)	(2)
Non-cash charges – auditor's remuneration		54	–	54
Non-cash charges – actuarial loss		(546)	–	(546)
Transfers between reserves		5	(5)	–
Net operating cost for the year		(313)	–	(313)
<b>Total recognised income and expense for 2009-10</b>		<b>(800)</b>	<b>(7)</b>	<b>(807)</b>
Net Parliamentary Funding – drawn down		115	–	115
CFER's payable to the Consolidated Fund	14	(1,063)	–	(1,063)
<b>Balance at 1 April 2010</b>		<b>(8,545)</b>	<b>22</b>	<b>(8,523)</b>
<b>Changes in taxpayers' equity for 2010-11</b>				
Net gain on revaluation of property, plant and equipment		–	36	36
Non-cash charges – auditor's remuneration	9	41	–	41
Non-cash charges – actuarial loss	17	103	–	103
Transfers between reserves		18	(18)	–
Net operating cost for the year		120	–	120
<b>Total recognised income and expense for 2010-11</b>		<b>282</b>	<b>18</b>	<b>300</b>
Net Parliamentary Funding – drawn down		116	–	116
CFERs payable to the Consolidated Fund	5	(965)	–	(965)
<b>Balance at 31 March 2011</b>		<b>(9,112)</b>	<b>40</b>	<b>(9,072)</b>

The notes on pages 53 to 74 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 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Ofwat for the purpose of giving a true and fair view has been selected. The particular policies adopted by Ofwat are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

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

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the removal of the cost of capital credit were not included in the Spring Supplementary Estimates for 2010-11, other than as a note, on the basis that the PPA numbers could have been misleading. The impact of this accounting policy change on Supply outturn in respect of 2009-10 is shown in 1.1.

#### 1.1 HM Treasury Alignment Project Clear Line of Sight

	2009-10 £000
Net resource outturn (Statement of Parliamentary Supply)	46
Removal of the cost of capital credit	267
<b>Adjusted net resource outturn</b>	<b>313</b>

#### 1.2 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.

#### 1.3 Property, plant and equipment

Items of property, plant and equipment have been stated at fair value. An annual verification exercise is completed to ensure that the assets are present and in working condition. Any items of damaged equipment are disposed of.

Items include furniture and fittings, office machinery and telecommunications equipment, leasehold improvements and IT equipment.

From 1 April 2010, all individual items must exceed a capitalisation threshold of £2,500 for inclusion as property, plant and equipment; assets are no longer grouped. (2009-10: individual items excluding personal computers or office furniture had to exceed a capitalisation threshold of £1,000 for inclusion as property, plant and equipment. Excluded

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items falling below the threshold were capitalised as groups. The threshold for individual items to be classified as grouped assets was £250.)

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

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

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

### 1.4 Intangible assets

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

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

### 1.5 Amortisation

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

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

### 1.6 Financial instruments

Ofwat does not hold any complex financial instruments. Financial instruments included within these accounts are receivables and payables (notes 13 and 16). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when Ofwat is unable to collect an amount due in accordance with the agreed terms.

### 1.7 Financing

Ofwat is primarily resourced by licence fees. Licence fees are charged to companies that Ofwat regulates in the water and sewerage sectors. The licence fees levied are subject to a ceiling governed by Condition N of the Water Industry Act 1991.

### 1.8 Operating income

Operating income is income that relates directly to the operating activities. It consists primarily of licence fees charged on a full cost recovery basis.

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

### 1.9 Cash

Cash is primarily generated through licence fees and the activities outlined in 1.7. At the end of a financial year any cash remaining in Ofwat's bank accounts (Government Banking Service) is paid over to the Consolidated Fund (note 5). As Ofwat does not receive the income from companies at the start of the financial year a sum is borrowed from the Consolidated Fund and repaid later.

### 1.10 Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when Ofwat is unable to collect an amount due in accordance with the original terms of the receivables.

### 1.11 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 legal notice is served.

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

Any fines would be disclosed in a separate Trust Statement account. No fines have been imposed this year.

### 1.12 Administration and programme expenditure

Administration costs are recorded in the Statement of Comprehensive Net Expenditure. They include the costs of running Ofwat, as determined under the administration

cost-control regime. There was no programme expenditure between 1 April 2010 and 31 March 2011 (2009-10: nil).

### 1.13 Leases

Rentals due on operating leases are charged over the lease term on a straight-line basis or on the basis of actual rental payable where this fairly reflects usage.

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

### 1.14 Pensions

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

The retired Directors General are covered by 'by-analogy pension schemes' that offer similar benefits to the PCSPS. However, unlike the PCSPS a pension liability is included in the accounts as required by IAS19.

### 1.15 Value added tax

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



### 1.16 Provisions

Ofwat provides for legal or constructive obligations which are of uncertain timing or amount at the date of the Statement of Financial Position on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate.

Discount rates of 2.9% per annum apply for pension liabilities.

### 1.17 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS37, Ofwat discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Government Accounting.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS37 are stated at the amounts reported to Parliament.

### 1.18 Going concern

Our Statement of Financial Position at 31 March 2011 shows negative taxpayers' equity of £9.1 million. This reflects the inclusion of liabilities falling due in future

years, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirements. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the specified year nor retained in excess of that need. All unspent monies, including those derived from the department's income, are surrenderable to the Fund. We confirm our funding for 2011-12 has been approved.

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

The accounts for 2010-11 have been prepared on a going concern basis.

### 1.19 Staff costs

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

### 1.20 Accounting estimates

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

## 2. Analysis of net resource outturn

### 2.1 Analysis of net resource outturn by section

	Outturn							2010-11	2009-10
	Admin	Other current	Grants	Gross expenditure	A in A	Net total	Net total	£000 Estimate	£000
								Net total compared with Estimate	Prior-year outturn
RFR1: Regulation of the Water Industry									
Section A	17,543	–	–	17,543	(17,543)	–	1	1	–
Section B	–	–	(120)	(120)	–	(120)	104	224	46
<b>Total</b>	<b>17,543</b>	<b>–</b>	<b>(120)</b>	<b>17,423</b>	<b>(17,543)</b>	<b>(120)</b>	<b>105</b>	<b>225</b>	<b>46</b>
<b>Resource outturn</b>	<b>17,543</b>	<b>–</b>	<b>(120)</b>	<b>17,423</b>	<b>(17,543)</b>	<b>(120)</b>	<b>105</b>	<b>225</b>	<b>46</b>
Section A – Water Services Regulation Authority									
Section B – Interest on Pension Scheme Liabilities. Annually Managed Expenditure (AME)									

The former Directors General are covered by 'by-analogy pension schemes'. Ofwat makes full provision for liabilities arising in respect of these schemes and includes benefits accrued in respect of non-Ofwat employment. The Exchequer makes an annual contribution in relation to this non-Ofwat employment as disclosed in note 17.2.

In accordance with the requirement of HM Treasury, to ensure parity between those departments who pay into the multi-employer schemes and those that run their own unfunded by-analogy schemes, we are required to record certain transactions within AME (net total £120,000).

The accounts record the increase in the liability due to the unwinding of the discount rate (interest on pension scheme liabilities (£120,000)) which is recorded as grant expenditure. The discount rate is based on AA corporate bond rates, which is advised separately, and a 2.65% inflation assumption.

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

## 2.2 Analysis of net resource outturn by strategic goal for the year ended 31 March 2011

	2010-11 £000
Ensuring a fair deal for customers	2,634
Keeping companies accountable	3,300
Making monopolies improve	2,629
Harnessing market forces	3,359
Contributing to sustainable development	2,705
Delivering better regulation	2,590
Thames Tideway project regulation	206
<b>Total</b>	<b>17,423</b>

## 3. Reconciliation of outturn to net operating cost and against administration budget

### 3.1 Reconciliation of net resource outturn to net operating cost

		2010-11 £000	2009-10 £000		
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net resource outturn	2	(120)	105	225	46
<b>Net operating cost</b>		<b>(120)</b>	<b>105</b>	<b>225</b>	<b>46</b>

### 3.2 Outturn against final administration budget

	2010-11 £000	2009-10 £000	
	Budget	Outturn	Outturn
Gross administration budget	18,900	17,543	17,203
Income allowable against the administration budget	(18,899)	(17,543)	(17,203)
<b>Net outturn against final administration budget</b>	<b>1</b>	<b>-</b>	<b>-</b>

#### 4. Reconciliation of net resources to net cash requirement

				2010-11 £000
	Note	Estimate	Outturn	Net total outturn compared with Estimate: saving (excess)
Resource outturn	3	105	(120)	225
Acquisition of property, plant and equipment	11,12	400	318	82
Non-cash items	9	(326)	(434)	108
Changes in working capital other than cash		480	(1,309)	1,789
Changes in payables falling due after more than one year		–	(4)	4
Use of provision	17	703	700	3
Excess cash to be surrendered to the Consolidated Fund		–	965	(965)
<b>Net cash requirement</b>		<b>1,362</b>	<b>116</b>	<b>1,246</b>

#### 5. Analysis of income payable to the Consolidated Fund

				2010-11 £000	2010-11 £000
	Note	Income	Forecast Receipts	Income	Outturn Receipts
Excess cash surrenderable to the Consolidated Fund	4	–	–	965	965
Other amounts collectable on behalf of the Consolidated Fund*		–	–	–	429
<b>Total income payable to the Consolidated Fund</b>		<b>–</b>	<b>–</b>	<b>965</b>	<b>1,394</b>

\*This includes cash received in relation to the Competition Commission costs recovery.

## 6. Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2010-11 £000	2009-10 £000
Operating income	10	17,543	17,203
Income authorised to be appropriated in aid	10	(17,543)	(17,203)
<b>Operating income payable to the Consolidated Fund</b>		–	–

## 7. Consolidated Fund Income

Consolidated Fund income shown in note 6 above does not include any amounts collected by Ofwat where it was acting as agent for the Consolidated Fund rather than as principal. The amounts collected as agent for the Consolidated Fund (which are otherwise excluded from these financial statements) were:

	2010-11 £000	2009-10 £000
Competition Commission costs recovery	–	429
<b>Amount payable to the Consolidated Fund</b>	–	<b>429</b>
Balance held at the start of the year	429	–
Payments to the Consolidated Fund	(429)	–
<b>Balance held at the year end</b>	–	<b>429</b>

In future, any material amounts collected on behalf of the Consolidated Fund would be shown in a separate Trust Statement.

## 8. Staff numbers and related costs

				2010-11 £000	2009-10 £000
	Total	Permanently employed staff	Others	Non- executive directors	Total
Wages and salaries	8,924	8,530	205	189	8,535
Social Security costs	690	657	13	20	669
Other pension costs	1,656	1,656	–	–	1,545
<b>Total net costs*</b>	<b>11,270</b>	<b>10,843</b>	<b>218</b>	<b>209</b>	<b>10,749</b>

\*Of the total, no charge has been made to capital.

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

For 2010-11, employer's contributions of £1,612,731 were payable to the PCSPS (2009-10: £1,529,817) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary usually reviews employer contributions every four years following a full scheme valuation. From 2010-11, the rates are in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of benefits accruing during 2010-11 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. Employer's contributions of £31,371 (2009-10: £19,363) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £2,267; 0.8% (2009-10: £1,786; 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the date of the Statement of Financial Position were £862 (2009-10: £1,948). Contributions prepaid at that date were nil (2009-10: nil).

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

## 8.1 Reporting of Civil Service and other compensation schemes – exit packages

Cost band	2010-11	2010-11	2010-11	2009-10
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Total number of exit packages by cost band (total cost)
<£10,000	–	–	–	4
£10,000 – £25,000	–	–	–	2
£25,001 – £50,000	–	–	–	4
£50,001 – £100,000	–	–	–	4
£150,001 – £200,000	–	–	–	1
<b>Total resource cost £</b>	–	–	–	<b>714,507</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

## 9. Other administration costs

	2010-11	Restated 2009-10
	£000	£000
	Outturn	Outturn
<b>Rentals under operating leases:</b>		
Accommodation	912	907
	<b>912</b>	<b>907</b>
<b>Non-cash items:</b>		
Depreciation	138	231
Amortisation	55	66
Loss on disposal of assets	356	17
Addition/(release) of provision	(38)	(10)
Restructuring provisions	–	748
Other finance costs	122	142
Past service costs	(240)	–
External Auditors' remuneration	41	54
	<b>434</b>	<b>1,248</b>

	2010-11 £000	Restated 2009-10 £000
	Outturn	Outturn
<b>Other expenditure:</b>		
Consultancy services	2,359	2,245
Training	301	265
Travel and subsistence	289	267
Taxation charges	23	24
Rates	195	200
Computer hire and maintenance	648	386
Other hire and maintenance	77	98
Seminars, meetings and conferences	100	153
Minor items and stationery	30	51
Publications	49	46
Books and periodicals	81	113
Postal services and couriers	11	21
Telecommunications	85	78
Recruitment costs	39	158
Office consumables	114	51
Accommodation expenses	194	206
Internal Audit fees	46	55
Professional subscriptions	26	24
Transfer allowance – relocation	–	40
Payroll and pension services	29	30
Business continuity	26	25
Record management	27	25
Other	58	51
	<b>4,807</b>	<b>4,612</b>
<b>Total</b>	<b>6,153</b>	<b>6,767</b>



## 10. Income

	2010-11 £000	2009-10 £000
	Outturn	Outturn
<b>RfR1</b>		
Licence fees	17,892	18,108
Licence fees received in advance – prior year	4,999	4,014
Licence fees received in advance – current year	(5,361)	(4,999)
CCWater administration support fees		65
Miscellaneous	13	15
<b>Total</b>	<b>17,543</b>	<b>17,203</b>

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

The balance of deferred income will be carried forward. In 2011-12, we are budgeting to utilise £1.0 million of this balance to defray expenditure allowing us to set licence fees at a lower rate than would otherwise be the case. The remainder of the deferred income balance will be utilised in a similar way over the next two to three years. Ofwat is mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCWater's operating costs. In 2010-11, we collected £5.7 million; £5.10 million was transferred to the Department for Environment, Food and Rural Affairs and £0.59 million to the Welsh Government. In accordance with HM Treasury guidance, we do not record these transactions in our financial statements.

## 11. Property, plant and equipment

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

During the year, an exercise was undertaken to remove items that had been capitalised below the threshold values. Items with a net book value of £342,000 were removed from the asset register.

	£000	£000	£000	£000	£000	£000	£000	£000
	Furniture and fittings payments on account	Furniture and fittings	Office machinery and telecomms	Leasehold improvements payments on account	Leasehold improvements	Information technology payments on account	Information technology	Total
<b>Cost or valuation</b>								
At 1 April 2010	–	392	329	–	307	–	1,723	2,751
Additions	12	16	33	21	37	98	8	225
Reclassifications	–	–	–	–	–	–	6	6
Disposals	–	(357)	(18)	–	–	–	(292)	(667)
Revaluation	–	–	(4)	–	–	–	–	(4)
<b>At 31 March 2011</b>	<b>12</b>	<b>51</b>	<b>340</b>	<b>21</b>	<b>344</b>	<b>98</b>	<b>1,445</b>	<b>2,311</b>
<b>Depreciation</b>								
At 1 April 2010	–	189	226	–	78	–	1,398	1,891
Charged in year	–	–	49	–	33	–	57	139
Disposals	–	(169)	(16)	–	–	–	(140)	(325)
Revaluation	–	–	(40)	–	–	–	–	(40)
<b>At 31 March 2011</b>	<b>–</b>	<b>20</b>	<b>219</b>	<b>–</b>	<b>111</b>	<b>–</b>	<b>1,315</b>	<b>1,665</b>
<b>Net book value at 31 March 2011</b>	<b>12</b>	<b>31</b>	<b>121</b>	<b>21</b>	<b>233</b>	<b>98</b>	<b>130</b>	<b>646</b>
<b>Net book value at 31 March 2010</b>	<b>–</b>	<b>203</b>	<b>103</b>	<b>–</b>	<b>229</b>	<b>–</b>	<b>325</b>	<b>860</b>
<b>Asset financing:</b>								
Owned	12	31	14	21	233	8	130	539
Finance leased	–	–	107	–	–	–	–	107
<b>Net book value at 31 March 2011</b>	<b>12</b>	<b>31</b>	<b>121</b>	<b>21</b>	<b>233</b>	<b>98</b>	<b>130</b>	<b>646</b>

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	£000	£000	£000	£000	£000	£000	£000	£000
	Furniture and fittings payments on account	Furniture and fittings	Office machinery and telecomms	Leasehold improvements payments on account	Leasehold improvements	Information technology payments on account	Information technology	Total
<b>Cost or valuation</b>								
At 1 April 2009	–	365	436	–	277	58	1,573	2,709
Additions	–	53	3	–	30	–	133	219
Reclassifications	–	–	–	–	–	(58)	58	–
Disposals	–	(26)	(110)	–	–	–	(41)	(177)
Revaluation	–	–	–	–	–	–	–	–
<b>At 31 March 2010</b>	<b>–</b>	<b>392</b>	<b>329</b>	<b>–</b>	<b>307</b>	<b>–</b>	<b>1,723</b>	<b>2,751</b>
<b>Depreciation</b>								
At 1 April 2009	–	181	248	–	49	–	1,353	1,831
Charged in year	–	29	88	–	29	–	85	231
Disposals	–	(23)	(110)	–	–	–	(40)	(173)
Revaluation	–	2	–	–	–	–	–	2
<b>At 31 March 2010</b>	<b>–</b>	<b>189</b>	<b>226</b>	<b>–</b>	<b>78</b>	<b>–</b>	<b>1,398</b>	<b>1,891</b>
<b>Net book value at 31 March 2010</b>	<b>–</b>	<b>203</b>	<b>103</b>	<b>–</b>	<b>229</b>	<b>–</b>	<b>325</b>	<b>860</b>
<b>Net book value at 31 March 2009</b>	<b>–</b>	<b>184</b>	<b>188</b>	<b>–</b>	<b>228</b>	<b>58</b>	<b>220</b>	<b>878</b>
<b>Asset financing:</b>								
Owned	–	203	17	–	229	–	325	774
Finance leased	–	–	86	–	–	–	–	86
<b>Net book value at 31 March 2010</b>	<b>–</b>	<b>203</b>	<b>103</b>	<b>–</b>	<b>229</b>	<b>–</b>	<b>325</b>	<b>860</b>

## 12. Intangible assets

Purchased software licences.

During the year, an exercise was undertaken to remove items that had been capitalised below the threshold values. Items with a net book value of £14,000 were removed from the asset register.

	£000	£000	£000
	Purchased software licences	Assets under development	Total
<b>Cost or valuation</b>			
At 1 April 2010	238	32	270
Additions	93	–	93
Reclassifications	13	(19)	(6)
Disposals	(39)	–	(39)
<b>At 31 March 2011</b>	<b>305</b>	<b>13</b>	<b>318</b>
<b>Amortisation</b>			
At 1 April 2010	150	–	150
Charged in year	55	–	55
Disposals	(24)	–	(24)
<b>At 31 March 2011</b>	<b>181</b>	<b>–</b>	<b>181</b>
<b>Net book value at 31 March 2011</b>	<b>124</b>	<b>13</b>	<b>137</b>
<b>Net book value at 31 March 2010</b>	<b>88</b>	<b>32</b>	<b>120</b>
	£000	£000	£000
	Purchased software licences	Assets under development	Total
<b>Cost or valuation</b>			
At 1 April 2009	328	–	328
Additions	62	32	94
Disposals	(152)	–	(152)
<b>At 31 March 2010</b>	<b>238</b>	<b>32</b>	<b>270</b>
<b>Amortisation</b>			
At 1 April 2009	223	–	223
Charged in year	66	–	66
Disposals	(139)	–	(139)
<b>At 31 March 2010</b>	<b>150</b>	<b>–</b>	<b>150</b>
<b>Net book value at 31 March 2010</b>	<b>88</b>	<b>32</b>	<b>120</b>
<b>Net book value at 31 March 2009</b>	<b>105</b>	<b>–</b>	<b>105</b>

### 13. Trade receivables and other current assets

#### 13.1 Analysis by type

	2010-11 £000	2009-10 £000
<b>Amounts falling due within one year</b>		
Trade receivables	241	246
Deposits and advances	45	91
Other receivables*	–	429
HM Revenue and Customs (VAT)	88	36
Prepayments and accrued income	350	375
	<b>724</b>	<b>1,177</b>
<b>Amounts falling due after more than one year</b>		
Prepayments and accrued income	2	2
	<b>2</b>	<b>2</b>

\*Represents the £429,000 recovery of Competition Commission's costs from Sutton & East Surrey Water Plc.

#### 13.2 Intra-government balances

	2010-11 £000	2009-10 £000
Balances with other central government bodies	91	37
Payments due from CCWater	–	5
Balances with local authorities	19	20
<b>Intra-government balances</b>	<b>110</b>	<b>62</b>
Balances with bodies external to government	616	1,117
<b>Total receivables at 31 March 2011</b>	<b>726</b>	<b>1,179</b>

## 14. Cash and cash equivalents

	2010-11 £000	2009-10 £000
Balance at 1 April 2010	1,063	2,986
Net change in cash and cash equivalent balances	(98)	(1,923)
<b>Balance at 31 March 2011</b>	<b>965</b>	<b>1,063</b>
The following balances are held at:		
Office of HM Paymaster General (OPG)	965	1,062
Commercial banks and cash in hand	–	1
<b>Balance at 31 March 2011</b>	<b>965</b>	<b>1,063</b>

## 15. Reconciliation of Net Cash Requirement to decrease in cash

	2010-11 £000	2009-10 £000
Net cash requirement	116	115
From the Consolidated Fund (Supply) – current year	(116)	(115)
From the Consolidated Fund (Supply) – prior year	965	1,063
Amounts due to the Consolidated Fund received and not paid over	(1,492)	(2,986)
<b>Increase/(decrease) in cash</b>	<b>(527)</b>	<b>(1,923)</b>

## 16. Trade payables and other current liabilities

### 16.1 Analysis by type

	2010-11 £000	2009-10 £000
<b>Amounts falling due within one year</b>		
Trade payables	518	132
Other payables	169	159
Accruals	1,518	943
Licence Fee deferred income	5,360	4,999
Deferred income	36	39
Current part of finance leases	35	86
Other taxation and social security	262	247
Consolidated Fund extra receipts due to be paid to the Consolidated Fund		
– receivable*	–	429
Excess cash due to be paid to the Consolidated Fund	965	1,063
	<b>8,863</b>	<b>8,097</b>
<b>Amounts falling due after more than one year</b>		
Finance leases	–	4
	–	<b>4</b>

\*Represents the £429,000 Competition Commission costs recovery from Sutton & East Surrey Water Plc.

### 16.2 Intra-government balances

	2010-11 £000	2009-10 £000
Balances with other central government bodies	1,420	1,953
Balances with local authorities	–	–
Payments due to CCWater	–	–
<b>Intra-government balances</b>	<b>1,420</b>	<b>1,953</b>
Balances with bodies external to government	7,443	6,148
<b>Total payables at 31 March 2011</b>	<b>8,863</b>	<b>8,101</b>

## 17. Provisions for liabilities and charges

### 17.1 Provisions

	2010-11 £000		
	Restructure costs	Legal costs	Total
Balance at 1 April 2010	747	–	747
Provision utilised in year	(542)	–	(542)
Provision not required written back	(38)	–	(38)
<b>Balance at 31 March 2011</b>	<b>167</b>	<b>–</b>	<b>167</b>

### 17.2 Pension liabilities

	2010-11 £000	2009-10 £000
Balance at 1 April 2010	2,897	2,370
<b>Analysis of the amount charged to the Statement of Comprehensive Net Expenditure</b>		
Past service costs	(240)	
Interest costs	120	138
<b>Benefits paid</b>		
Benefits paid	(158)	(157)
<b>Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity</b>		
Experience (gain)/loss	15	63
Actuarial (gain)/loss	(118)	483
<b>Balance at 31 March 2011</b>	<b>2,516</b>	<b>2,897</b>

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

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



## Annual report and accounts 2010-11

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2011.

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

- mortality rates for pensioners are assumed to follow standard mortality tables (PA92-08); and
- all members are assumed to have a spouse or eligible partner from the date their pension is assumed to be paid. Spouses' assumed mortality is in line with that of members of the same age and gender. Husbands are assumed to be three years older than their wives.

The main financial assumptions (used to assess liabilities at 31 March 2011) are as follows:

- the net discount rate is assumed to be 2.9%;
- the gross discount rate is assumed to be 5.6% a year (31 March 2010: 4.6%); and
- CPI price inflation of 2.65%.

### Analysis of actuarial loss

	2010-11 £000	2009-10 £000	2008-09 £000
Experience (gains)/losses arising on the scheme liabilities	15	63	69
Changes in assumptions underlying the present value of scheme liabilities	(118)	483	(205)
<b>Per Statement of Changes in Taxpayers' Equity</b>	<b>(103)</b>	<b>546</b>	<b>(136)</b>

### History of experience losses

	2010-11	2009-10	2008-09	2007-08	2006-07
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	15	63	69	23	(109)
Percentage of the present value of the scheme liabilities	0.6%	2.2%	2.9%	0.9%	(4.2)%
Total amount recognised in the Statement of Changes in Taxpayers' Equity					
Amount (£000)	(103)	546	(136)	(16)	259
Percentage of the present value of the scheme liabilities	(4.1)%	18.8%	(5.7)%	(0.6)%	10.1%

## 18. Capital commitments

We have capital commitments of £44,000 relating to leasehold improvements in our accommodation lighting as at 31 March 2011 (31 March 2010: £27,000 ).

## 19. Commitments under leases

### 19.1 Operating leases

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

	2010-11 £000	2009-10 £000
<b>Obligations under operating leases comprise:</b>		
Buildings		
Not later than one year	841	906
Later than one year and not later than five years	4,060	3,259
Later than five years	359	2,386
	<b>5,260</b>	<b>6,551</b>
Other		
Not later than one year	25	–
Later than one year and not later than five years	54	–
Later than five years	–	–
	<b>79</b>	<b>–</b>

We are entering into a memorandum of terms of occupation (moto) lease with Cabinet Office from 11 April 2011 at an annual cost of £92,500 for 300 square metres of office space for 20 staff.

### 19.2 Finance leases

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

	2010-11 £000	2009-10 £000
<b>Obligations under finance leases comprise:</b>		
Other		
Not later than one year	33	90
Later than one year and not later than five years	–	7
Later than five years	–	–
	<b>33</b>	<b>97</b>
Less interest element	–	(5)
	<b>33</b>	<b>92</b>

### 20. Financial Instruments

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

#### Liquidity risk

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

#### Interest rates and foreign currency risks

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

#### Fair values

There is no material difference between the book values and the fair values of Ofwat's financial assets and liabilities at 31 March 2011.

### 21. Contingent liabilities disclosed under IAS37

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

In March 2011, discussions started on a potential office reorganisation linked to the outcome of the review by David Gray, commissioned by Defra in autumn 2010. The review report is expected to be published in the first quarter of 2011-12. The reorganisation may result in redundancy or early retirement for some posts. The financial liability is not yet known and will be calculated as the reorganisation takes shape, using the new terms of the Civil Service Compensation scheme (CSC) based on the Superannuation Act 2010 (<http://www.legislation.gov.uk/ukpga/2010/37/contents>), which came into force on 16 February 2011.

### 22. Related party transactions

Ofwat transferred £5.10 million to the Department for Environment, Food and Rural Affairs and £0.59 million to the Welsh Government in respect of CCWater's operating costs for 2010-11.

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

### 23. Events after the reporting period

The financial statements do not reflect events after 27 June 2011.

# Part 3

## Appendices



## Appendix 1: How we performed during 2010-11

This year, we delivered, or continued to deliver, the work we promised in our 'Forward programme for 2010-11 to 2012-13' with the following exceptions.

- We said that we would review the Water Resale Order during 2010-11. We will now do this in 2011-12. The Water Resale Order sets out the rules that apply to the charges customers pay when they receive water or sewerage services from a third party instead of directly from a water company.
- We said that we would publish each companies' main annual regulatory submissions (the 'June return') on our website every year soon after receiving them. We did this for the 2010-11 reporting year. But this will be the last time. Through our regulatory compliance project, we will be shifting the onus on each of the companies to publish information about their performance.
- We said that we would report to Government on our work on climate change adaptation during the year. We submitted a climate change adaptation report to the Secretary of State in May 2011. We are considering performance indicators as part of our regulatory compliance project.
- We said that we would carry out our future scenarios and resource efficiency projects during 2010-11. We are continuing them in 2011-12.
- We said that we would publish a consultation on options for regulating large projects (such as the Thames Tideway Tunnel) effectively in light of provisions contained in the Flood and Water Management Act 2010. In February 2011, Defra, after discussions with us, published a consultation on draft regulations for large infrastructure projects, such as the Thames Tideway.

Also, some of our work – particularly on market reform – is dependent on policy decisions by the UK and Welsh Governments. The UK Government is expected to publish a Water White Paper during 2011-12. This is expected to set out its policies on a variety of issues, including market reform. The Welsh Government also intends to publish a new strategic policy for water next year.

## Appendix 2: Having regard to the social and environmental guidance from Government

Under the Water Industry Act 1991 (as amended), the Secretary of State for Environment, Food and Rural Affairs and the Welsh Government have powers to issue separate social and environmental guidance to the Water Services Regulation Authority. We are required to have regard to both sets of guidance when discharging our legal functions.

The Secretary of State published final, statutory social and environmental guidance to Ofwat on 22 September 2008. The Welsh Government published its guidance on 9 March 2009. We took account of the guidance when we set price limits in November 2009 for 2010-15.

Both the Secretary of State and the Welsh Government have made it a requirement that we demonstrate in our annual report each year how we have contributed to delivery of the policies set out in their respective sets of guidance. The tables on the following pages show how we met this requirement in 2010-11.

## Guidance from the Secretary of State for Environment, Food and Rural Affairs

Policy area	Example of contribution
Sustainable development	We continue to deliver our strategy ' <a href="#">Delivering sustainable water – Ofwat's strategy</a> ', which we published in March 2010. The strategy focuses on sustainable development. We continue to review the sustainability impact of our own operations (see page 30).
Defra future water strategy	Our work with the Water Sector Innovation Leader Group (see page 20) is one example of how we are encouraging innovation by the companies. We also published our <a href="#">policy on impact assessments</a> . This reflects the latest UK Government guidance.

### Social policies

Fairness and affordability	We consider fairness and affordability when we set price limits. This helped inform our decisions in 2009. We also considered these issues as part of our affordability work (see page 15).
Competition	We set out our work on market reform on pages 23-25.
Better regulation	We set out our work on delivering better regulation on pages 29-31. We also set out how we are reducing regulatory burdens in appendix 5.

### Environmental policies

(Climate change) mitigation	Our focus report ' <a href="#">Playing our part – how can we cut greenhouse gas emissions in the water and sewerage sectors?</a> ' explored how the sectors and consumers can play their part in reducing emissions.
(Climate change) adaptation	Our focus report ' <a href="#">Climate change – good practice from the 2009 price review</a> ' sought to encourage the companies to share good practice on adapting to climate change.
Supply/demand balance	We introduced water efficiency targets on 1 April 2010. We also published two documents that explored how we can all waste less water (see pages 26-27).
Surface water flooding	We are carrying out a sustainable drainage project to consider this issue. We describe it on pages 27-28.
Resilience	Through our focus report ' <a href="#">Resilient supplies – how do we ensure secure water and sewerage services?</a> ' we sought views on how we ensure secure services in the face of hazards that are outside the sectors' control.
Water quality	Our decisions on price limits for 2010-15 included a range of catchment management initiatives proposed by the companies to investigate and address deteriorating raw water quality, rather than providing traditional capital-intensive treatment solutions.



## Guidance from the Welsh Government

Policy area	Example of contribution
Sustainable development	We continue to deliver our strategy ' <a href="#">Delivering sustainable water – Ofwat's strategy</a> ', which we published in March 2010. The strategy focuses on sustainable development. We continue to review the sustainability impact of our own operations (see page 30). We also agreed a Memorandum of Understanding with Welsh Ministers. This set out the principles and values that underpin our relationship.
Long-term viewpoint	We invited water companies based wholly or mainly in Wales to voluntarily submit a report on the risks to their functions from climate change. (Companies in England were legally obliged to provide these reports.)
Corporate social responsibility	We continue to review the impact of our own operations (see page 30).
Company reporting (better regulation)	We took steps to reduce the amount of reporting we require from the companies (see page 31). We also set out how we are reducing regulatory burdens in appendix 5.
Community engagement and consultation	Our ' <a href="#">Involving customers in decisions about water and sewerage services</a> ' consultation sets out how we propose the companies should engage with their customers (see page 22).
Economic development	All our work is aimed at achieving sustainable water services, which includes sustainable input prices into the wider economy. We are seeking to encourage more sustainable drainage solutions through our sustainable drainage project (see pages 27-28).
Wider social responsibilities	We consider social and environmental issues in delivering our work (see pages 26-28).
Water affordability	We consider fairness and affordability when we set price limits. This helped inform our decisions in 2009. We also considered the issue of affordability by carrying out new research this year (see page 15).
Metering and charging	We considered issues of metering and charging as part of our work on demand management (see pages 26-27).
Charging	We approved a number of new affordability tariffs at Dŵr Cymru for the 2011-12 charging year.
Competition	We set out our work on market reform on pages 23-25.
Environmental policies	We have been working with the companies to understand the implications of the new climate change scenarios on water resources. We are also working with the Environment Agency and UKWIR to improve the way the risks from climate change are treated within the water resource management planning process.
Environment strategy	We responded to the Welsh Government's 'A living Wales – a new framework for our environment, our countryside and our seas' consultation.
Climate change	We carried out work this year on understanding climate change (see page 26).
Emission reduction and preserving carbon stores	We continue to encourage the companies to measure and manage their emissions. Our ' <a href="#">Service and delivery – performance of the water companies in England and Wales 2009-10</a> ' report sets out our assessment of their performance for the last reporting year.
Adapting to the impacts of climate change	We continue to learn about the implications of the latest climate change scenarios and promote good practice. For example, in June 2010 we published a study on the changes to extreme daily rainfall events.
Supply/demand balance	We introduced water efficiency targets on 1 April 2010. We also published two documents that explored how we can all waste less water (see pages 26-27).
Water efficiency	We continue to support Waterwise's 'Evidence base for large-scale water efficiency' project (see page 27).
Leakage	We took action against those companies failing their targets (see page 17).

<b>Policy area</b>	<b>Example of contribution</b>
Floods and resilience	Through our focus report ' <a href="#">Resilient supplies – how do we ensure secure water and sewerage services?</a> ' we sought views on how we ensure secure services in the face of hazards that are outside the sectors' control.
Surface water flooding and the new approaches programme for flood and coastal risk management in Wales	Our sustainable drainage project will contribute to reducing surface water flooding (see pages 27-28).
Resilience to natural hazards	We ensure secure services in the face of hazards that are outside the sectors' control. See ' <a href="#">Resilient supplies – how do we ensure secure water and sewerage services?</a> '
Maintaining and improving standards of water quality	Our decisions on price limits for 2010-15 included a range of catchment management initiatives proposed by the companies to investigate and address deteriorating raw water quality, rather than pursuing traditional, capital-intensive treatment solutions.
Water company partnerships working with land managers	Many of the catchment management schemes the companies are carrying out (see above) involve them working locally with farmers and landowners.

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## Appendix 3: List of impact assessments carried out during 2010-11

It was not necessary to carry out any formal impact assessments during 2010-11.

We reviewed and published lessons we learned from the process we used to set price limits (see page 20).

## Appendix 4: Review of Board effectiveness

The Board continues to review its own effectiveness and that of Board Committees. This is carried out by, for example, individual discussions between the Chairman and Board members.

During 2010, the UK and Welsh Governments commissioned a review of Ofwat and CCWater. The Board will take account of the findings of the review that relate to Board effectiveness in due course.

The Board has also considered whether to carry out a survey of Ofwat's stakeholders' views to help inform the Board effectiveness review. We are conscious of the burden of consultation on our stakeholders, particularly from our own future regulation programme and the Government-commissioned review mentioned above. And a number of changes to the Ofwat Board are imminent, including the appointment of a new Chairman and a number of non-executive members. So, the Board decided to reconsider the value of a stakeholder survey after the outcome of the Government review and in the context of the new appointments which are expected to be made during 2011.

---

## Appendix 5: Progress in reducing regulatory burdens

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

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

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

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

### Report on progress

Over time, there has been an increase in the amount of data we collect both to inform decisions and monitor progress under our current regulatory approach. For example, the number of tables of data that we collect from the companies each year has increased from 16 to more than 80. Also, the instructions that we give the companies on the things

which we require them to report has grown from 64 pages to more than 800. We do not think that this approach is sustainable and we are questioning the value that we are receiving for this 'burden'.

We are carrying out a fundamental review of how we regulate with a view to reducing the regulatory burden. Moving to a risk-based approach will allow us to focus and prioritise our resources on where they will deliver most benefit. We think this will be a more cost-effective approach to regulation in the long term.

While we continue to develop a risk-based framework through our regulatory compliance project (see page 18), we have started to make changes to our approach that are helping to reduce burdens – while maintaining protection for consumers. Further changes will come in 2012 as we develop our risk-based framework and tools to implement it.

During the year, we streamlined the process for companies to apply for a new appointment and variation and a water supply licence, respectively.

In December 2010, we told the companies that for 2011 they should not send us commentaries about their performance as part of their main annual regulatory submission (the 'June return') to us. We asked them to identify any material issues in their Board overviews. The companies have told us that supplying these commentaries added a significant burden.

Each year, we must approve a charges scheme for each water company so that they can charge their customers for water and sewerage services. In previous years, the companies sent us their draft charges schemes in October, followed by final charges schemes in January, which we then approved in February.

For 2011-12, we removed the draft stage of this process. Given that the companies' charges schemes are now well developed, we considered that there was little value in us checking a draft version. This reduced unnecessary regulatory burden on companies that were not making big changes. It also meant that before the companies' sent us their charges schemes for approval, we were able to:

- have more targeted discussions with those companies that intended to bring in new charges or policies; and
- understand their potential impact on customers.

Also, as part of our commitment to best regulatory practice, we revised our approach to using impact assessments in our decision-making. This follows changes to our legal duties following legislation, such as the:

- Water Act 2003; and
- Regulatory Enforcement and Sanctions Act 2008.

It also takes appropriate account of:

- revised guidance and toolkit on impact assessments from the Department for Business, Innovation and Skills (BIS); and
- reports from the National Audit Office and the House of Commons Environmental Audit Committee on impact assessments.

## Appendix 6: Performance against stated levels of service

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

We set out our performance for 2010-11 against our standards below.

### General enquiries

In 2010-11, we dealt with 7,100 phone enquiries. We also replied to more than 630 written enquiries, including emails. This compares with 8,000 phone and 800 written enquiries in 2009-10.

### Performance standard for general enquiries

Standard	2010-11	2009-10
95% of written enquiries to be dealt with within ten working days	99%	93%

Between 1 April 2010 and 31 March 2011, pages in the '[Household consumers](#)' and '[Non-household consumers](#)' sections of our website were viewed a total of 321,124 times. These pages provide help and information to consumers about the services they receive. This was the first full year that we measured visits to sections of our website in this way. We continue to keep the content of the pages under review so they are useful for consumers.

### Disputes and complaints

CCWater represents consumers in the water and sewerage sectors. It deals with most complaints from consumers about the service their water or sewerage company provides, which the company itself cannot resolve.

We are responsible for the following disputes and complaints.

- Complaints about regulatory policy.
- Allegations of breach of duty by a company.
- Water supply and sewer connection charges.
- Requisitioning of water mains, sewers and lateral drains.
- Adoption and financial arrangements in respect of self-laid mains.
- Sewer appeals.
- Refusals by the companies to install an optional meter.
- Guaranteed standards scheme (GSS) payments.
- Trade effluent appeals.
- Pipe-laying in streets and across private land.

We dealt with almost 1,000 disputes and complaints in 2010-11, obtaining rebates or compensation of nearly £250,000 directly to customers. We also required the companies to carry out work to resolve problems, which exceeded £4.3 million in value.

In comparison, in 2009-10 we received 2,317 disputes and complaints. We also obtained £500,000 in rebates or compensation for customers and required the companies to carry out work that exceeded £20 million in value.

The time taken to resolve complaints depends on the nature and complexity of individual cases, but we aim to deliver our performance standards. Performance against these standards is shown in the table below.

## Performance standards for disputes and complaints

Standard	2010-11	2009-10
80% of non-investigated complaints to be dealt with within ten working days	95%	90%
95% of non-investigated complaints to be acknowledged within ten working days <sup>1</sup>	95%	–

1. We introduced new performance standards last year. We explained this in last year's annual report.

For those disputes and complaints we investigated, we resolved:

- 62% within three months; and
- 74% within six months.

We continue to keep our performance under review.

## Appendix 7: Resource management 2010-11

### Staff recruitment (by gender and ethnic group)

Level	2010-11			2009-10		
	Number appointed	Proportion of women (%)	Proportion from ethnic minorities (%)	Number appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Head of team/function	5	20	20	1	100	0
Middle management	10	50	10	18	55	17
Clerical and secretarial	1	100	0	12	50	33
Total	16	44	13	31	55	23

### Employed staff information

	As at 31 March 2011	As at 31 March 2010
Full-time equivalent staff (as at 31 March 2009)	222	226
Proportion of women (%)	51	51.8
Proportion from ethnic minorities (%)	18	19.5
Proportion disabled (%)	1.3	2.2
Members of the Senior Civil Service	10	7
Number of fixed-term and casual contracts	14	10
Number of staff working part-time	46	42
Staff turnover (%)	9.1	8.9

### Staff training attendance (by ethnic group)

Level	2010-11		2009-10	
	Number of training days (rounded up)	Percentage (%) rounded to nearest whole number	Number of training days (rounded up)	Percentage (%) rounded to nearest whole number
White	939	81	1,036	93
Other ethnic groups	213	19	83	7
Total number of training days	1,152	100	1,119	100

**Ofwat** (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.



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