

June 2020

Water Services Regulation Authority (Ofwat)

# Annual report and accounts 2019-20

For the period 1 April 2019 to 31 March 2020

HC 410

**Ofwat**

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



Water Services Regulation Authority (Ofwat)

# Annual report and accounts 2019-20

For the period 1 April 2019 to 31 March 2020

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

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

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

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HC 410



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# About this document

This document sets out our annual report and accounts for the period 1 April 2019 to 31 March 2020.

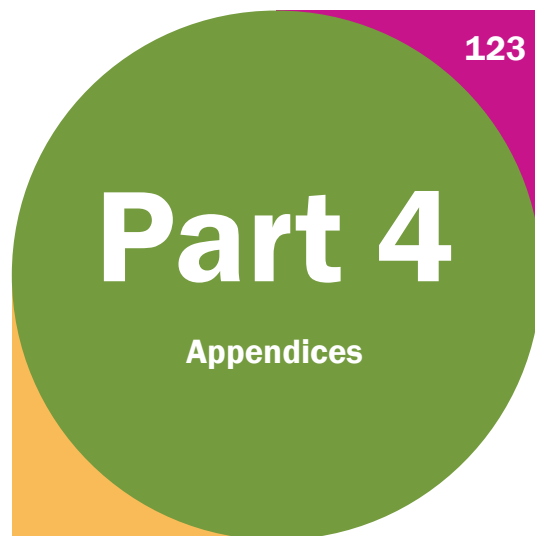
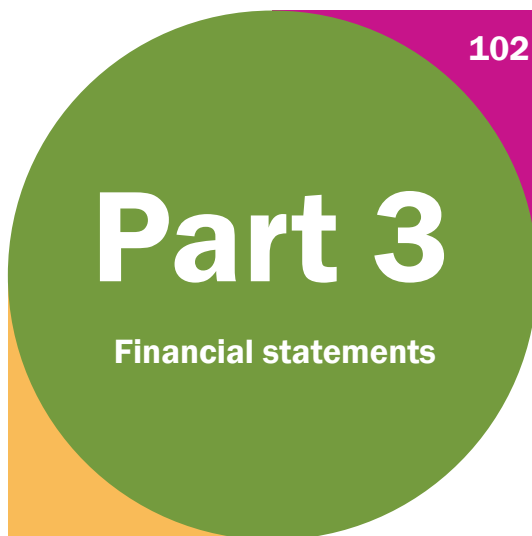
It includes a description of the work we carried out during the year to fulfil our statutory responsibilities.

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

Our functions and duties are laid out primarily in the Water Industry Act 1991 as amended (WIA91). Ofwat is a non-Ministerial Government Department 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).

# Contents



The cover features a large orange shape on the left side. A green circle is centered over the orange shape, containing the text. A purple square is positioned to the right of the green circle, partially overlapping it.

# Part 1

**Our performance report**

## Overview

This section of the performance report provides a summary of the water sector's performance against the outcomes we have set, and the role we have played in achieving this in the last financial year.

### Purpose and activities

Our ambition is for the water sector to provide the very best service to customers, protecting the environment and improving life through water both now and in the future. Our new strategy '[Time to act, together](#)', published in October 2019, explains how we will drive progress in the water sector; making sure we are focused on sustaining progress over decades to come.

We carry out our relevant functions so as to fulfil the duties set out in legislation and in accordance with the statements of strategic priorities and objectives we receive from the UK and Welsh Governments.

### Performance against the forward programme 2019-20

We achieved the vast majority of the milestones set out in our forward programme 2019-20. We deferred two milestones in quarter 4 in order to reflect reprioritisation as a result of the Covid-19 pandemic. The deferred milestones were the publication of our updated two-year rolling business plan and the publication of our post-PR19 governance and assurance framework. More information on our progress is in Appendix 1 on page 123.

Following a [consultation](#) earlier this year, we have published our [2020-21 Forward programme](#), which sets out our plans for the next financial year in light of our strategy and the UK and Welsh Governments' strategic priorities statements.

### Key issues and risks

We have a strategy for managing and responding to risk and opportunities based on HM Treasury's [Orange book: management of risk – principles and concepts](#). In line with its principles, risk and opportunity management is embedded across our organisation. Our governance statement on page 52 gives more information on risks and our management of risks.

### Going concern basis

We have adopted a going concern basis for the preparation of these accounts, as set out in note 1.14 on page 110.



# Chair's foreword

We have all been reminded of the importance of water in recent months. Resilient and reliable supplies of clean water have been fundamental to keeping us safe during Covid-19. While the events of the last few months have been unprecedented in the scale and size of the challenge, our work over the last year has focused on ensuring that safe and reliable water supplies and wastewater services continue to be provided, both now and in the future.

We concluded PR19, the most transformational price review to date. Our final determinations set out a major challenge to the sector to make significant performance improvements while providing funding for sizeable investment for the future. Following publication of our final determinations, four companies – Anglian, Bristol, Northumbrian and Yorkshire – have appealed to the Competition and Markets Authority. Throughout PR19, we focused on making sure that we delivered the right settlement for customers, communities and the environment, as well as companies. This remains our priority as we await the CMA's decision on the appeals.

Meeting the challenges set by PR19 will require greater efficiency and innovation from companies. We have seen how companies can innovate as the industry has adapted to new ways of providing resilient services operationally through the Covid-19 crisis. Ofwat's new innovation fund allows £200 million additional funding to support innovation within the sector with the first bids for funds expected next year.



Last year, we reported on how our 'back in balance' programme sought to restore an equilibrium between the interests of customers, companies and investors. I am pleased to see continued progress on this agenda, with our principles on Board leadership, transparency and governance now in all companies' licences, as well as first steps by some companies to enshrine public value in the way they work. The principles require company boards to set a purpose and we will receive reports about their progress here later this year.

As a Board, we were pleased to sign off Ofwat's new strategy: Time to act, together. It sets out our priorities for the sector and for Ofwat in the coming years. With a strong focus on delivering for customers and the environment, the strategy balances the need to transform the way the

sector operates now, while at the same time securing a resilient future for water and the environment it comes from.

My thanks go to my Board colleagues, to our CEO Rachel Fletcher and all Ofwat's people for their hard work and commitment throughout the past year. I know that all my colleagues focus each day on delivering the very best for customers, communities and the environment. In these difficult times, colleagues have all risen to the further challenges involved in juggling working from home, managing care and schooling, and keeping Ofwat's work programme on track. I would like to express my gratitude to them all.

A handwritten signature in black ink that reads "Jonson Cox". The signature is written in a cursive, flowing style.

**Jonson Cox**  
**Chair**

# Chief Executive's report

As we look back, it is hard not to focus exclusively on the unprecedented events of the last few weeks of the financial year. No industry is untouched by Covid-19 and water is no exception. The industry adapted well and rose to the urgent challenges of implementing home working and social distancing, responding to changing patterns of demand for water and wastewater services as well as meeting the need for increased support to both the health sector and vulnerable customers. The industry has been providing reliable services for us all.

It is encouraging to see the different ways in which companies responded to local needs, protecting staff and suppliers, and recognising the significant role they play within communities. Amidst the many challenges presented by Covid-19, we have seen many examples of the industry demonstrating its public purpose.

Yet this momentous effort represents only a small proportion of the year on which this report is focused. Even before Covid-19, change was taking place. Some of this change, such as the focus on public value – exemplified by the industry's Public Interest Commitment – was driven by company boards and leadership. Other change was more reactive, such as the widespread acknowledgement that the findings of our enforcement case against Southern Water, documented here, were a wake-up call for the whole sector. The industry also responded well to the storms and severe flooding which happened earlier this year. We look forward to further change as a result of our new strategy, [Time to act, together](#), which sets a new direction to transform the sector and Ofwat for benefit of customers, the environment and wider society.

In this report, we present two different sets of data for last year. The first dataset covers the



water industry's performance against our four priorities for customers: great customer service, value for money, companies being resilient in the round; and companies and investors being committed for the long term. We have also referenced these priorities against the UK and Welsh Governments' strategic priorities and objectives for Ofwat, making it clear how our work over the year has supported their achievement. The second set of data relates to our own performance and in particular the work we are doing to implement our new strategy.

As the data included in the performance report shows, much of the sector is in 'steady state' or showing slow signs of improvement. The progress we have seen over the last year – and in the last few weeks in particular – shows that the industry can innovate and change to improve its performance when required. We look forward to seeing more of this in the new regulatory period.

For Ofwat, much of our effort over the year was spent concluding PR19. Our final determinations set out a five-year price and service package

that will enable water companies to deliver more for people today, invest for future generations and at the same time operate more efficiently and reduce bills. This significant piece of work has been at the heart of what we have delivered for customers over the year, but is by no means all that we have achieved.

We worked with our partner regulators, the Environment Agency and the Drinking Water Inspectorate, to set up the Regulators' Alliance for Progressing Infrastructure Development (RAPID). Through collaboration, RAPID will accelerate the development of new water infrastructure and help to design future regulatory frameworks to support long-term water resilience across England and Wales.

The data for the second year of the business retail market shows increased switching by non-household customers, but also rising levels of customer complaints showing how much more work is needed to ensure the market delivers maximum benefit for customers. Beyond this, Covid-19 has exposed other weaknesses within the market and we will continue to work to address these.

Finally, we continued to introduce new ways of working within Ofwat, putting customers and the environment at the heart of everything we do. Our new strategy sets out the goals we have set ourselves as a regulator: to transform water companies' performance, to drive water companies to meet long term challenges through collaboration and partnerships and for water companies to provide greater public value. This report sets out the start of the transformation we have embarked upon. We look forward to the journey ahead.



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

# Performance summary

As the regulator for water and wastewater services in England and Wales, our role is to enable, incentivise and hold companies to account for providing the very best for customers, society and the environment now and in the future. We also oversee the markets that exist in the water sector to make sure they are working for customers. Ultimately our success is measured by the difference that companies make and the impact they have on customers and the environment, ensuring that there are resilient supplies to serve future generations.

This section of the report sets out first how the water sector has performed against our four outcomes for customers:

- great customer service;
- value for money;
- companies being resilient in the round; and
- companies and investors being committed for the long term.

This section also illustrates these outcomes against the UK and Welsh Governments' priorities and objectives for Ofwat.

We have measured performance by reference to the service levels set in our PR14 price review for the 2015 to 2020 period, using a range of data submitted to and collected by Ofwat, as well as data from other agencies.

Water bills have been steadily falling in real terms since 2015. The data also shows that some key indicators of trust and value for money remain steady year-on-year, with the water sector's performance, including on customer service, comparable with other utilities. As a whole, there is varied performance across the sector, with some companies leading the way and others falling significantly behind across a range of performance and customer service indicators.

It is encouraging to see significant growth in support for vulnerable customers across the

water sector, with increases in the number of customers registered for priority services and for social tariffs, although this is from a low base. Taking action to look after those in vulnerable circumstances is fundamental for any public service and water is no exception. As the impacts of Covid-19 continue, we expect companies to continue to prioritise identifying and supporting those most in need.

The sector has also made some progress over the period in reducing sewer flooding, water quality contacts and pollution incidents, although improvements in 2018-19 are smaller than those delivered in previous years. Consequently, there is still work to do and we will continue to push companies to do everything possible to deliver improvements for customers and the environment.

More generally, companies' performance against the increasing levels of service they committed to achieve ('performance commitments') in PR14 has fallen slightly year-on-year. This is reflected in increased underperformance payments from companies back to their customers. We would have liked to see greater progress from companies on meeting their commitment to continual improvement. We would also like those companies which are performing badly across a range of indicators, to close the gap so that all customers benefit from a good and continually improving level of service. These ambitions have underpinned our approach to PR19.

Data from the business retail market shows that overall most businesses are happy with their retailer, despite a spike in complaints. Complaints provide an opportunity to shape services better for customers, and we expect to see each part of the market taking action to learn from complaints and drive improvements. The impact of Covid-19 at the end of the year has been significant and we have worked with the industry to take steps to mitigate risks to customers as a result, and to address wider potential market impacts.



Within water companies, there has been good progress on driving forward purpose, values and culture, with every company signing up to Ofwat's principles of board leadership, transparency and governance. We have also seen reductions in levels of gearing and repayment of inter-company loans, as well as changes to dividend and executive pay policies. Several companies have adopted public value as part of their core purpose, for example by changing their articles of association or by adopting a new social contract. In particular, we welcome the industry's [Public Interest Commitment](#) which signals a clear, proactive intent towards a public purpose agenda. We look forward to seeing the industry's progress against the five goals it has set for itself; including ending water poverty and achieving net zero carbon emissions by 2030.

On pollution, the data shows a very modest decrease in total incidents from companies providing wastewater services. As last year's enforcement case against Southern Water demonstrates, we will not hesitate to investigate and take enforcement action where companies have failed to protect the environment in their day to day operations.

The data shows a marginal reduction in leakage in the sector as a whole, although under the PR14 settlement so far, modest improvements by eight companies are more than offset by the failure to improve or deterioration in leakage performance by the remaining companies. We would expect to see greater progress in tackling leakage in future as companies respond to our challenge to reduce leakage by 16% from 2020 onwards and their own public interest commitment to triple leakage reduction by 2030.

The data here reflects usage prior to Covid-19 and shows public water use continuing to rise. This increased consumption needs to be tackled without compromising public health. We see opportunities for companies to collaborate on working with the public and businesses to address these twin objectives.

The dual challenge of climate change and population growth demands collaborative action between companies to protect water resources, particularly in the south of England. We are all aware of growing customer expectations and concern around the state of our natural environment and the need to work to protect it and have worked throughout the year with the Environment Agency and other stakeholders on the development of the [EA's national framework for water resources](#) published in March 2020. We welcome companies' bespoke commitments to nature based solutions to provide resilience and improve the environment.

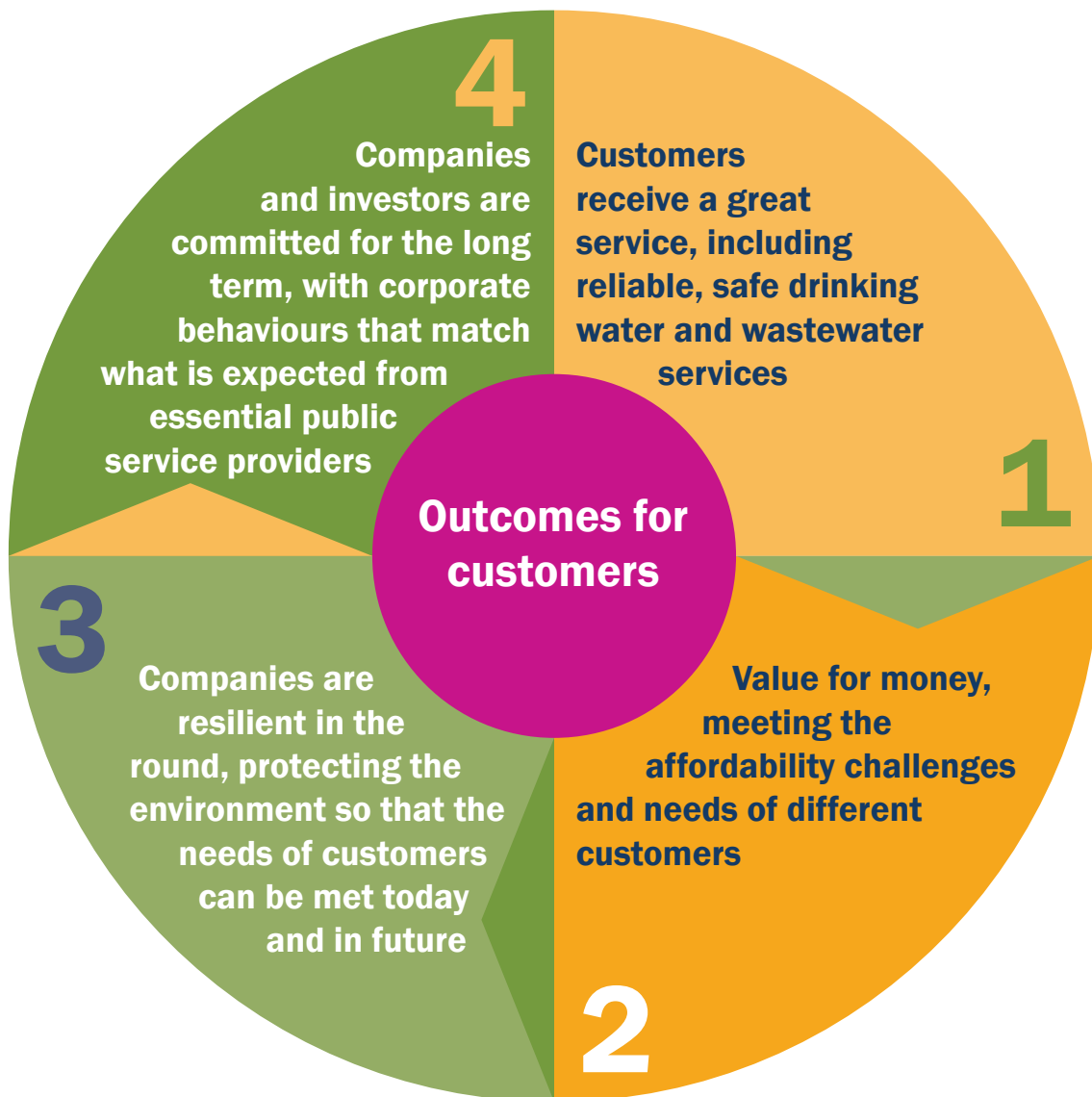
As we enter the new five year price control period, we will continue to develop the data available to us and how we use it to provide a snapshot of the sector's performance overall.

**We welcome the industry's Public Interest Commitment, which signals a clear, proactive intent towards a public purpose agenda**

## Outcomes for customers: industry performance

In what follows, we discuss the water sector’s performance for customers in 2019-20. We are focused on benefits for customers, society and the environment and so are reporting on the industry’s performance against our four customer outcomes from our [Forward programme 2019-20](#).

On page 24 we report against our own performance in driving improvements for customers, society and the environment. These are set out against our strategic goals from our new strategy, [Time to act, together](#).



## Performance against UK and Welsh governments' strategic priorities

Welsh SPS objectives	Our 2019-20 customer outcomes	Defra SPS objectives
<b>Strong customer focus</b>  <b>Affordability</b>	<b>Customers receive a great service, including reliable, safe drinking water and wastewater services</b>	<b>Protecting customers</b>  <b>Making markets work</b>
<b>Markets and competition where appropriate</b>	<b>Value for money, meeting the affordability challenges and needs of different customers</b>	
<b>Resilience</b>  <b>Sustainable management of natural resources</b>	<b>Companies are resilient in the round, protecting the environment so that the needs of customers can be met today and in the future</b>	<b>Securing long-term resilience</b>
<b>Long-term affordability and resilience</b>	<b>Companies and investors are committed for the long term, with corporate behaviours that match what is expected from essential public service providers</b>	

Under the Water Industry Act 1991, the UK and Welsh Governments may issue statements setting out strategic priorities and objectives for us. We are required to act in accordance with these statements when discharging relevant functions relating to companies wholly or mainly in England and Wales respectively. Updated strategic policy statements from the UK and Welsh Governments to Ofwat were finalised and came into effect during 2017-18.

We are required to report annually on our compliance with their objectives and priorities. The diagram below shows broadly how the governments' objectives and priorities align with the work we undertook during 2019-20, as set out under the four customer outcomes.

We are also required to explain how the major decisions we make support the achievement of SPS priorities and objectives. This year we set out how our PR19 final determinations supported the achievement of both the [Welsh Government](#) and [UK Government's](#) priorities and objectives.



# Customers receive a great service

## Outcome 1

Overall on average, customer satisfaction (measured by Ofwat's Service Incentive Mechanism) shows a slowly improving trend over past years, with a very slight year-on-year decline in 2018-19. Individual companies' year-on-year performance varies, ranging between an improvement of 3.1 score points and a decline of 3.4 score points. However, most companies have shown an improvement.

63%

Water companies have met 63% of their performance commitments this year, the lowest since the beginning of the current regulatory settlement PR14 (2015-19). This is reflected in increased underperformance payments from companies back to their customers.

Water supply interruptions for customers have fallen year-on-year, largely reflecting a recovery from the 2017-18 performance which was adversely impacted by the 'freeze-thaw' event. Latest performance still shows an overall deterioration compared to the preceding year 2016-17, although individual companies' performance varies greatly and some companies have improved.

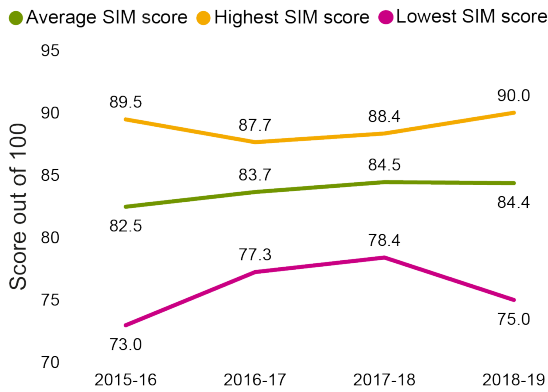
Internal sewer flooding is at its lowest levels since 2014-15. Although 2018-19 has only seen a marginal improvement from 2017-18 for the sector as a whole, there have been marked differences between individual companies, ranging from an improvement of 34% to a deterioration of 25.4%.

# Wet Water Co

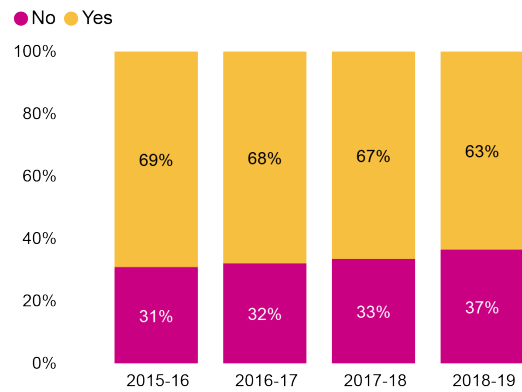
In the business retail market, there has been a slight increase in retailer satisfaction by customers; although non-household customer complaints have continued to rise while the frictions in the market remain.



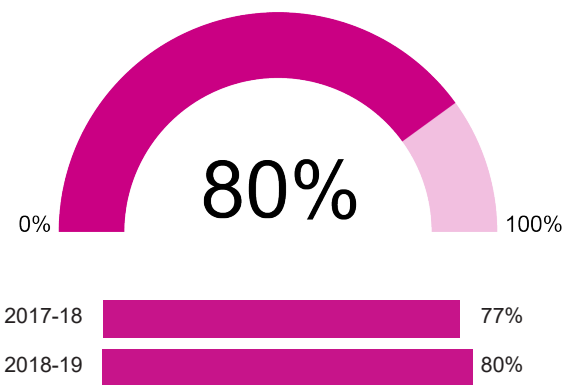
Customer satisfaction (SIM score out of 100)



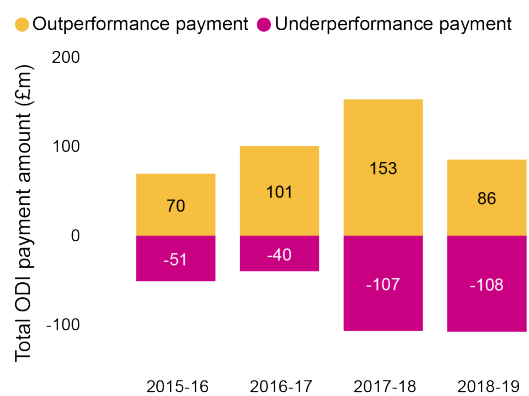
Performance commitments met



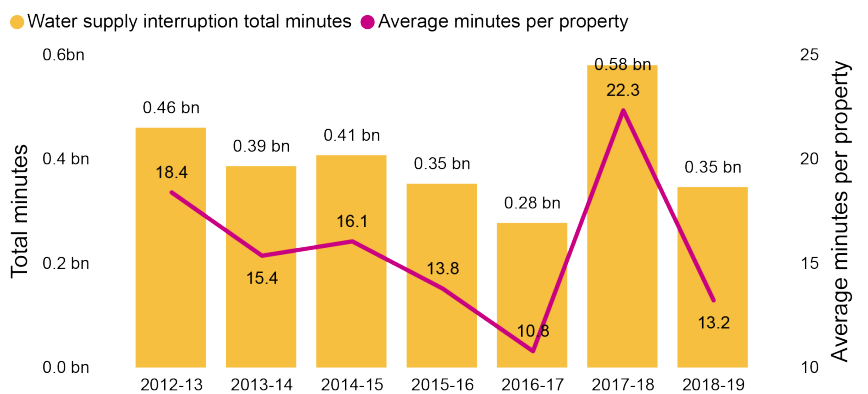
Business customers satisfied with their retailer



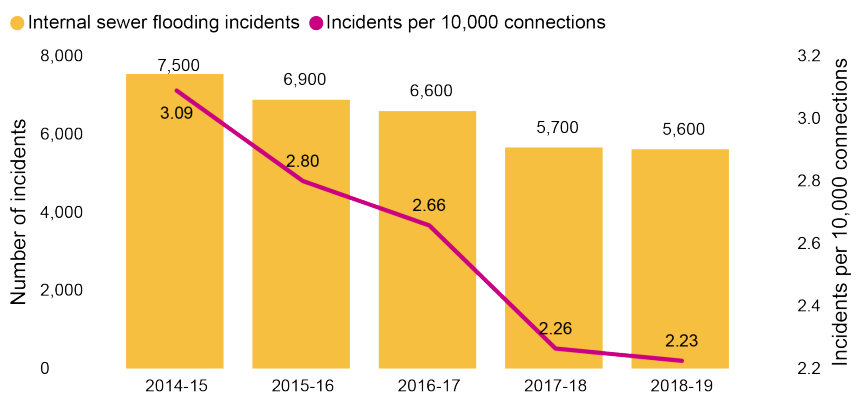
Total ODI payments



Water supply interruptions



Internal sewer flooding incidents



Sources: Ofwat analysis of annual performance data, CCWater Non-household customer complaints report 2018-19, Ofwat State of the market report 2018-19

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

### Outcome 2

Over the last five years, the average customer bill (adjusted for inflation) has continued to fall.

Customer satisfaction with value for money has remained steady at 72% year-on-year. This compares favourably with other utilities which have shown a decline.

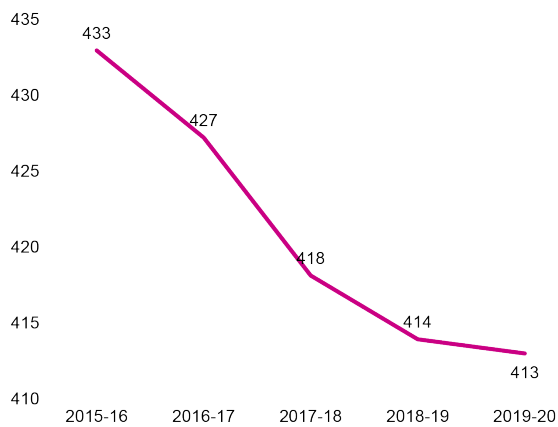
72%

Although some customers continue to struggle to pay their bills, the sector is doing more than ever to help. The number of customers signed up to financial assistance schemes and social tariffs, as well as those on the Priority Service Register, is at the highest ever level.

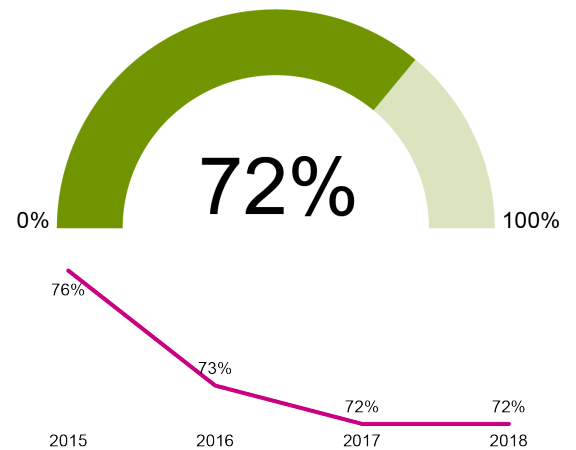
We estimate that business customers have saved a total of £10 million in 2018-19 from switching water retailer.



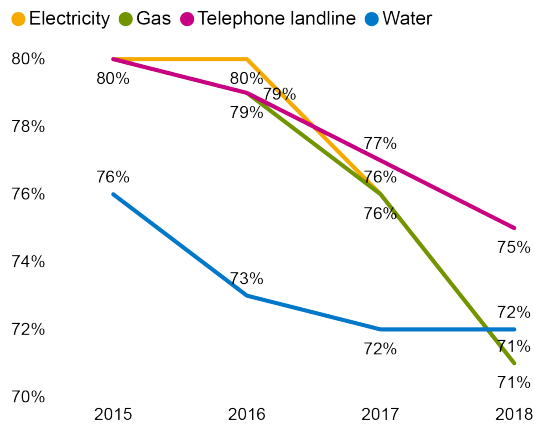
Average household bill, inflation-indexed (RPI, 2019-20 = 100)



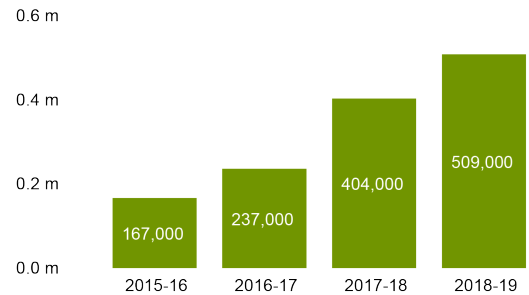
Customers satisfied with value for money



Customers satisfied with value for money, sector comparison

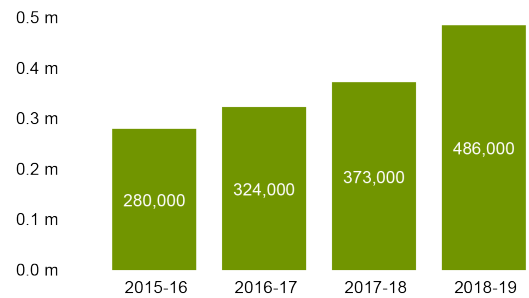


Number of customers on social tariffs (excluding WaterSure)



Estimated savings from business customers switching retailers

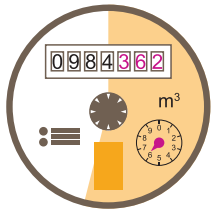
Number of customers on Priority Service Register



Sources: Discover Water, ONS, Ofwat analysis, State of the market 2018-19: Review of the second year of the business retail water market, CCWater, Water matters report June 2019, Ofwat analysis of annual performance data

# Companies resilient in the round and protecting the sustainability of the ecosystem for future generations

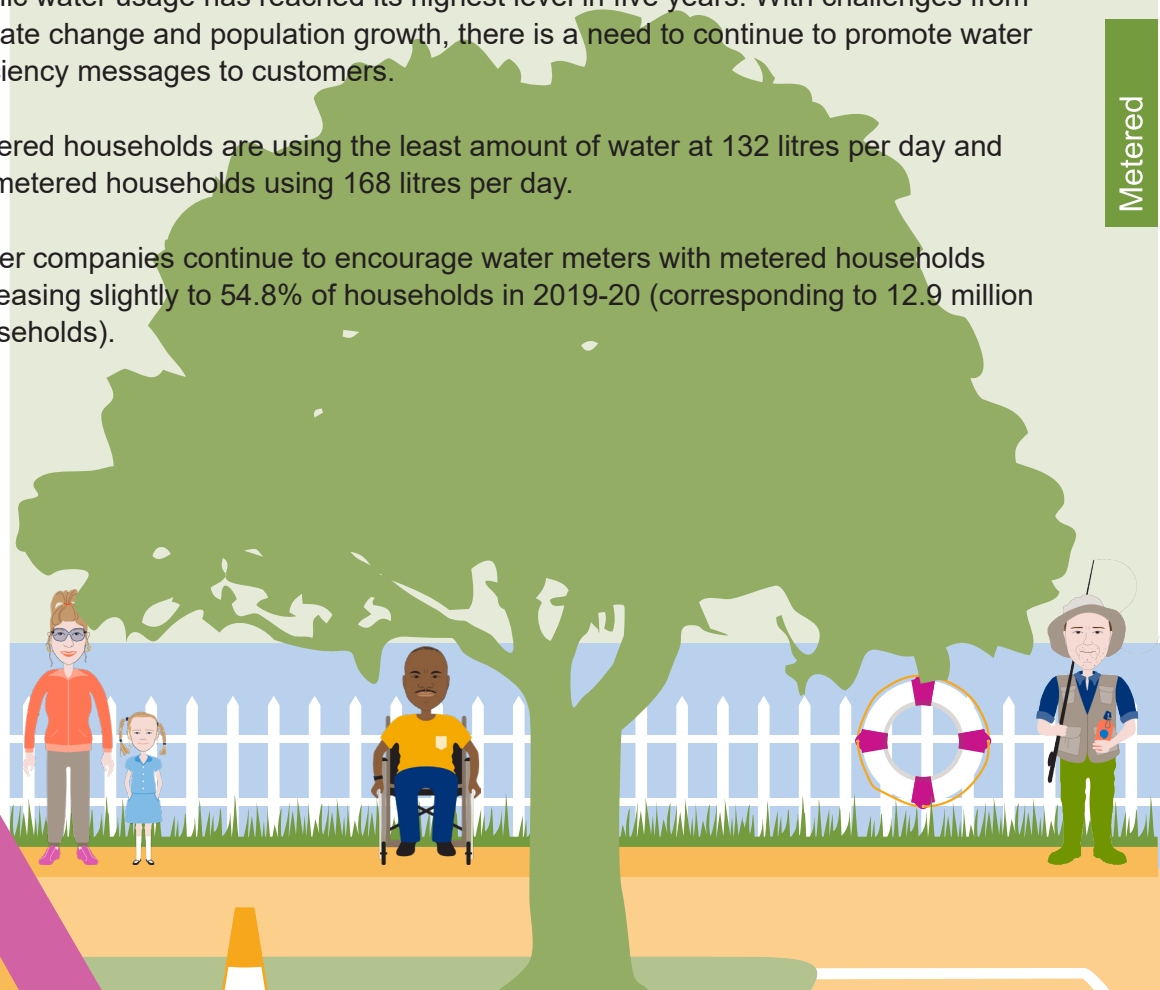
## Outcome 3



Public water usage has reached its highest level in five years. With challenges from climate change and population growth, there is a need to continue to promote water efficiency messages to customers.

Metered households are using the least amount of water at 132 litres per day and un-metered households using 168 litres per day.

Water companies continue to encourage water meters with metered households increasing slightly to 54.8% of households in 2019-20 (corresponding to 12.9 million households).



Metered

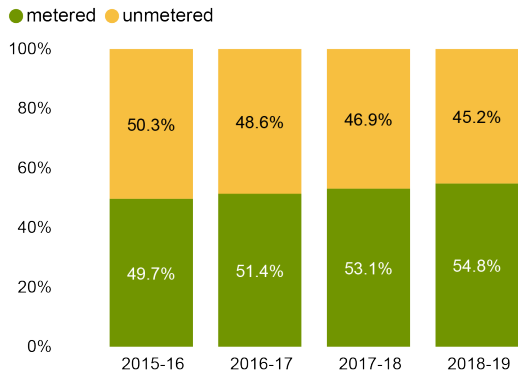
Unmetered



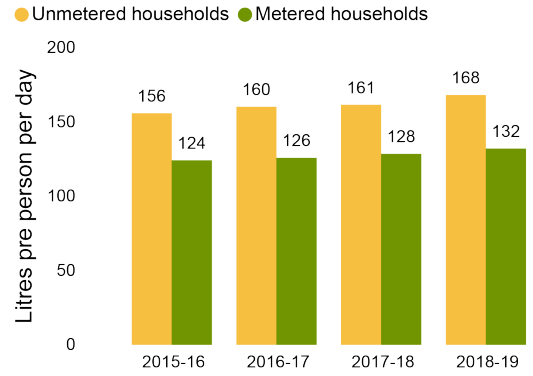
The industry's carbon footprint is improving over time with carbon emissions down.

The total number of pollution incidents has remained steady year-on-year, but performance varies between individual companies, ranging from an improvement of 26% to a deterioration of 21.1%.

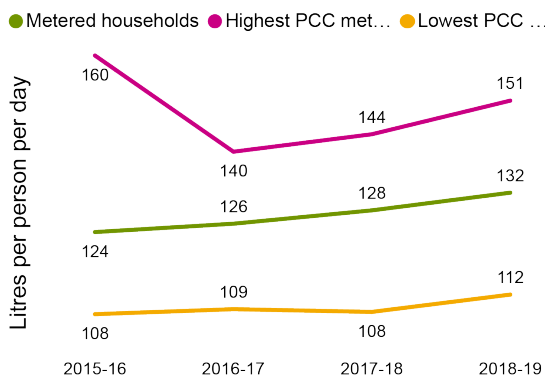
### Households metering penetration



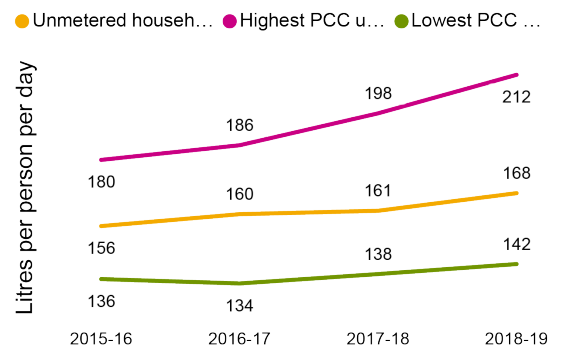
### Per capita consumption



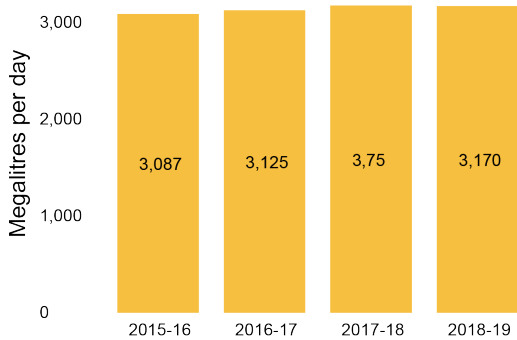
### Per capita consumption, metered households



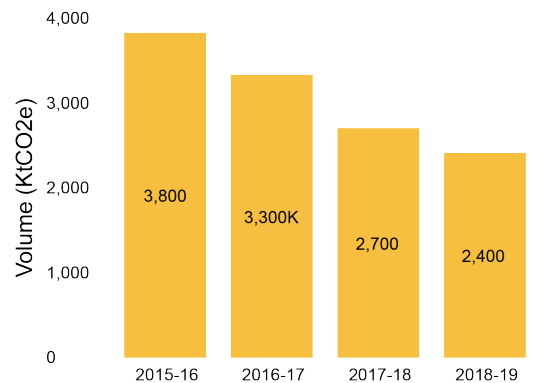
### Per capita consumption, unmetered households



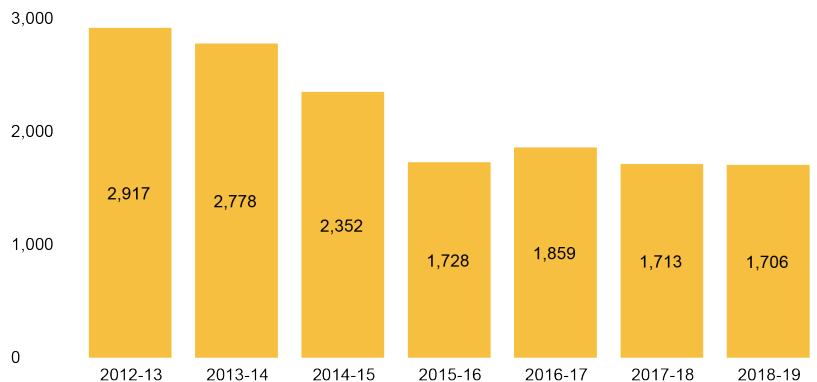
### Total leakage



### Carbon emissions



### Total number of pollution incidents (not including adopted assets)



Source: Ofwat analysis of annual performance data

# Companies and investors committed for the long term

## Outcome 4

The level of trust of water companies by customers has increased again this year, with water companies more trusted than energy companies.

There has been good progress on driving forward purpose, values and culture, with every water company signing up to Ofwat's principles of board leadership, transparency and governance and the incorporation of the core objectives in their licences.

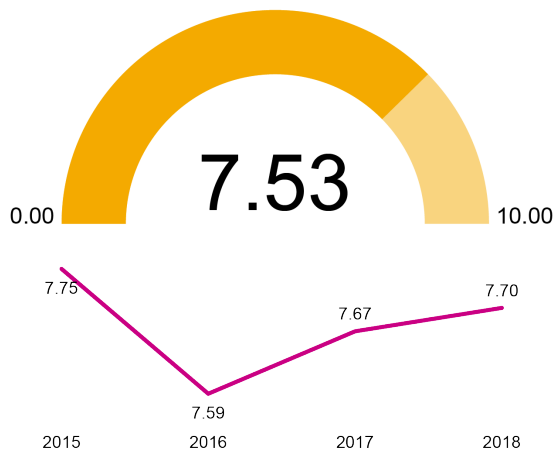
The industry's Public Interest Commitment has set five goals including developing a strategy to end water poverty and achieving net zero carbon emissions by 2030.



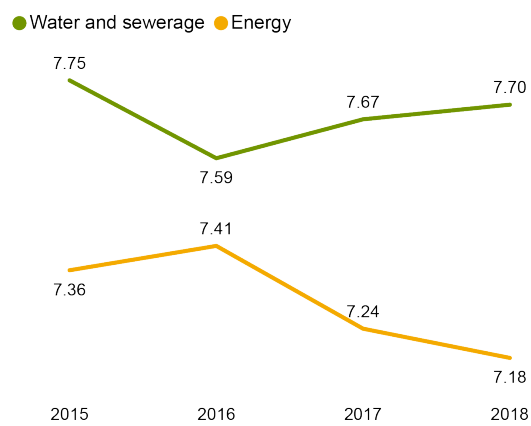
Net zero CO<sub>2</sub> by 2030



Level of trust (out of 10)



Level of trust (out of 10), energy sector comparison



Source: CCWater, Water matters report June 2019



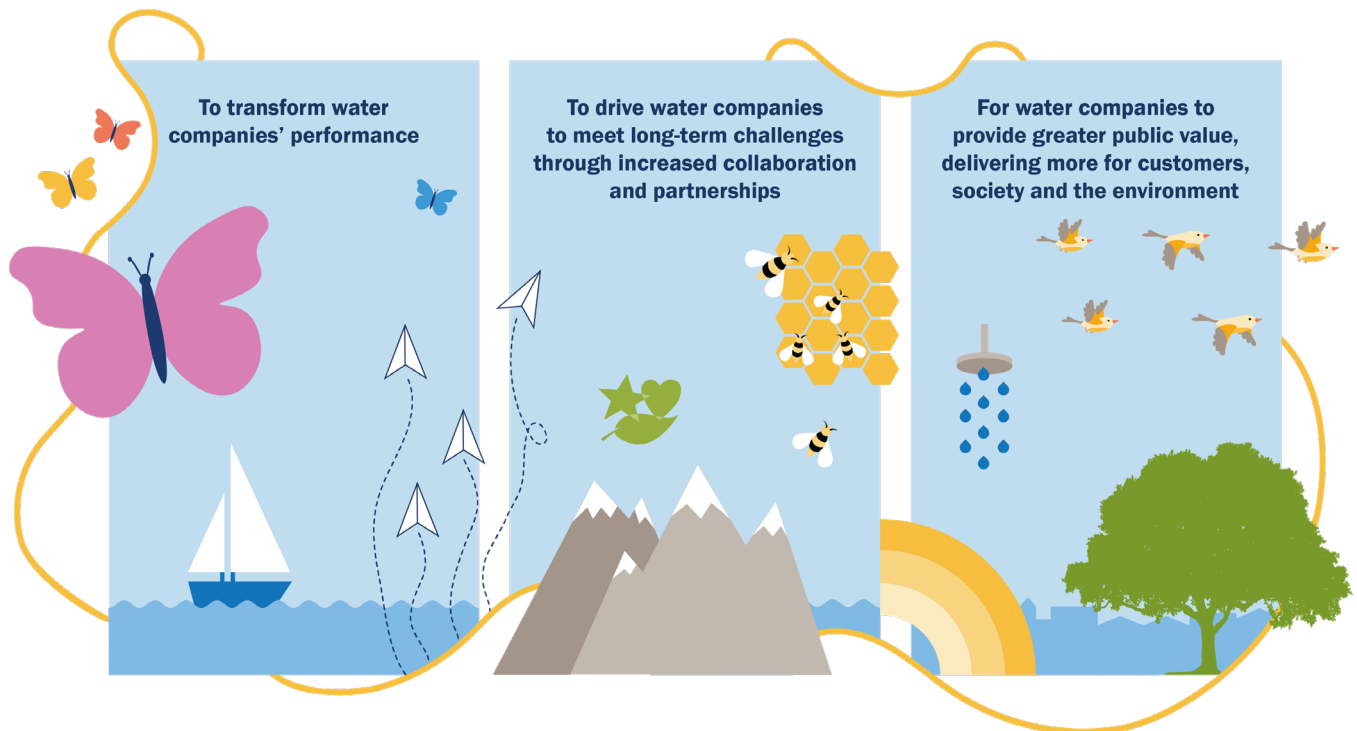
## Performance analysis

### Our 2019-20 performance – Time to act, together

The water sector is facing some of its biggest challenges, including climate change and population growth. At the same time, companies need to deliver safe and reliable water and wastewater services, while keeping bills affordable and providing the best possible service for customers.

In October 2019, we launched our new strategy, [Time to act, together](#), which outlines how we will help the sector meet these challenges.

### Our three strategic goals



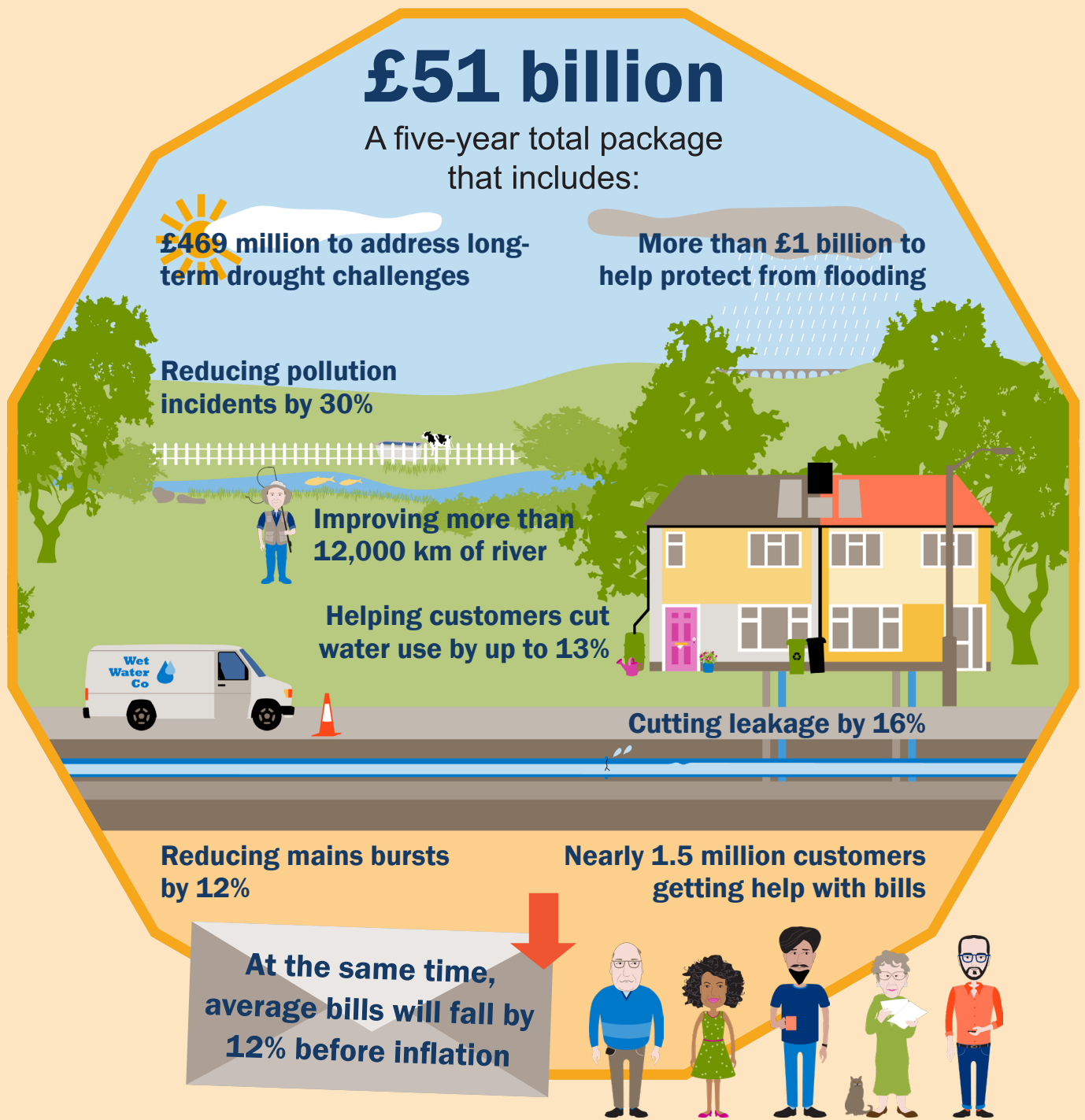
In this section, we highlight the three strategic goals from our strategy and the work we have done this year to allow us to hold companies to account in future, also consistent with the requirements of the UK and Welsh Governments' strategic priorities statements. More information on how we will do this can be found in Ofwat's [Forward programme 2020-21](#).

Underneath each strategic goal, we highlight some of the steps we have taken during the year to move forward to meet our goals and ambitions for the next financial year.

# To transform water companies' performance

## Goal 1

Setting a new era for the water sector – delivering the 2019 price review



With extreme weather events, climate change and population growth challenging the water industry, PR19 set stretching goals to make sure water companies continue to provide safe and reliable water and wastewater services in the short and longer term.

The outcomes of PR19 will transform the water industry by delivering investment into infrastructure, making significant improvements to water company services and lowering bills for water customers.

## PR19

On 11 April 2019, we published our [early draft determinations](#) for the fast track companies and on 18 July 2019, we published our [remaining draft determinations](#) for the slow track and significant scrutiny companies.

Finalised on 16 December 2019, [PR19](#) approved a major investment programme by water companies to improve services for water customers and the environment. The final determinations set out a five-year price and service package that will enable water companies to deliver more for people today, invest for future generations and at the same time operate more efficiently and reduce bills, while providing an appropriate level of return for investors.

PR19 delivered a spending package of £51 billion for the next five years. A quarter of this, around £13 billion, will be investment dedicated to providing resilient services and a better environment in the face of a growing population and climate change.

Customers will also see a reduction in average bills of about £50 before inflation. We secured this by demanding greater efficiency, passing through lower financing costs and promoting more innovation.

We also set new levels of service so water companies make a step change in their

performance over the next five years addressing the more recent stagnating performance we have seen. These include:

- Cutting leakage by 16% – saving enough water to meet the needs of everyone in Birmingham, Bristol, Cardiff, Leeds, Liverpool and Sheffield.
- Identifying and helping an additional two million customers who need extra support.
- Investing over £1 billion to protect communities at risk of flooding.
- Reducing pollution into rivers and streams by almost a third.
- Preparing for drier weather by providing £450 million to explore new water resources such as reservoirs or moving water from where there is lots to places with less.

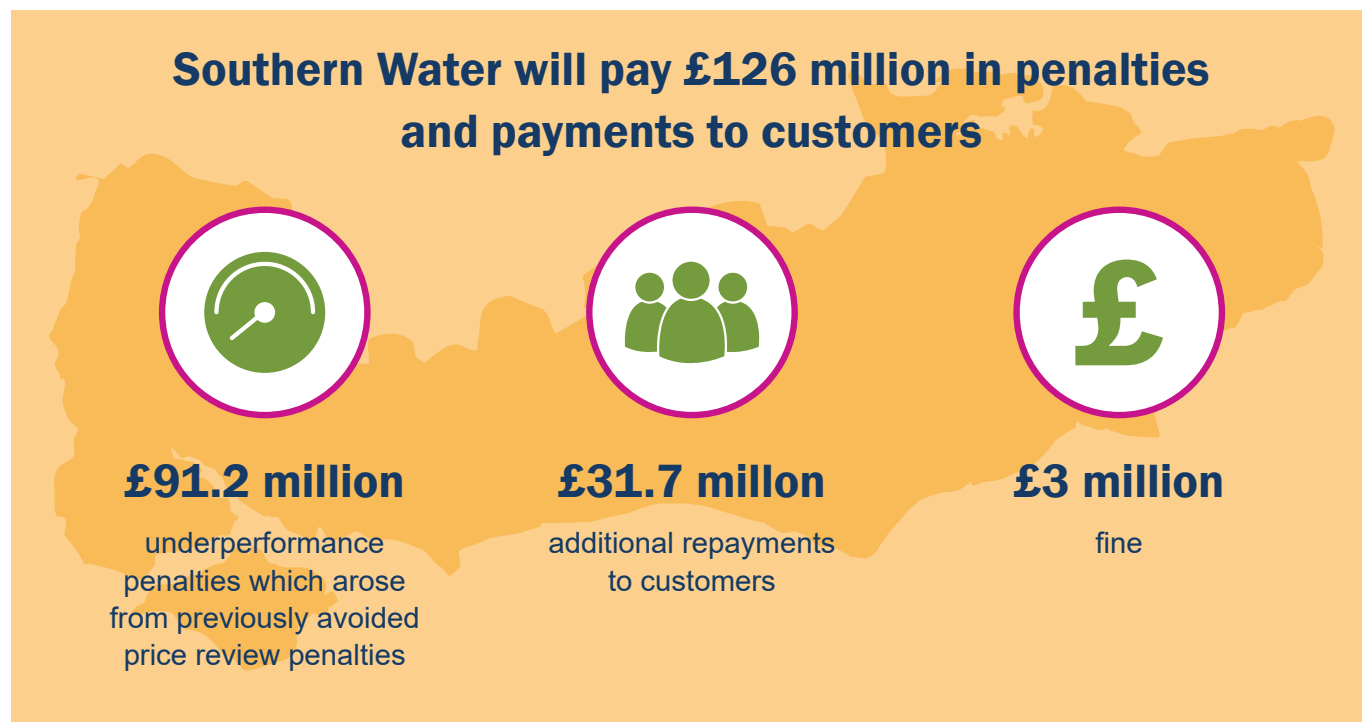
Alongside our final determinations, we set out how those decisions supported the achievement of both the [Welsh Government's](#) and [UK Government's](#) priorities and objectives.

## Working towards PR24

The [PR19 final methodology document](#) set out how we would operate the price controls and some of the key incentives for the 2020-25 period. We gave stakeholders early sight of how we could implement these controls and incentives, and in particular how we intend to reconcile water companies' actual revenue with the amount that they should collect. We made progress towards this by publishing a number of [draft models](#).

On 4 March 2020 we published a [formal consultation on the 'reconciliation rulebook'](#) setting out our approach to the reconciliations that will be required during and at the end of the 2020-25 price control to take account of past performance and the various price control incentive mechanisms. We also consulted on the models that calculate the reconciliations.

## Protecting customers by taking enforcement action against Southern Water



Following a large-scale investigation into Southern Water, we found that [the water company failed](#) to operate a number of wastewater treatment works properly, including by not making the necessary investment which led to equipment failures and spills of wastewater into the environment.

We also found that Southern Water manipulated its wastewater sampling process which resulted in it misreporting information about the performance of a number of sewage treatment sites. This meant the company avoided penalties under our incentive regime.

Southern Water committed to pay £126 million in penalties and rebates to existing and former wastewater customers. This package of penalties and rebates is the largest ever secured following enforcement action.

Southern Water has also now committed to greater transparency about its environmental performance. It has also committed to strengthen its assurance around paying bonuses, so they are only paid when appropriate.

It was not our role to make findings about site specific environmental permit failures, the actual environmental impact from any permit failures, or whether the acts of Southern Water were criminal in nature. These matters are currently being dealt with by the Environment Agency, as the environmental regulator.

## Improving customer experience

Providing excellent customer experience for customers is fundamental for maintaining trust and confidence in the water sector. On 1 April 2020 we introduced the customer measure of experience (C-MeX) and the developer services measure of experience (D-MeX) for the 2020-25 period. They will replace the service incentive mechanism (SIM) which has been in place since 2010.

### C-MeX

C-MeX will incentivise companies to improve the overall experience customers have of their water company. It consists of two surveys:

- the customer service survey of residential customers who have recently contacted their water company; and
- the customer experience survey of water customers selected from a random sample in relation to their experience of their water company.

Customers are asked how satisfied they are with the service provided by their water company and also how likely they would be likely to recommend them to family or friends (net promoter score). This net promoter score result is measured and reported separately to the C-MeX score which is used to calculate financial incentives.

### D-MeX

D-MeX will incentivise water companies to provide an excellent customer experience to developer services customers, including small and large property developers, [self-lay providers](#) and those with new appointments and variations (NAVs). These customers can also include residential customers that have new mains connections installed.

D-MeX consists of:

- a qualitative element which is a survey of developer services customers who have recently completed a transaction with their water company; and
- a quantitative element which measures performance against a set of Water UK metrics for developer services levels of service.

## Markets delivering more for customers

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

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

For example, in 2019-20 we:

- [Reallocated Aquaflow’s customers](#) using our powers under the [interim supply code](#) due to the retailer going into liquidation.
- Published our [decision on charges for new connections](#) and new developments for English companies from April 2020. The changes are to support a vibrant and competitive market for developer services. They are designed to be financially neutral for developers overall, and are supported by complementary new requirements to support bill stability.
- Consulted on a [bilateral market for water resources](#) which would allow third party water resource providers (for example power stations, farmers, NGOs) the opportunity to use their abstraction licences to directly supply retailers with water, using the incumbent’s networks for treatment and distribution. We have decided to pause our work on bilateral markets in response to the impacts of Covid-19 on the business retail market. In the meantime we are continuing to assess how we can best use markets to deliver good value water resources for customers and will develop our thinking on this in the coming year.
- [Revoked Tor Water’s water supply and sewerage licences](#) (WSSL) due to a number of licence breaches and successfully reallocated its customers using the interim supply process.
- Published our [reasons for varying the area of appointment for South West Water](#) (SWW) so that it became the water and wastewater services provider for the Isles of Scilly on 1 April 2020.

## State of the business retail market – year two





We published our [second annual state of the market review](#) of the business retail market in July 2019.

The top headlines from the report were:

- Just over half (53%) of all customers were aware of the possibility to choose their water retailer.
- 13% of customers have been active since market opening, in that they have switched, renegotiated or considered doing so.
- Customers have saved around £10 million in bills in the second year of the market.
- Complaint levels remain much higher than before market opening. The majority of customers' complaints concern billing and charges – which in part reflect deficiencies in market data such as timely and accurate meter readings.

However, the market frictions we identified in the [Open for business 2017-18](#) report continued to prevent the market from working to its full potential.

The [2018-19 state of the market report](#) highlighted that poor aggregate performance on the part of wholesalers in meeting industry requirements increased retailer costs (though we noted some individual wholesalers performed well).

We noted that aggregate performance by wholesalers improved in the second year of the market – overall wholesalers completed 80% of Market Performance Standard (MPS) tasks, for example concerning missed meter reads, on time in year two, compared to 66% in year one.

While a third of all wholesalers completed 88% or more tasks on time in year two, we

nevertheless noted that significant variance remained across individual wholesalers' performance, with completion on time rates ranging from 60% to 97%.

We stressed that levels of performance from some wholesalers clearly needed to improve to support more effective market functioning.

## RISE above

Across both markets, we continued to see examples of incumbent water companies in England failing to step up and support the development of effective markets. Poor and patchy support led us to start a [review into incumbent water company support for effective markets](#) (RISE).

In May 2019, Rachel Fletcher [wrote to the incumbent water companies](#) challenging and encouraging them to do more to support the development of markets and asking them to report on progress by the autumn. In September 2019, we [wrote to the incumbent water companies for a second time](#), providing more detail on the type of information required. We also asked business retailers, self-suppliers and NAVs for their views.

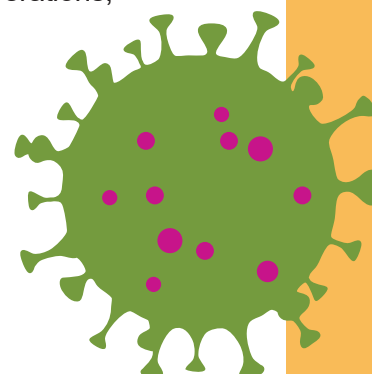
We published the [supporting documents](#) we received from the incumbent water companies, as well as responses received from other interested parties. We planned to publish a report on our website in April 2020. Because of Covid-19, we have delayed publication until later in the year.

## Covid-19 effect on the business retail market

The business retail market in England started to become impacted by Covid-19 both through businesses closing and through social distancing affecting retailer operations, at the beginning of March 2020.

To ensure the interests of customers were protected and to minimise the disruption this could cause to the trading parties who are operating within the market, Ofwat [worked closely with the market operator MOSL](#) to put in place urgent retail code modifications at the end of March, indicating that they would be kept under review as the situation developed. These included provisions:

- restricting retailers from [charging interest or late payment fees](#) for late payments or requesting that customers be disconnected at this time;
- [deferring payment of a proportion of wholesale charges](#) to provide liquidity to the market; and
- permitting use of a [temporary vacant flag in the market database](#) to reflect that a closed business was not consuming water.



With these interim measures in place, we continued working with MOSL and other stakeholders to develop a longer term solution to address the cash flow impacts of the Covid-19 pandemic. We put additional measures in place early in the 2020-21 financial year, following consultation with the sector. As part of the longer term solution, we are also considering the appropriate approach to addressing excess levels of bad debt which could materialise following the effects of Covid-19.

Recognising the increased risk to retailer financial resilience during the pandemic, we are working closely with MOSL and other stakeholders to strengthen elements of our interim supply process to ensure customers remain protected should their retailer exit the market.

## Using DPC to support the resilience of water services

As part of PR19, we introduced [Direct Procurement for Customers](#) (DPC), a process for water companies to competitively tender for a third party to design, build, finance, operate and maintain infrastructure. This initiative has the potential to provide significant benefits for customers through promoting innovation and enabling capital and operational cost savings as well as a reduction in financing costs.

For example, United Utilities are proposing to implement one of the industry's first DPCs. This is a major project supporting the resilience of water services to over two million people in Manchester and the Pennines who are supplied by the Haweswater Aqueduct. The multi-million-pound project will see the ageing pipeline, which runs 67 miles from the Cumbrian reservoir to a water treatment works north of Manchester, partially replaced by the early 2030s. As part of the planning process, the project is currently out for public engagement which considers not only the route of the project but all facets of the project which would or may interact with the public, for example additional road traffic, noise, health and safety etc. The relevant local authorities will be asked to grant approval to proceed with the project and United Utilities hope to start construction in 2023.



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

Goal 2

## PR19 PCC and leakage ambition

The less water is wasted, the less water needs to be removed from the environment. Through PR19, companies have new performance commitments to cut leakage – and we have set a tougher challenge for companies that have performed worse in the past.

By achieving these commitments, the sector will cut leakage by 16% by 2025 – saving enough water to meet the needs of everyone in Cardiff, Birmingham, Leeds, Bristol, Sheffield and Liverpool.



### Show water some love

We joined forces with more than 40 organisations including the Environment Agency, Water UK, National Farmers' Union (NFU), World Wildlife Fund (WWF) and water companies to collaborate on a joint campaign called 'Love Water'.

The Love Water campaign focuses on:

- encouraging people to use water wisely;
- helping people to understand how they can reduce pollution in their local environment; and
- encouraging people to get out and enjoy their local water environment.

We recognise the challenges posed by Covid-19 in terms of customers' water usage and will continue our work with industry and other stakeholders to encourage more sustainable water usage while supporting public health.

## Future water needs

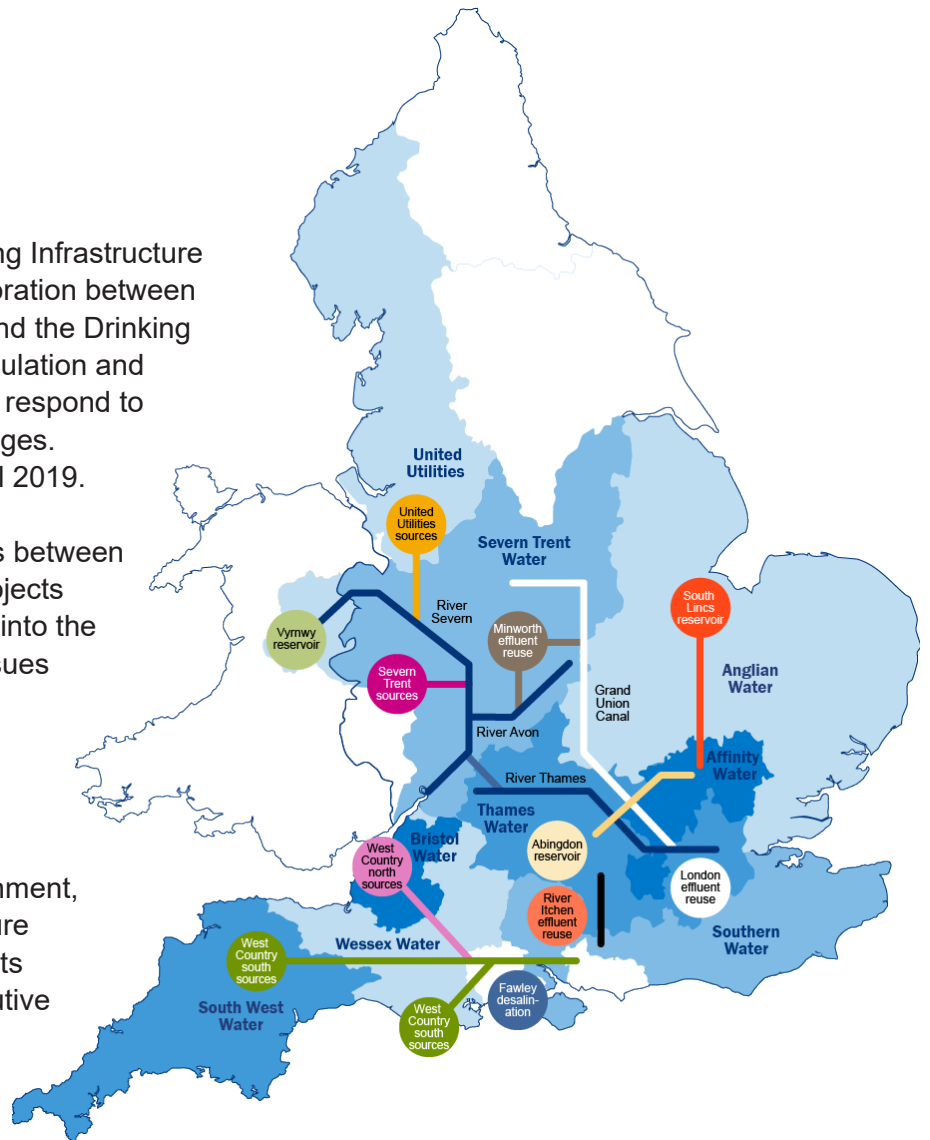
This year we have seen water companies working together to improve water services for customers. A £100 million collaboration between Portsmouth Water and Southern Water, the development of Havant Thicket reservoir, will bring much needed water to the South East. It is the first time that two water companies have worked together in this way and it will be the first reservoir built in that region since the 1970s.

## RAPID

Regulators’ Alliance for Progressing Infrastructure Development (RAPID) is a collaboration between Ofwat, the Environment Agency and the Drinking Water Inspectorate to improve regulation and remove barriers to help the sector respond to long-term water resources challenges. RAPID was officially set up in April 2019.

RAPID will support water transfers between regions and joint infrastructure projects to provide resilient water supplies into the future, ensuring that regulatory issues are addressed in a timely and co-ordinated way.

The team are engaging with stakeholders across England and Wales including the Welsh Government, HM Treasury, National Infrastructure Commission, Infrastructure Projects Authority, Better Regulation Executive and Natural Resources Wales.



## Improved services that go above and beyond

Our package in PR19 includes £13 billion for new and improved services that go above and beyond water companies’ day-to-day operations. This includes more than £1 billion to reduce the impact of flooding on communities across England and Wales.

Collaboration with the Environment Agency and Drinking Water Inspectorate is ensuring that companies work together to solve long-term drought resilience challenges. We have allowed almost £500 million to support 17 major resilience schemes, including developing new water resources and the transfer of water across the country.

## Introduction of the Innovation Fund

Innovation is key to water companies delivering long-term resilience and great customer service at an affordable price. The sector needs to step up and increase innovation in order to meet the strategic challenges it faces in a cost-effective and sustainable way.

We are playing a stronger part in co-ordinating and driving innovation and we want to see companies work more effectively together and with their supply chains, to better tackle these challenges. As part of PR19, we are making available £200 million over five years through an innovation competition to help the industry address some of the strategic challenges it is facing on climate change and population growth. The £200 million funding will be collected by the companies from their customers over the period 2020-2025.

In order to be eligible for funding, companies entering the competition would need to contribute to the project costs. The projects and the allocation of funding will be assessed by independent experts before funds are awarded. The first competition will run in 2021.

## Looking to the future

2019 was the 30th anniversary of the water sector's privatisation. We marked the event by looking to the future, with an event where all the speakers were under 30. All water companies nominated a member of their staff under the age of 30 to attend the event together with a senior leader.



The aim of the day was to focus delegates' minds on a key question: what does a new shared vision for the water sector look like, both now and up to 30 years into the future?

The sessions covered topics such as social value, behavioural science, community engagement and communicating with Generation Z. The conference really generated a buzz and was an example of how Ofwat is working to influence, nudge and inspire the sector to build a better world.

**“I thought the whole approach ... and all the under-30s speakers were really fresh, and the topics discussed were not your typical water industry conference but clearly so relevant to the challenges we face”**

– Delegate from South East Water

# For water companies to provide greater public value, delivering more for customers, society and the environment

## Goal 3

This year, we have implemented steps aimed at improving accountability, transparency and legitimacy across the water sector as a whole.

## Business with a purpose

The health of the relationship between business and society is under pressure. This is particularly true of companies that provide essential public services like water. It is no longer enough for a water company just to provide a reliable supply of safe drinking water and waste water services at a reasonable price. They also need to contribute to society and protect the environment.

One of the goals in our new strategy is for companies to provide greater public value, delivering benefits for their customers, communities, the environment and wider society as well as for their shareholders. We want to see companies demonstrating more ambition in both what they deliver and how they do it.

Water companies have already started embracing this ambition, building on Bristol Water's adoption of its own social contract in 2019. The industry adopted a Public Interest Commitment at the beginning of the financial year and Anglian Water subsequently enshrined public interest as part of its articles of association.

During the Covid-19 pandemic, we have seen some good examples of the support water companies have given to their communities. For example, United Utilities has made £3.5 million available from their United Utilities Trust Fund. This money will be distributed as grants to help customers out of water debt and also to support local organisations who can deliver money advice. More examples of how the water companies are responding to the pandemic are shown in the following graphic.

# How companies responded to the pandemic



Companies, including Portsmouth Water, South West Water, Thames Water, Northumbrian Water and Dŵr Cymru, provided free online educational resources for children

United Utilities created a £3.5 million fund for customers in need

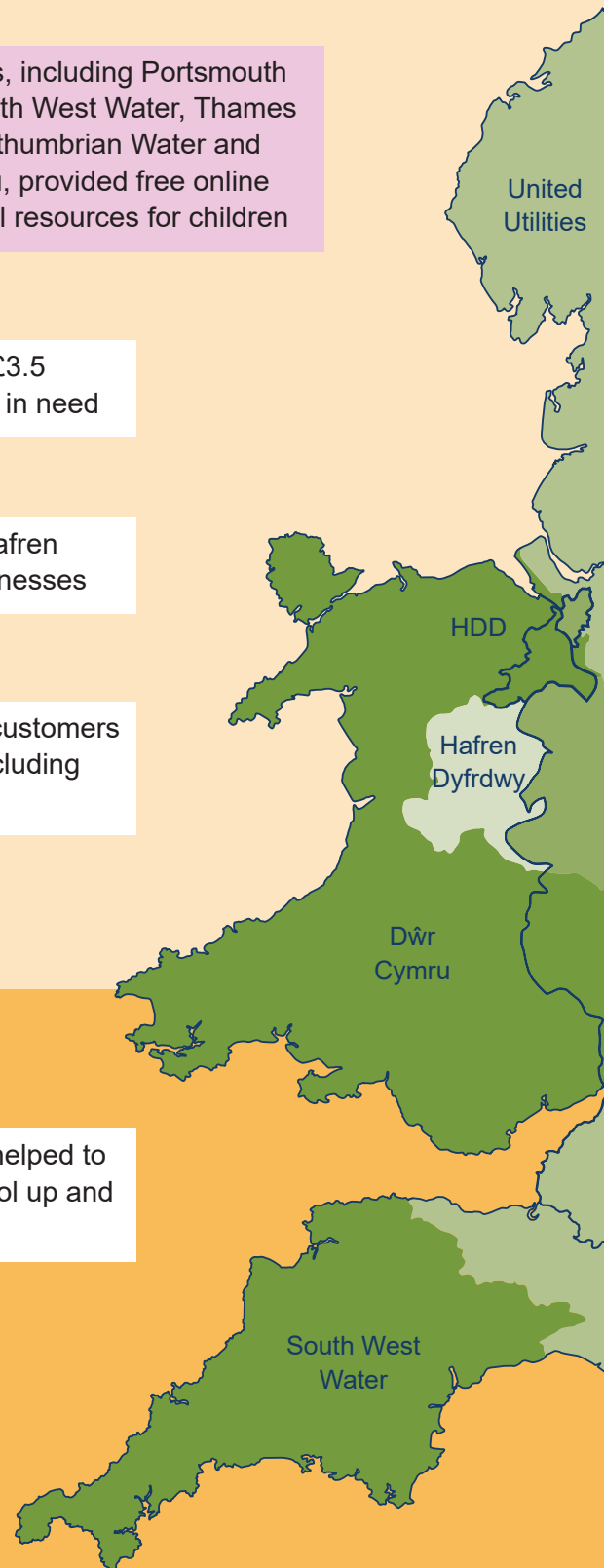
A community fund from Hafren Dyfrdwy helped local businesses

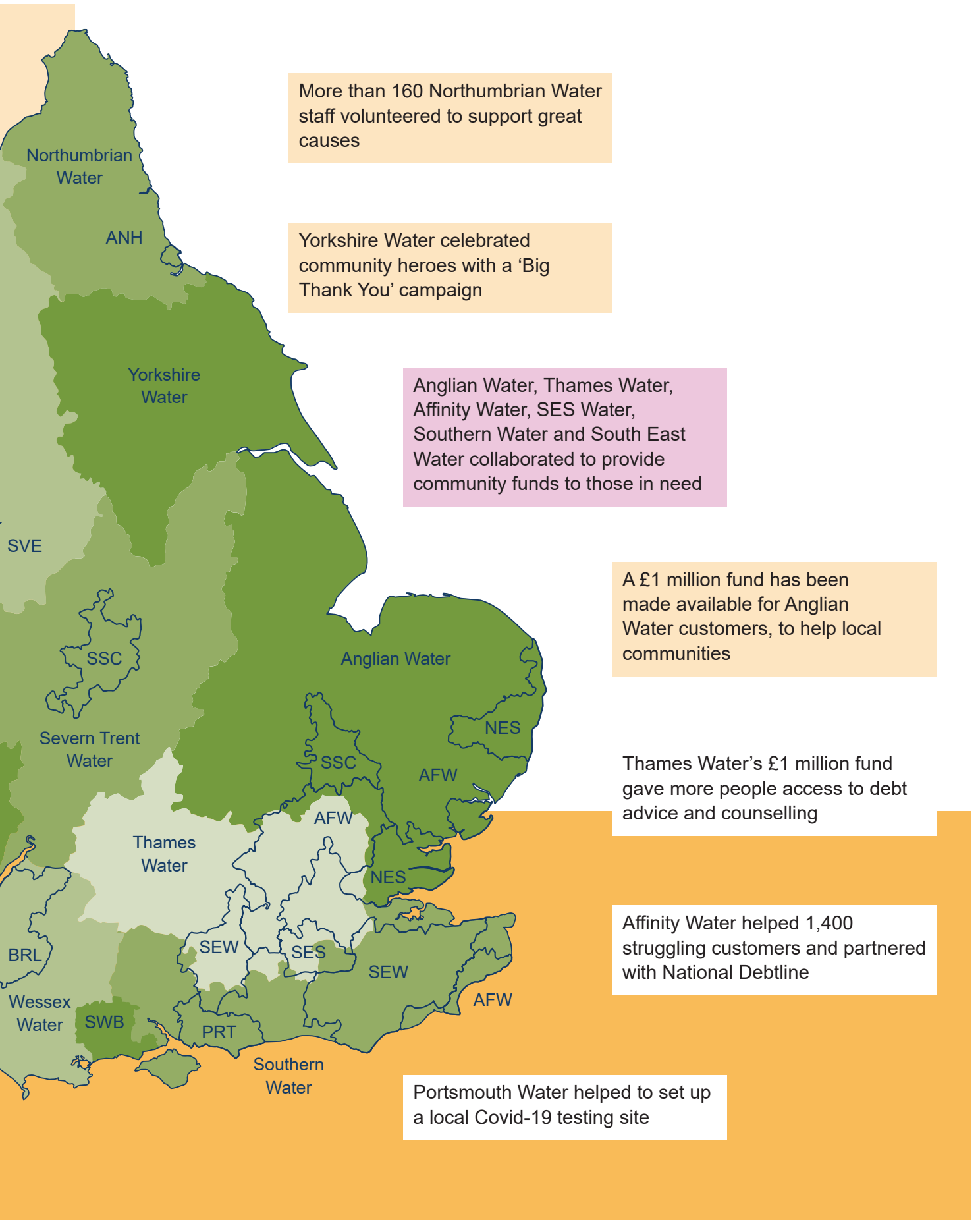
South Staffs Water gave customers extra financial support, including payment breaks

Severn Trent Water gave £1 million away to charities and projects helping local communities

Bristol Water employees helped to get NHS Nightingale Bristol up and running

Bristol Water joined forces with Wessex Water to launch a rebate scheme for NHS workers





More than 160 Northumbrian Water staff volunteered to support great causes

Yorkshire Water celebrated community heroes with a 'Big Thank You' campaign

Anglian Water, Thames Water, Affinity Water, SES Water, Southern Water and South East Water collaborated to provide community funds to those in need

A £1 million fund has been made available for Anglian Water customers, to help local communities

Thames Water's £1 million fund gave more people access to debt advice and counselling

Affinity Water helped 1,400 struggling customers and partnered with National Debtline

Portsmouth Water helped to set up a local Covid-19 testing site

## New Board Leadership Principles

Binding principles of [Board leadership, transparency and governance](#) have now been incorporated into the licences of all the water companies. The first principle requires each Board to set a purpose, strategy and values for the company that, together with the company's culture, reflect the needs of its wider stakeholders as well as its shareholders.

Companies are due to report against their compliance with the principles in July 2020 but some companies in their 2019 annual reporting already set out the steps they are taking to ensure they can meet the objectives of the new 2019 principles going forward.

## Putting the sector back in balance

The corporate behaviour of some of the water companies has damaged trust and legitimacy in the water sector. As part of PR19, we asked companies to provide more transparency around shareholder dividends and performance related executive pay. We hope these changes will mean companies are putting their customer's interests more at the heart of the decisions they make.

Water companies are now required to:

- share additional benefits with customers where companies have gearing that is materially above the notional level that underpins price controls;
- explain in business plans how dividend policies in 2020-25 take account of how companies deliver for customers over the price control period; and,
- set out transparently in business plans for customers and wider society, how performance related executive pay will reward stretching delivery for customers.

## Multi-agency approach to preserving chalk streams

All water companies are uniquely placed to improve the environment as a core part of their business and we will make the environment integral to all that we do.

We have created a multi-agency approach to preserving chalk streams, which provide clear water and rich wildlife. The chalk streams are not only beautiful, they provide essential drinking water as well as being a key source of water for many businesses and farms.

We are pushing water companies to use efficient, nature-based solutions, working with farmers and others to reduce pollution going into rivers and lower the cost of providing clean drinking water.

## Looking ahead – time to act

Our overall aspiration is for the water sector to provide the very best service to customers, improve the environment and improve life through water both now and in the future.

Our new strategy, Time to act, together, sets out our expectations of companies and what we will do to support them:

### What companies need to do



### How Ofwat will work



The sector has a great opportunity to grasp this agenda, and next year we hope to be able to report on their progress.



# Financial commentary

Our financial highlights are summarised below.

## Operating costs summary

### Operating costs 2019-2020

	2019-20 £000			2018-19 £000
	Core regulation	Thames Tideway project	Total	Total
<b>Income</b>				
Licence fees received	33,726	375	34,101	31,303
Other income	112	-	112	257
Credit note issued at end of year	(1,311)	(21)	(1,332)	(157)
	32,527	354	32,881	31,403
<b>Expenditure</b>				
Administration costs	(32,117)	(354)	(32,471)	(30,515)
Net operating costs	410	-	410	888

## Core regulation budget

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

The core regulation operating budget set for the year, and included within our Estimate, was £34.8 million. However, we only invoiced £33.7 million of fees during the year. Our budget is set to meet our expected operational costs and includes a contingency to cover any unexpected requirements. At the end of the year we underspent by 6% against our core budget of £34.8 million. As a result we have issued a credit note for unspent income to companies of £1.3 million.

The Board confirmed our core budget for 2020-21 at £31.4 million (£36.5 million 2019-20), which is a decrease of 14% since 2019-20. This reflects the resourcing decrease following completion of the 2019 price review.

## Thames Tideway project


The regulation of the Thames Tideway project is funded under a separate licence and is paid by Thames Water Utilities Limited and Bazalgette Tunnel Limited (Tideway), the infrastructure provider. The programme budget for 2019-20 was estimated at £0.5 million. However, we only invoiced £0.38 million of the licence fees at the beginning of the year. Underspend against budget arose because of lower utilisation of third party support than originally expected.

At the end of the year, we returned £21,000 of excess licence fees recovered to Thames Water Utilities Limited and Bazalgette Tunnel Limited by credit note. The budget for 2020-21 has been confirmed as £0.5 million.

## Capital expenditure

Capital expenditure is funded by budget cover agreed with HM Treasury, which is recorded in our Main and Supplementary Estimate. Our core budget for 2019-20 was agreed at £0.22 million. We underspent against our capital budget by £39,000, part of which we held as contingency.

Our core budget for 2020-21 has been confirmed as £0.15 million.



**Rachel Fletcher**  
**Accounting Officer**  
**16 June 2020**

## Sustainability

In terms of Ofwat's own approach to improving sustainability, we have adopted an operational control approach to identify which of our activities generate carbon emissions. Our carbon footprint has been calculated using the relevant requirements of the Greenhouse Gas Protocol Corporate standard and details both absolute and normalised (relative) emissions.

Our carbon emissions for the period were 151.44 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). The largest source of our emissions is electricity consumption, which accounts for 81.45 tonnes of CO<sub>2</sub>e (53.8% of the total). Business travel is responsible for 38.51 tonnes of CO<sub>2</sub>e (25.4% of the total). We do not have any direct (Scope 1) emissions.

### Breakdown of annual greenhouse gas emissions by activity type for 2019-20

Type of Emissions	Activity	Units	(tCO <sub>2</sub> e)	% of total
Indirect energy (Scope 2)	Purchased electricity (kWh)	318,658.00	81.45	53.8%
Subtotal	318,658.00	81.45	53.8%	53.8%
Other indirect emissions (Scope 3)	Business travel (miles)	918,805.93	38.51	25.4%
	Flights (miles)	631.62	0.26	0.2%
	Rail (passenger km)	918,174.31	37.76	24.9%
	Taxi (km)	-	0.21	0.1%
	Motor mileage (miles)	-	0.29	0.2%
	Car hire (miles)	-	-	0.0%
	Waste and water	151.84	4.01	2.6%
	Water use (m <sup>3</sup> )	131.55	0.14	0.1%
	Waste (tonnes)	20.30	3.87	2.6%
	Electricity T&D (kWh)*	318,658.00	19.24	12.7%
	WTT**	918,805.93	8.23	5.4%
	Subtotal	2,168,769.06	69.99	46.2%
<b>Total emissions (tCO<sub>2</sub>e)</b>				<b>151.44</b>

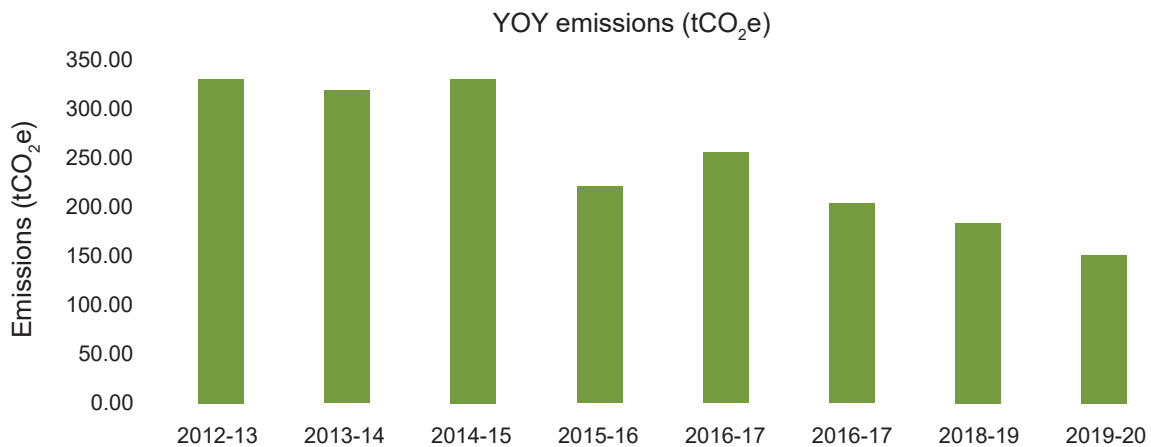
\* Transmission and distribution (T&D) are those emissions associated with grid losses (the energy loss that occurs in getting the electricity from power plant to the organisations that purchase it).

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

## Carbon emissions

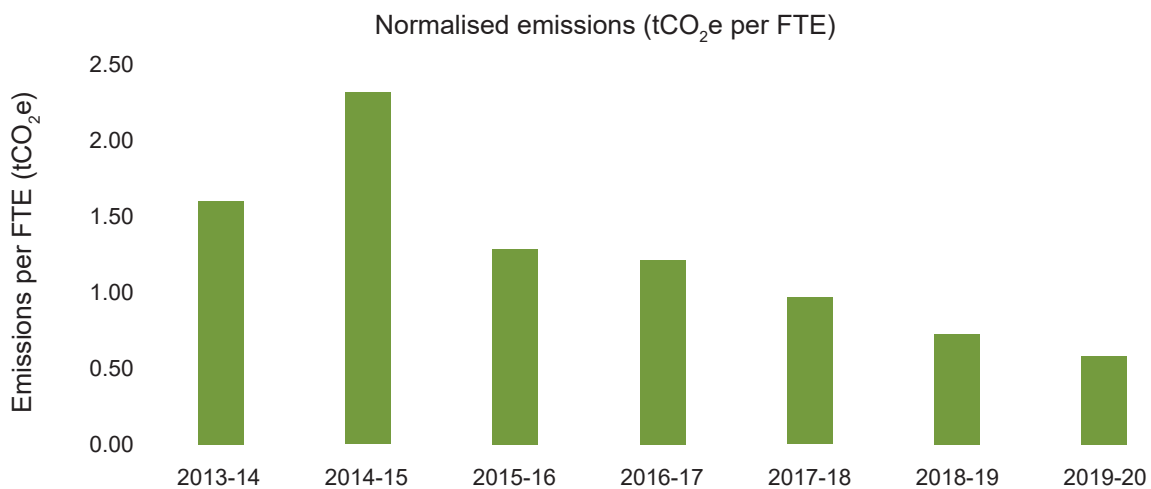
Our total carbon emissions have decreased by 32.54 tonnes of CO<sub>2</sub>e (10%) compared to 2018-2019. This is mainly due to a reduction business travel and a decrease in the emission factor for electricity. The figure below compares emissions for the past eight years. Ofwat’s overall emissions have decreased in 2019-20 and are at the lowest they have ever been in the past seven years.

### Ofwat’s greenhouse gas emissions



We have chosen staff numbers (FTE) against which to benchmark our emissions. Our FTE numbers have increased from an annual average of 254 to 260 over the 2018-19 to 2019-20 period. While FTE numbers have increased, normalised emissions (tonnes of CO<sub>2</sub>e per FTE) have decreased by 19.6%, from 0.72 tCO<sub>2</sub>e to 0.58 tCO<sub>2</sub>e as seen in the figure below.

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



## Year-on-year analysis of greenhouse gas emissions

Type of emissions	Activity	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
		(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)	(tCO <sub>2</sub> e)
Indirect energy (Scope 2)	Purchased electricity	207.83	187.64	201.00	127.12	125.14	104.28	92.93	81.45
	Subtotal	207.83	187.64	201.00	127.12	125.14	104.28	92.93	81.45
Other indirect emissions (Scope 3)	Business travel (miles)	58.55	71.98	60.49	48.36	79.81	56.33	53.95	38.51
	Flights (miles)	15.55	27.73	8.40	12.08	16.37	0.67	0.85	0.26
	Rail (passenger km)	37.04	37.46	46.84	30.36	57.21	51.24	50.99	37.76
	Taxi (km)	1.00	1.43	0.74	0.68	0.40	0.31	0.19	0.21
	Motor mileage (miles)	3.17	4.66	4.23	4.99	5.58	3.92	1.91	0.29
	Car hire (miles)	1.69	0.66	0.27	0.25	0.25	0.18	-	-
	Waste and water	5.36	3.67	7.96	5.21	5.98	4.05	3.78	4.01
	Emissions from water consumption (m <sup>3</sup> )	0.97	0.96	0.92	0.25	0.15	0.15	0.13	0.14
	Waste (tonnes)	4.39	2.71	7.04	4.96	5.84	3.90	3.65	3.87
	Electricity T&D (kWh)*	32.12	28.81	32.92	20.82	20.49	27.93	22.88	19.24
	WTT**	27.24	26.95	28.53	19.42	24.57	11.32	10.45	8.23
	Subtotal	123.27	131.42	129.90	93.81	130.86	99.63	91.06	69.99
Total emissions (tCO <sub>2</sub> e)		331.11	319.06	330.89	220.93	256.00	203.91	183.98	151.44
Normalised emissions	Average FTE across reporting period		199	143	172	211	211	254	260

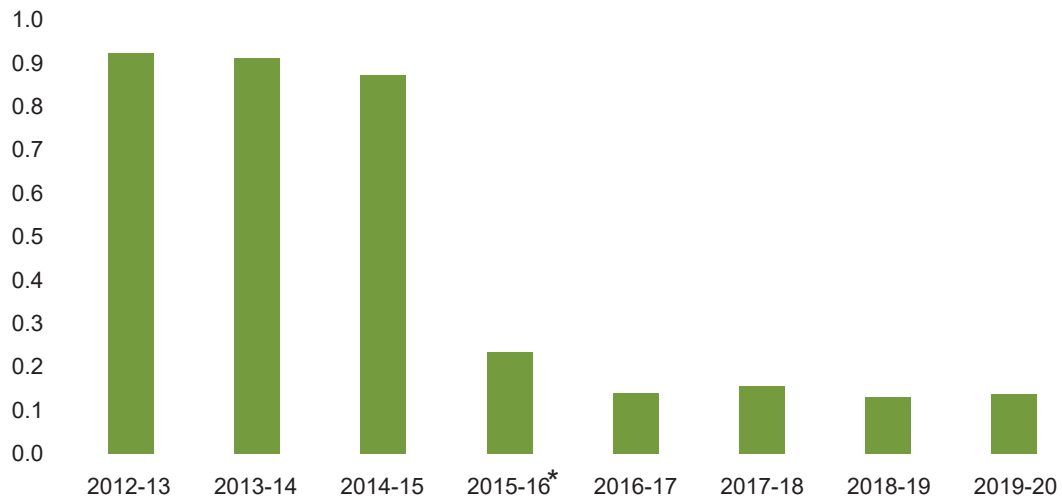
\* Transmission and distribution (T&D) are those emissions associated with grid losses (the energy loss that occurs in getting the electricity from power plant to the organisations that purchase it).

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

## Water

We used 131.55 m<sup>3</sup> of water in our kitchen and toilet facilities, equivalent to 0.14 tonnes of CO<sub>2</sub>e in 2019-2020. This is a 7% decrease from the previous year. Water consumption at our London site was estimated based on consumption per FTE in the Birmingham office, which increased compared to the previous year.

### Ofwat's emissions from water consumption



## Waste

All general waste is segregated for recycling or landfill disposal. Ofwat is unable to measure the latter as it is disposed via a central collection point in a multi-tenanted building. We have assumed that 70% of total waste is recycled. 14.21 tonnes of waste were recycled in 2019-2020, resulting in 0.30 tonnes of CO<sub>2</sub>e. Landfill waste has been estimated at 6.09 tonnes, resulting in 3.57 tonnes of CO<sub>2</sub>e. Waste figures at Ofwat's London site were estimated.

\* The Birmingham office reduced its office space from four to two floors during this year.

## Ofwat's waste recycling



## Whistleblowing

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

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

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

- a criminal offence;
- a breach of a legal obligation;
- a miscarriage of justice;
- a danger to someone's health and safety;
- damage to the environment; and/or
- a deliberate attempt to conceal any of the above.

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

When we receive information from a worker in the water sector we will consider whether the information falls within the above definition of a qualifying disclosure and, if so, we will decide what, if any, further action or investigation is needed. This can include speaking to water companies, internal and external subject matter experts and the worker (if possible) to decide what, if any, steps we can take to resolve the issue or take the matter forward as appropriate. As a Prescribed Person, Ofwat has a duty to report annually on the number of qualifying disclosures made to us and a summary of the action taken in respect of these. This duty aims to increase transparency in the way that whistleblowing disclosures are dealt with and to reassure whistleblowers that their disclosures are taken seriously. This section of this annual report fulfils that duty for the 2019-20 reporting year.

The table below shows the number of qualifying disclosures made to Ofwat in 2019-20 and the resulting actions we have taken. Where disclosures and/or our initial enquiries do not provide sufficient evidence to warrant further action by us, we use the information as general intelligence about the sector and/or the company concerned. This enables us to monitor whether similar concerns are raised by others that could help build an evidence base sufficient for future action.

## Whistleblowing 2019-20

Metric	Details of what is being measured	Total number
Whistleblowing	Number of qualifying disclosures of information made by water sector workers to Ofwat	13
	Number of qualifying disclosures where Ofwat took further steps to investigate the matter (these steps included taking internal subject matter expert advice on the issue and/or speaking with the worker making the disclosure to gather more information).	13
	Number of qualifying disclosures where Ofwat contacted the company concerned to seek further information and assurances regarding the matter.	0
	Number of qualifying disclosures where, following its initial assessment Ofwat decided to open a formal investigation with a view to it taking enforcement or other regulatory action against the company concerned.	0 <sup>2</sup>

2. There are qualifying disclosures for which our review is ongoing and/or where we have sought further information from the whistleblower to establish whether further steps should be taken by us.





# Part 2

**Our accountability report**

## **Our accountability report**

## **Corporate governance report**

### **Directors' report**

#### **Roles and responsibilities**

Ofwat is a non-Ministerial Government Department with its own resource estimate. Our Chief Executive and Accounting Officer is Rachel Fletcher, and Jonson Cox is our Chair.

#### **Audit arrangements**

Our external auditor is the Comptroller and Auditor General (C&AG), who is appointed under statute and is required to audit our financial statements under the Government Resources and Accounts Act 2000, and report to Parliament on this examination. The notional cost of this audit service is £39,750 (2018-19: £38k). There was no auditor remuneration (actual or notional) for non-audit work. As Accounting Officer, I have taken all the steps to make myself aware of any relevant audit information, and to establish that our auditors are aware of that information. As far as I am aware, there is no relevant audit information of which our auditors are unaware.

Our internal audit service independently measures and audits the adequacy, reliability and effectiveness of management, risk management, and financial control systems. This is outsourced to Mazars LLP who were appointed as of 1 April 2018 through a competitive procurement process. The internal auditors make recommendations based on an appraisal of each system reviewed. The 2019-20 internal audit was performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

## Protected personal data-related incidents

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

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

We have experienced no personal data incidents during 2019-20 that we considered sufficiently serious as to require the Information Commissioner to be informed, consistent with legislation and ICO guidance.

## Supplier payment performance

We achieved 91% against our target for paying 100% of agreed invoices within 30 days of receipt during the year. The corresponding figure for 2018-19 was 84%.

The Government set a target for paying 80% of agreed invoices within 5 days of receipt. In 2019-20, we achieved 10% against this target and in 2018-19 it was 11%. Given the frequency of payment runs and the turnaround time required to process invoices within 5 days, the target remains challenging. However, we accommodate those suppliers requiring faster payment with same day payments.

Overall, we are continuing to review internal procedures and working actively with suppliers to improve on the performance improvements seen in 2019-20 and we will continue to explore ways to improve our efficiency in this respect.

## Financial instruments

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

A handwritten signature in black ink that reads "Rachel Fletcher". The signature is written in a cursive style with a large initial 'R'.

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

**16 June 2020**

## Statement of Accounting Officer's responsibilities

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

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Ofwat and the net income, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

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

The Accounting Officer confirms that this Annual Report and Accounts as a whole are fair, balanced and understandable. The Accounting Officer takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed Rachel Fletcher, Chief Executive, as Accounting Officer of Ofwat. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Ofwat's assets, are set out in Managing Public Money published by HM Treasury.

## Accountability – how we are managed and scrutinised

### Governance statement

#### In summary

This Governance Statement sets out our governance, risk management and internal control arrangements. It applies to the financial year 1 April 2019 to 31 March 2020 and, where appropriate, up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

#### Scope of responsibility

The Accounting Officer and Ofwat Board are responsible for maintaining corporate governance that supports the achievement of our strategy, while safeguarding public funds and departmental assets.

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

#### Accountability

The Accounting Officer is accountable to Parliament for all aspects of our work including the management of risk and opportunity. The Accounting Officer is responsible for ensuring that proper records are maintained, which disclose with reasonable accuracy, at any time, our financial position. In addition, the Accounting Officer is responsible for safeguarding our assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

How we manage the public funds we receive, in line with HM Treasury guidance, is set out in Managing Public Money. We have finalised a [Framework Agreement with Defra](#) which ensures that Ofwat's independence is maintained within the remit set by statute.

Our Annual Report and Accounts are sent to the Department for Environment, Food and Rural Affairs, which lays copies before each House of Parliament, and to the Welsh Government, which lays copies before the National Assembly for Wales.

## The purpose of the governance framework

Ofwat adheres to the principles of the Corporate Governance in central government departments: code of good practice’).<sup>3</sup>

The governance statement sets out:

- a summary of the key elements of our governance framework;
- a review of our effectiveness in 2019-20; and
- the Accounting Officer’s statement.

## Summary review of effectiveness and assurance

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

I have full assurance on the maintenance of a comprehensive system of assurance and controls to support me as Accounting Officer to ensure compliance with the principles in Managing Public Money and in particular those in relation to governance, decision-making and financial management. On the basis of evidence received from the Executive Directors, the Non-Executive Chair of the Board and the Non-Executive Director Chairs of the Committees, particularly ARAC, I am satisfied that I have the necessary level of assurance to discharge my responsibilities effectively with respect to the period covered by this Governance Statement. Full records are available as set out below.

Ofwat’s strategy provides the basis for our annual priorities, which are set out in the forward programme each year following consultation. This drives our work and, ultimately, each of our people’s objectives. Directors, project managers and resource managers regularly review progress on programme and project plans. The Senior Leadership Team and Board review progress across our portfolio each quarter and adjustments are made where appropriate to reflect changes in the internal and external environments, consistent with our duties. Our internal audit process reviews

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<sup>3</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-2017>

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

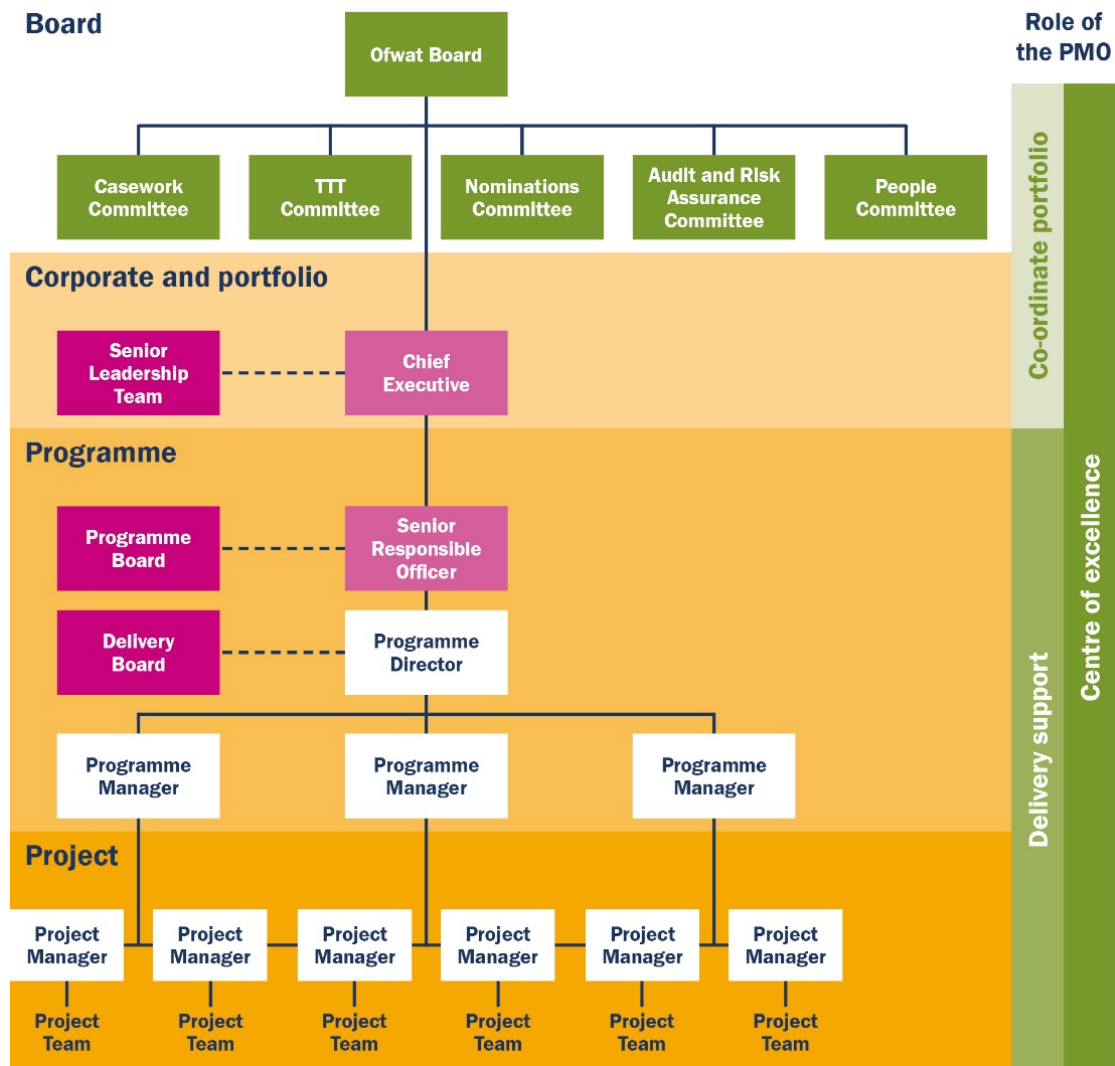
In terms of our risks and opportunities environment, this is monitored closely through regular reviews of our strategic risk register by the Senior Leadership Team and through active management of programme risk registers, and action required is taken accordingly. The strategic risks are incorporated into our quarterly portfolio reports to the Board as well as submitted for discussion to ARAC. Throughout the year I also received regular reports from our Senior Information Risk Owner (SIRO) on security (including information risks) and cyber risks, including input from our Data Protection Officer. The SIRO report is fully supported by the Security and Information Assurance Group who meet regularly to discuss information, cyber or other security risks.

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

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



## Ofwat’s governance framework during 2019-20



## Our governance structure

Ofwat has a three layered system of governance:

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

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

## Ofwat Board

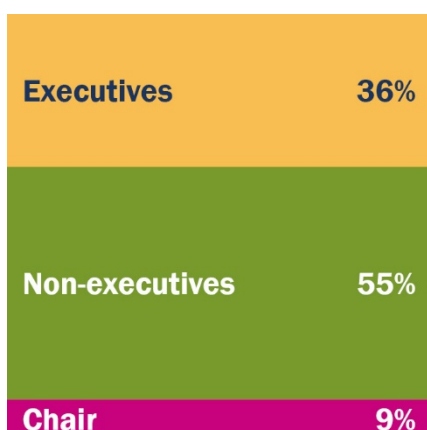
As a non-Ministerial Government Department, the role of the Board is critical to our success. The Board, comprising a mix of Executive and Non-Executive members, help to guide us strategically and provide challenge and advice to the Chief Executive and the Executive team on their development and implementation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

Ofwat’s Board has a majority of independent Non-Executives with a Non-Executive Chairman. During 2019-20, the Board comprised six Non-Executive Directors in addition to the Chairman and four Executive Directors, including the Chief Executive.

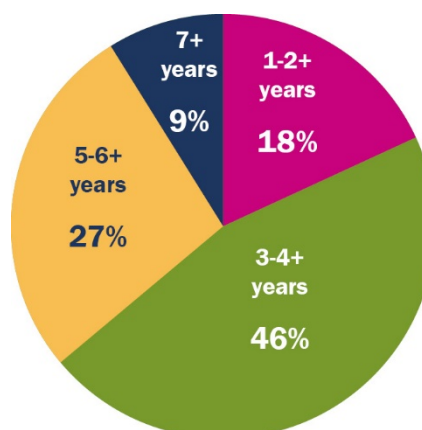
To strengthen the knowledge and skills mix of committee membership, we have an independent member on our Audit and Risk Assurance Committee.

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

### Board composition



### Board length of service



The Board provides:

- Challenge:** the Board has a range of roles in providing challenge to the Executive in addition to its own decision-making role. This includes reviewing and challenging our forward programme of work and performance against that programme, and providing challenge to proposed decisions Ofwat makes as a statutory body. In 2019-20 the Board played a key role in deciding on Ofwat’s final determinations setting the price and service package for water companies for the next five years, and focusing on strategic issues reserved

to it, including matters that raised new major issues of principle or were considered particularly sensitive.

- **Expertise:** providing wider public and private sector expertise to help shape the development and delivery of Ofwat's strategy and to improve our performance. They also advise the Chief Executive on senior appointments.
- **Strategy:** agreeing our strategy and assuring our strategic direction is clear and deliverable, taking into account risk and focusing on the long-term success of Ofwat and value for those who pay water bills. The Board worked with the Chief Executive in developing a new Ofwat strategy which was published in October 2019.
- **Support:** reviewing the comprehensiveness and reliability of assurances on the accuracy of the financial statements, setting Ofwat's risk appetite and ensuring that risk management and control processes across Ofwat are robust, appropriate and proportionate, supporting the Chief Executive as Accounting Officer. The Board also provides assurance on the approval of material expenditure.

The Board does not have a role in day-to-day operational decision-making other than on matters reserved for the Board as set out in our Board Rules of Procedure. The Rules of Procedure were revised and published on the Ofwat website in January 2020.

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

The Board met formally 13 times in 2019-20 and received regular updates from business areas covering financial and operational performance, and on the key risks to performance and transformation we faced, giving the Board clear oversight of how we were performing against our objectives and forward programme commitments.

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

## Register of interests

The Board Rules of Procedure include strict guidelines on the disclosure and management of actual or potential conflicts of interest that Board members may have. They provide that the Director in question is not entitled to vote on any decision in relation to any matter that gives rise to a conflict and each Board meeting

begins with the disclosure of any conflicts of interest, which are then noted in the minutes. We also maintain a register of interests in line with the Code of Conduct for Board Members of Public Bodies. The register of Board members’ disclosable interests is published alongside the Rules of Procedure and updated regularly throughout the year.

## Board committees

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

- Audit and Risk Assurance Committee
- People Committee
- Casework Committee
- Thames Tideway Tunnel (TTT) Committee
- Nominations Committee

	<b>Audit and Risk Assurance</b>	<b>People</b>
<b>Roles and responsibilities</b>	The purpose of the Audit and Risk Assurance Committee (ARAC) is to support the Board in its responsibilities for managing issues of risk, control, governance and associated assurance. It does this by reviewing the sources of assurance in place to meet the Board’s and Accounting Officer’s assurance needs, considering whether they are sufficiently comprehensive and complete, reviewing the reliability and integrity of these assurances, and providing an opinion (on governance, risk management and internal control) on how well the Board and Accounting Officer are supported in decision making and discharging their accountability obligations. The Committee acts only in an advisory capacity to the Board and has no executive powers.	The role of the People Committee is to oversee the implementation of the People Strategy and to consider matters relating to the pay and conditions of employment of our staff.
<b>Chair</b>	<b>Alison Munro</b>	<b>Martin Lawrence</b>
<b>Issues covered</b>	During the period of this report, the Committee met five times. In May 2019, the Committee submitted its	During 2019-20 the Committee met six times and focused on ongoing work led by the Business

	<b>Audit and Risk Assurance</b>	<b>People</b>
	<p>recommendation to the Board to approve the annual accounts. Other matters discussed by the Committee in 2019-20 included:</p> <ul style="list-style-type: none"> <li>• regular deep dive reviews focusing on key strategic risks and programme risks;</li> <li>• governance and assurance of the PR19 programme;</li> <li>• the results of a number of internal audit reports alongside a regular review of progress against the annual internal audit plan;</li> <li>• Regular reviews of our progress in implementing actions arising from internal and external audit and other reviews.</li> </ul> <p>All of the scheduled internal audit reviews were completed, as agreed by the Committee, with findings providing either substantial or adequate assurance (the latter reflecting that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control). Matters reviewed included:</p> <ul style="list-style-type: none"> <li>• Risk management;</li> <li>• Core financial controls;</li> <li>• Licence application process;</li> <li>• Delegated decision making; and</li> <li>• ICT strategy</li> </ul> <p>Overall for the 2019-20 financial year, Mazars' internal audit opinion on the framework of governance, risk management and control is Substantial in its overall adequacy and effectiveness. They noted that all of their recommendations had been, or were in the process of being, addressed.</p>	<p>Improvement Programme. Matters discussed during 2019-20 included:</p> <ul style="list-style-type: none"> <li>• the results of the Ofwat employee survey and Pulse surveys;</li> <li>• management information relating to staff related issues and trends;</li> <li>• work on the People Strategy;</li> <li>• pay and reward for the non-SCS staff and the SCS pay remit; and</li> <li>• the Senior Leadership Team draft objectives.</li> </ul>

	<b>Casework</b>	<b>Thames Tideway Tunnel</b>	<b>Nominations</b>
<b>Roles and responsibilities</b>	The Casework Committee is responsible for making certain final decisions in strategic cases.	The purpose of the Committee is to make certain decisions and to provide challenge, support and advice in relation to Ofwat's regulatory responsibilities with respect to the Thames Tideway Tunnel project.	The Committee's role is to review, and make recommendations on, the structure, size, and composition of the Board; be engaged in succession planning for the Board, the Senior Leadership Team and other senior roles; and be engaged in the appointment of any member of the Senior Leadership Team.
<b>Chair</b>	<b>Catherine Waddams</b>	<b>Jonson Cox</b>	<b>Jonson Cox<sup>4</sup></b>
<b>Issues covered</b>	During the period of this report, the Committee met twice, on both occasions to progress and reach a final decision in relation to our enforcement investigation against Southern Water.	<p>During the year the Committee met once where they received updates on the Thames Tideway Project and discussed the project review.</p> <p>Decisions that were made included:</p> <ul style="list-style-type: none"> <li>A variation to the Thames Water Utilities Limited's (TWUL's) conditions of appointment in order to give effect to the TTT project.</li> </ul>	The Committee did not meet formally during 2019-20. In relation to Board succession planning, the Chair consulted regularly with Board colleagues.

<sup>4</sup> Other than when dealing with matters relating to chairmanship of the Board.

## Board members' terms of appointment and committee attendance

### Attendance at Board and sub-committee meetings from April 2019 to March 2020

Board members*		Board Meetings (13)	Audit and Risk Assurance Committee Meetings (5)	People Committee Meetings (6)	Casework Committee Meetings (2)	Nominations Committee Meetings (0)	Thames Tideway Tunnel Committee Meetings (1)
<b>Jonson Cox</b> Chairman		13/13	---	6/6	---	0	1/1
Term started	Term ends						
01/11/2012	30/10/2021						
<b>Martin Lawrence</b> Non-Executive Director		13/13	---	6/6	2/2	0	---
Term started	Term ends						
01/05/2013	30/10/2020						
<b>Catherine Waddams</b> Non-Executive Director		13/13	---	---	2/2	---	---
Term started	Term ends						
01/05/2013	30/04/2021						
<b>Christine Farnish</b> Non-Executive Director		12/13	4/5	---	---	---	1/1
Term started	Term ends						
01/01/2014	30/10/2020						
<b>Mark Bayley</b> Non-Executive Director		13/13	5/5	---	---	---	1/1
Term started	Term ends						
28/04/2016	27/04/2021						
<b>Alison Munro</b> Non-Executive Director		13/13	5/5	---	---	---	---
Term started	Term ends						
28/04/2016	27/04/2021						
<b>Tim Waggott</b> Non-Executive Director		13/13	---	6/6	---	0	---
Term started	Term ended						
28/04/2016	27/04/2020						
<b>Rachel Fletcher</b> Chief Executive		13/13	5/5	6/6	2/2	0	1/1
Term started	Term ends						
08/01/2018	06/01/2023						
<b>Aileen Armstrong</b> Senior Director Finance and Governance		13/13	---	---	---	---	---
Term started	Term ends						
16/05/2016	14/05/2021						

<b>John Russell</b> Senior Director Strategy and Planning		13/13	----	----	----	----	----
Term started	Term ends						
25/07/2016	23/07/2021						
<b>David Black</b> Senior Director Water 2020		13/13	----	----	----	----	----
Term started	Term ends						
29/05/2017	27/05/2022						

<b>Vanessa Howlison</b> Independent Member		----	5/5	----	----	----	----
Term started	Term ends						
01/01/2015	30/06/2022						

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

## Board effectiveness

The Board regularly reviews its own effectiveness as part of the management of each meeting and through other regular meetings, including 1:1s with the Chairman. The Board takes the opportunity to meet more informally throughout the year to enhance its cohesion as a team. Further to the formal assessment undertaken by Deloitte in 2018-19, we have carried out an internal review of effectiveness for 2019-20.

Overall the review concluded that the Board and its committees continue to operate effectively and reflect the strengths identified in the external evaluation conducted last year. Areas of focus in the coming year include:

- Considering the frequency and format of future board meetings to ensure the Board is focused on issues of key strategic importance;
- Taking further steps to promote diversity of perspectives across all aspects of the Board's work, through more opportunities for direct stakeholder engagement and bringing outside voices into the Board. Diversity, including diversity of thought and experience, is a key consideration in the recruitment of new Non-Executive Board members; and
- The development of our performance reporting and identification of success measures for the organisation as a whole.

We intend to take the opportunity presented by having new Non-Executives on the Board, which we expect to be the case in the coming year, to comprehensively refresh our induction and training programme for the Board, ensuring it is up-to-date,



there are opportunities for tailored training for committee members if required, and providing different approaches to engaging the Board with Ofwat's work outside of formal meetings.

## **Senior Leadership Team**

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

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

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

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

For example, we have continued to embed the Perform programme of work within our corporate services to optimise and shape the work that they do, how they do this work, and the tools they use. Alongside this, we have improved the way we allocate our people to work to ensure that the right skills are being matched to priorities to ensure we can deliver the best outcomes for water customers. This has also helped to improve the alignment of our planning with our budget setting and monitoring work.

We joined the Civil Service People Survey in October 2019 for the first time, replacing our Ofwat Heartbeat survey. Although the third quarter of the year was particularly busy for our people we were able to achieve a response rate of 66% (169 responses), which is the same average as the rest of the Civil Service and a high enough response rate to draw conclusions. Key highlights are that 72% of our

people would recommend Ofwat as a great place to work, and our overall engagement score was good at 66% which is higher than the Civil Service average. More than 90% of our people said that they found their work interesting, that they felt trusted to do their job effectively, as well as feeling respected by the people they work with. 26% felt that we need to improve our benefit packages although we score significantly higher in this area than the top Civil Service performers.

We are pleased with overall feedback on how we lead and manage change with a positive score of 61% significantly higher than the Civil Service average. We have identified areas for further improvement as building on feedback from the HSE Stress survey conducted in September 2018, developing our people strategy particularly improving leadership and management capabilities within Ofwat, making further progress on learning and development and workload pressures.

We continue to have success in attracting the skills we need as an organisation, including through our graduate scheme. We also remain committed to a strong learning and development culture both in relation to our people's professional skills and their wider skills, with a continued focus on wellbeing. For more information, please see our Staff Report on page 89.

### **Gender pay gap**

Due to the Covid-19 pandemic, the Government has removed the requirement to publish gender pay gap data by 31 March 2020. Ofwat has continued to work on its analysis and remains committed to publishing this information voluntarily in June 2020 following internal engagement on the results. This will be available on the [Ofwat website](#) once finalised.

### **Risk management**

Our risk management framework is based on HM Treasury standard guidance in the Orange Book. Our Senior Leadership Team oversees our response to the strategic challenges faced by Ofwat as a whole. A member of the SLT acts as an owner for each risk, nominating a responsible person for each of the mitigating actions. In addition individual programme risks can be escalated from programme directors to the SLT.

**Ofwat’s risk framework**



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

**Assurance controls for risk management**



In line with the principles of the Orange Book, the Audit and Risk Assurance Committee receives risk review presentations from the owners of particular strategic

risks and opportunities, and programme Senior Responsible Officers on a regular basis. Risk and opportunity management is embedded into all of our programmes and their component projects.

During the year as part of our Internal Audit Plan for 2019/20, we have undertaken a review of Risk Management as a key area underpinning the annual internal audit opinion, with a focus on the Strategic Risk and Opportunities Register (SRR). This audit work, carried out by Mazars and for which we received substantial assurance, indicated that we have a sound system of internal control, with a well communicated Risk Management Strategy in place, and a robust supporting risk framework.

## **Risk appetite**

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

The Board regularly reviews our risk appetite and has agreed that Ofwat's risk appetite is generally 'Open'. This means that we are open to taking well thought through risks where the long-term rewards for customers are expected to be greater than any short term negative impacts. Where we accept risks, we do so on an 'eyes wide open' basis, understanding the risks so that a judgement can be made.

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

## **Risk overview**

Our success, and therefore our reputation, depends heavily on focusing on those things that will make the greatest difference for customers and on managing the

delivery of these things well. Through a focussed and effective management response, we can also ensure that we manage ourselves well in meeting our legal, financial, ethical and public accountability responsibilities.

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

<b>Our regulatory approach</b>	<b>The way we work</b>	<b>External factors</b>
Whether our regulatory approach, framework and tools (including use of data) are fit for purpose and deliver in customers' short and long term interests.	Whether we attract and have the right resource in place, and the right level of resilience, to enable us to deliver Ofwat's strategic outcomes.	Whether we lead our communications well enough and have the right relationships in place to create the narrative that allows us to influence and shape the agenda and are adequately prepared to deal quickly and effectively with unexpected events.

## **Impacts of Covid-19**

In the last months of the financial year, we had to deal with the urgent and immediate impacts of the Covid-19 pandemic on the water sector and on Ofwat itself. The issues that the crisis has presented will persist into the next financial year. In the medium term, we will work proactively with all our stakeholders to ensure the sector is in a position to recover and adapt, such that we are able to move forward with our overarching strategic goals and ambitions.

## **Our regulatory approach**

We continue to consider proactively whether our regulatory approach, framework and tools are fit for purpose and deliver outcomes in customers' short and long term interests. It is also vital that we have the right information at our disposal and engagement to inform our work. Our strategy relies on the sector stepping up to deliver these outcomes and on our ability to align investors' interests to do so, intervening robustly where customers' interests are not served effectively.

We must continually explore what matters to customers and test company performance, using those insights to reflect on how we regulate and prioritise the use of resources. Our lens looks beyond the short term issues of the day to longer term considerations including, for example, the need for the sector to continue to attract investment, and the long-term sustainability of assets and the environment. We have continued to develop our approach to reporting customer outcomes in this report, building on our approach last year.

We delivered PR19 final determinations with a strong consideration of our four key themes of the price review (great customer service, long-term resilience 'in the round,' affordability and innovation), ensuring at the same time that companies are incentivised and funded to protect and improve the environment, in order to help achieve the UK and Welsh Governments' strategic priorities and objectives for sustainably managed natural resources and a resilient ecosystem. In the event that the CMA's review of our determinations reaches different conclusions in any respect, we will learn from this as we evolve our regulatory framework and approach.

'Time to Act, together: Ofwat's strategy,' includes a key focus on the risk of not maintaining our relevance if our regulatory standards do not meet environment-related expectations. To support this, we have engaged closely with a number of key environmental stakeholders, both individually and through RAPID. Ofwat's new strategy also provides an opportunity to rethink our approach and consider how we

can better align our efforts to meet customer needs, as well as how we can improve our ability to evaluate our progress and the efficacy of our approach.

We have utilised a number of information-gathering mechanisms across our portfolio of work – for example, continuing to gather charging information and information about the business retail market through an annual State of the Market report. We have also monitored operational and financial delivery, publishing comparative information through the Service Delivery Report. We have also tracked customer satisfaction, whilst developing C-MeX and D-MeX, our customer and developer measures of experience in the context of our work on PR19.

### **Response to Covid-19**

In response to the Covid-19 pandemic, we took action promptly, introducing new measures at the end of the financial year to supplement existing mechanisms to help to address immediate issues arising in the business retail market. In the medium term, we expect to see a sharper focus on financial resilience and environmental considerations. Our new strategy already highlighted the importance of data and insight: the importance of our ability to capture learning and underlying industry information and using this intelligently is underscored by the crisis.

### **The way we work**

If we are to be in a good position to deliver outcomes for customers and discharge our responsibilities, it is vital that we are set up to operate efficiently and effectively with the right infrastructure, skills and people. We mitigate potential risks to our resilience in terms of infrastructure and operations, e.g. our IT infrastructure, cyber security, physical estates and operational support, and being able to withstand external shocks to current plans (e.g. a new large piece of work, or a significant enforcement case, or most recently, the impact of the Covid-19 pandemic). We also focus on risks around attracting and retaining the skills and knowledge we need in order to achieve our strategic outcomes, and ensuring we maintain appropriate corporate behaviours.

We have ensured that we have the right people in place to deliver against our strategy, building internal resource through initiatives such as a campaign to retain the skills of staff who had joined Ofwat on fixed-term contracts, and using vacancies to build the workforce we need in the future and as we have commenced new work to deliver our strategy. We have had a particular focus in the last part of the year on



ensuring we retain the resources necessary to support the CMA appeal process. During the year we have continued to ensure we are alert to any changes in how our people are feeling through regular employee surveys, improving distributed leadership through our extended leadership team which includes our Directors, and through our resource management relationships. We remain proactive in addressing concerns where we can.

In terms of infrastructure and operations, we have sought independent review and challenge of our IT roadmap and strategy. Prior to the pandemic, we tested and developed our business continuity plans in response to IT outages beyond our control, and we have further developed links with the Transforming Government Security Cluster for cyber security knowledge sharing. Our operational resilience will benefit from continuing to grow contacts with other regulators to explore opportunities to collaborate or share resources in the event of unexpected peaks in our activity.

The onset of Covid-19 fully tested our business continuity arrangements and we have used this as an opportunity to further mature our plans and resilience. Our preparations for incident management started in early February. We established a senior leadership Gold team which has been supported by two teams, the first focused on our corporate operational response and the second tracking the industry's response and co-ordinating our regulatory activities related to Covid-19.

Our role and activities in relation to the sector response so far are documented throughout this report. Internally, we had a particular focus on managing the impact of the lockdown and school closures on our people, providing additional support and focus on health and well-being. We have continued to implement our IT Strategy and roadmap, providing resilient systems and infrastructure which in turn has enabled us to continue to function well in an entirely remote environment. We continue to monitor the position closely and will reflect on what more we can learn through 2020-21.

## **External factors**

As a regulator, it is important that we are adequately prepared to deal quickly and effectively with unexpected events, or those that are outside of our direct control. This has clearly been put to the test with Covid-19. From Ofwat's own perspective, we are assured by how smoothly we have been able to put measures in place to respond to both our own organisational issues and risks as well as those arising in the sector, and the ongoing focused work on solutions. While we are encouraged by the steps companies have taken to date, we will continue to monitor the sector



response closely. Covid-19 has highlighted some gaps that we will seek to address with more sustainable solutions, e.g. in the business retail market, and potentially presents a new climate in which to address some of our concerns about the financial resilience of some water companies.

The importance of building and deepening our external relationships to meet future challenges is a core component of Ofwat's new strategy and events in FY19-20 provided us with many opportunities to do so. Our work in the context of RAPID has been particularly valuable in terms of our relationships with the other key regulators in the sector, the EA, DWI, and Natural Resources Wales and we have deepened our collaborative working within the UKRN. We have also worked closely with both the UK and Welsh Governments on developing a joint vision and targets for the water sector and liaised closely on planning for the UK's exit from the EU.

We have broadened our stakeholder engagement around our vision and strategy to take account of new audiences and channels. Internally, we have developed a central communications hub which has a 'helicopter view' over all of our activity and stakeholder engagement. We have consciously 'pre-engaged' with stakeholders as policy is under development in order to ensure transparency, buy-in and sector ownership.

## **Information assurance**

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

We have a Senior Information Risk Owner, Senior Security Advisor (shared with other regulators within the Cluster Security Group<sup>5</sup>) and Deputy Security Advisor as well as Information Asset Owners for all of our programmes and pools. We have regular meetings of our Security and Information Assurance Group (SIAG) which provides governance of our security, information risk and information assurance measures. SIAG met 3 times during 2019-20.

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<sup>5</sup> Ofgem, Ofqual, Ofsted and ORR

## Training and security

Ofwat continues to engage with the Transforming Government Security Programme (TGSP) and utilises the free training resources available, as well as the costed vetting service. Ofwat has also begun to implement a number of the free active cyber defence initiatives from NCSC.

Ofwat had no issues that required reporting to the Information Commissioner's Office during 2019/20. We have established induction and training materials in place for new starters on security and information governance and have been working to develop our security culture on an ongoing basis and in response to our Departmental Security Health Check during 2019.

## Quality assurance of analytical models

We have well-established arrangements for the quality assurance of analytical models and we have continued to test and build on these arrangements during 2019-20. The key elements of our quality assurance arrangements are:

- **Standardised approach to excel modelling** – except in exceptional circumstances, Excel models are built following the FAST modelling standard (flexible, appropriate, structured, transparent). This reduces the risk of error and makes the review of models easier. To date, over 45 staff have been trained in the FAST modelling standard.
- **Quality assurance manual** – a quality assurance manual based on modelling best practice is available to staff. This provides a central resource which provides advice on activities to ensure analytical quality, and provides tools and processes to ensure high quality modelling.
- **External review** – external review is an important part of our approach to quality assurance. We use advisors to carry out external audit or review of particularly important or contentious models. Where possible and feasible we publicly consult on the analytical models we use.

We will continue to look for opportunities to build on our quality assurance arrangements in 2020-21.

## Data quality

We use a wide range of financial and other data both to facilitate oversight of the performance of our functions and to inform our regulatory decisions. The Board

considers that this information is generally of good quality and we continually seek new ways to present management information in a clear way.

This year, we have built on our performance reporting by developing internal-facing tools to enable us to monitor progress against the customer outcomes on a quarterly basis, in particular to reflect the evolving emphasis on the environment in our new strategy.

We will continue to build on our data quality and will focus our efforts through a new cluster of work which will focus on the insights we are able to glean from the data and information we have, and the impacts of our activity to ensure we and the sector are best placed to achieve customer outcomes efficiently and effectively. With these metrics in place, we expect to report regularly on progress against our customer outcomes.

## Accounting Officer's review of effectiveness

As Accounting Officer, I am personally responsible and accountable to Parliament for Ofwat as an organisation, its management, use of public money and stewardship of public assets. My review of the effectiveness of the system of internal controls was informed by assurance from Senior Responsible Officers for all of our programmes and the Strategic Resource Managers who lead our resource pools that they have acted in accordance with their delegations and the operation of our governance framework.

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

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

During 2019-20, we undertook a review of a number of elements of our governance arrangements with a view to making them as streamlined as possible and ensuring they remained proportionate and fit for purpose. This did not lead to a fundamental review of our governance arrangements.



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

**16 June 2020**

## Remuneration and staff report

### Remuneration report

#### Senior Leadership Team

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

Senior Leadership Team member <sup>°</sup>	Position
Rachel Fletcher*	Chief Executive
Jenny Block	General Counsel
Alena Kozakova	Chief Economist
John Russell*	Senior Director, Strategy and Planning
Emma Kelso	Senior Director, Customers and Casework
Aileen Armstrong*	Senior Director, Finance and Governance
David Black*	Senior Director, PR19
Keith Mason	Senior Director, Thames Tideway
Claire Forbes	Senior Director, Corporate Communications
Lisa Commane	Senior Director, Business Improvement
Paul Hickey	Senior Director, RAPID

<sup>°</sup>All members of SLT are members of the Senior Civil Service

\*Denotes Board member

#### Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments that are open-ended. Early termination, other than for misconduct, would result in

the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk).

### **Senior manager remuneration policy**

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

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

For the 2019-20 financial year, our senior managers and Board members have declared that they have no company directorships or significant interests that might have caused a conflict with their Ofwat responsibilities.

### **Staff remuneration policy**

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

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

## Non-Executive Directors' remuneration policy

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

## Senior managers' remuneration

### Senior management remuneration 2019-20

	Salary £000		Bonus payments £000		Benefits in kind £000 (to nearest £100)		Pensions benefits £000 (to nearest £1000)		Total £000	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
<b>Rachel Fletcher*</b> Executive Director	165-170	160-165	10-15	-	5.7	6.3	76	83	260-265	230-235
<b>Jenny Block</b> General Counsel	120-125	120-125	-	10-15	5.2	5.1	48	48	175-180	185-190
<b>Alena Kozakova</b> Chief Economist	120-125	120-125	-	-	-	-	48	48	170-175	165-170
<b>John Russell</b> Senior Director, Strategy and Planning	125-130	120-125	0-5	-	-	-	44	39	170-175	160-165
<b>Emma Kelso♦</b> Senior Director, Customers and Casework	110-115 (full year equivalent 125-130)	110-115 (full year equivalent 120-125)	5-10	-	2.8	4.6	40	59	160-165	170-175
<b>Aileen Armstrong♦</b> Senior Director, Finance and Governance	100-105 (full year equivalent 125-130)	90-95 (full year equivalent 120-125)	0-5	-	2.5	4.4	35	28	140-145	120-125
<b>David Black</b> Senior Director, PR19	130-135	130-135	15-20	10-15	-	-	52	51	200-205	190-195
<b>Keith Mason</b> Senior Director, Thames Tideway	120-125	120-125	-	-	-	0.1	17	8	135-140	125-130
<b>Claire Forbes♦</b> Senior Director, Corporate Communications	100-105 (full year equivalent 110-115)	95-100 (full year equivalent 100-105)	-	0-5	3.8	2.9	40	38	145-150	135-140
<b>Lisa Commane</b> Senior Director, Business Improvement	125-130	120-125	5-10	10-15	1.7	2.5	49	49	180-185	185-190
<b>Paul Hickey■</b> Senior Director, RAPID In post from January 2020	25-30	-	-	-	-	-	-	-	25-30	-

\*Restated pension benefits for Rachel Fletcher 18-19

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

■Paul Hickey is seconded into Ofwat from The Environment Agency.

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

### Non-Executive Director's remuneration

	Salary £000		Benefits in kind £000 (to nearest £100)		Total £000	
	2019-20	2018-19	2019-20	2018-19	2019-20	2018-19
<b>Jonson Cox</b> Chairman	125-130	125-130	4.1	2.3	130-135	125-130
<b>Martin Lawrence</b> Non-executive Director	15-20	15-20	0.5	0.6	15-20	15-20
<b>Christine Farnish</b> Non-executive Director	15-20	15-20	0.7	0.9	15-20	15-20
<b>Catherine Waddams</b> Non-executive Director	15-20	15-20	1.0	1.4	20-25	20-25
<b>Alison Munro</b> Non-executive Director	15-20	15-20	0.6	0.5	15-20	15-20
<b>Mark Bayley</b> Non-executive Director	15-20	15-20	0.6	0.4	15-20	15-20
<b>Tim Waggott</b> Non-executive Director	15-20	15-20	0.6	1.6	15-20	20-25



## Independent Members' remuneration

The following information was subject to audit.

### Independent Committee/Programme Board Members' remuneration 2019-20

	Salary £000		Benefits in kind £000 (to nearest £100)	
	2019-20	2018-19	2019-20	2018-19
<b>Martin Crouch</b> Independent Member, PR19 Board	10-15	10-15	-	-
<b>Vanessa Howlson</b> Independent Member, ARAC	5-10	-	0.2	-

## Salary

Salary includes gross salary, overtime and any allowance that is subject to UK taxation. This report is based on accrued payments made by Ofwat and thus recorded in these accounts.

## Benefits in kind

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

## Bonuses

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

## Pay multiples

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

The banded remuneration of the highest-paid director in Ofwat in the financial year 2019-20 was £190,000 to £195,000 (2018-19: £175,000 to £180,000). This was 3.9 times (2018-19: 3.6 times) the median remuneration of the workforce, which was £49,158 (2018-19: £48,785).

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

The increase in the highest salary was as a result of the application of the SCS pay remit. A pay and reward scoping project was commissioned in early 2020 and will report to SLT in June 2020 with recommendations on Ofwat's approach.

## Senior managers' pension benefits

### Senior management remuneration 2019-20

	Accrued pension at pension age as at 31 March 2020 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2020	CETV at 31 March 2019	Real increase in CETV
	£000	£000	£000	£000	£000
<b>Rachel Fletcher</b> Chief Executive	40-45	2.5-5	776	684	51
<b>Jenny Block</b> General Counsel	10-15	2.5-5	132	91	27
<b>Alena Kozakova</b> Chief Economist	10-15	2.5-5	109	76	21
<b>John Russell</b> Senior Director, Strategy and Planning	40-45 lump sum:- 90-95	2.5-5 lump sum:- 0	698	642	20
<b>Emma Kelso</b> Senior Director, Customers and Casework	30-35	0-2.5	429	387	18
<b>Aileen Armstong</b> Senior Director, Finance and Governance	30-35 lump sum:- 70-75	0-2.5 lump sum:- 0	550	507	16
<b>David Black</b> Senior Director, PR19	20-25	2.5-5	258	213	26
<b>Keith Mason</b> Senior Director, Thames Tideway	40-45 lump sum:- 120-125	0-2.5 lump sum:- 2.5-5	916	895	17
<b>Claire Forbes</b> Senior Director, Corporate Communications	10-15	0-2.5	179	145	20
<b>Lisa Commare</b> Senior Director, Business Improvement	5-10	2.5-5	75	45	20

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. Pension benefits have not been calculated for 2019-20 for those senior managers that left Ofwat's employment in the previous financial year.

## Pension liabilities

The main pension scheme for our staff is the Principal Civil Service Pension Scheme (PCSPS). The pension liabilities arising from our employees' membership of the

PCSPS are not provided for in these accounts, in accordance with HM Treasury's instructions.

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

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

## Civil Service Pensions

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

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and 13 years and five months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6% and 8.05% for members of **classic**, **premium**, **classic plus**, **nuvos** and **alpha**. Benefits in **classic**

accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

## Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in

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

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

### **Real increase in CETV**

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

## Staff report

### Analysis of Ofwat's staff costs for 2019-20

	2019-20 £000				2018-19 £000
	Permanently employed staff	Others	Non-exec directors	Total	Total
Wages and salaries	13,287	1,319	245	14,851	14,337
Social security costs	1,523	-	35	1,558	1,613
Other pension costs	3,612	-	-	3,612	2,733
Other staff costs	-	-	-	-	-
<b>Sub Total</b>	<b>18,422</b>	<b>1,319</b>	<b>280</b>	<b>20,021</b>	<b>18,683</b>
Less recoveries in respect of outward secondments	(113)	-	-	(113)	(257)
<b>Total net costs</b>	<b>18,309</b>	<b>1,319</b>	<b>280</b>	<b>19,908</b>	<b>18,426</b>

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

### Pension contributions

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

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

For 2019-20, employers' contributions of £3,439,410 were payable to the PCSPS (2018-19 £2,675,585) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. This was due to changes in employer contribution rates effective from 1 April 2019.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2019-20 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. There were no Employees contributing to these schemes in 2019-20. In 2018-19 £43,574 was paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and ranged from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £4,422, 0.5% of pensionable pay (2018-19: £3,876), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of relevant employees.

### Average number of whole-time equivalents

	2019-20				2018-19
	Permanently employed staff	Others	Non-exec directors	Total	Total
Business Improvement	48.14	2.11	0.14	50.38	46.19
Communications Hub	9.32	-	0.14	9.45	8.03
Finance and Governance	20.14	-	0.14	20.27	18.89
Market Outcome and Enforcement	32.62	1.32	0.14	34.08	34.88
PR19	105.75	1.36	0.14	107.25	113.19
Strategy Hub	11.70	-	0.14	11.84	13.98
Thames Tideway Project Regulation	2.92	-	0.14	3.06	3.07
RAPID	3.06	2.31	0.14	5.51	-
<b>Total</b>	<b>233.65</b>	<b>7.10</b>	<b>1.10</b>	<b>241.85</b>	<b>238.21</b>

### Civil Service and other compensation scheme exits

There have been no redundancy or other departure costs paid in 2019-20 (2018-19: Nil).



## Off-payroll engagements

Following the Review of Tax Arrangements of Public Sector Appointees, published by the Chief Secretary to the Treasury on 23 May 2012, Ofwat is required to publish information about our highly paid and/or senior off-payroll engagements.

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

### Off-payroll engagements for more than £245 per day and lasting for longer than six months, as of 31 March 2020

	Number of arrangements
Existing at 31 March 2020	4
Existed for less than one year at the time of reporting	4

### New off-payroll engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020 for more than £245 per day and that last for longer than six months

	1st April 2019 to 31st March 2020
The number of new engagements, or those that reached six months in duration, during the time period	5
The number of these engagements which were assessed as caught by IR35	5
The number of these engagements which were assessed as not caught by IR35	-
Number engaged directly (via PSC contracted to department) and on departmental payroll	-
The number that were reassessed for consistency / assurance purposes during the year whom assurance has been requested but not received	-
Number of engagements that saw a change to IR35 status following the consistency review	-

## Off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2019 and 31 March 2020

	Number of arrangements
Number of off-payroll engagements of Board members and/or senior officials with significant financial responsibility during the financial year	-
Total number of individuals, both on payroll and off-payroll, deemed “Board members and/or senior officials with significant financial responsibility” during the financial year	1

## Consultancy expenditure

Our expenditure on other consultancy and professional services in 2019-20 was £6.8m, per note 4 of the accounts (2018-19: £6.3m). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy.

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

## Sickness absence

Our policy is to reduce employee absence and we rely on early intervention by our Resource Managers conducting a return to work interview after each period of absence to mitigate and manage this effectively. Resource Managers are supported by systems that help to identify when trigger points have been reached to allow them to consider whether further support or action is required:

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

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

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

**Sickness absence statistics (reported to the Ofwat Board quarterly)**

	2019-20			2018-19		
	Short term	Long term	Total	Short term	Long term	Total
Days lost	414	1784	2,198	465	1664	2,129
Average working days lost per person			8.65			8.58

A long-term absence is any absence running over a consecutive period of 14 calendar days or more. This is higher than the Civil Service average in 2018-19 of 5.9 days (2019-20 figure not available at time of reporting) and is due to specific cases of long term absence, some of which is critical illness. The impact of a few instances of longer term absence will be more pronounced given that we are a small organisation. Wellbeing has been a key focus in 2019-20 and a review of attendance management policy is planned for 2020-21.

**Employee involvement**

This year we joined the Civil Service People Survey which enables us to benchmark ourselves against other Civil Service Employers.

We saw a response rate of 66% (equal to the Civil Service (CS)) average and of the 10 overarching themes, Ofwat was equal to the CS benchmark on 7 and statistically better than average on 3.

Ofwat has an engagement index of 66, this compares to the CS average of 63, and 72% of respondents recommend Ofwat as a great place to work.

**Learning and development**

Whilst access to learning and development has remained the same as last year the impact of those interventions has been identified as an area for improvement. We have focused on providing support for all employees in navigating the organisational restructure and launch of the new strategy, working with external providers to support change management and alignment with our strategic objectives and specific team development where identified as a priority.

We have delivered significant wellbeing and resilience interventions and developed our internal skills base via training in lean and agile techniques and new ways of facilitating such as the use of liberating structures alongside training a number of Mental Health First Aiders.

Our Ofwat Learning Framework continues to develop, with our Ofwat Essentials offer consisting of 15 modules; covering a variety of areas including ‘performance monitoring’, ‘introduction to the legal framework’ and ‘casework and enforcement’. We also continue to be an active participant in the regulator mentoring network programme with a good level of interest shown. We also now have our own internal coaching cohort consisting of seven trained individuals and are moving to develop coaching skills across our leadership cohort in 2020-21. The learning and development budget has been increased to provide greater investment in this important area.

### **Equal opportunities policy**

We recruit staff on merit through fair and open competition, in line with the Civil Service recruitment principles governed by the Civil Service Commission. This ensures fair and open competition, regardless of:

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

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

During the year we carried out 51 separate recruitment campaigns, both external and internal to the organisation, which in some cases sought to fill multiple roles. We also ran a graduate recruitment programme in collaboration with another regulator.

## **Staff composition**

Details of our staff composition by gender and ethnic group is available in Appendix 8, on page 137.

A handwritten signature in black ink that reads "Rachel Fletcher". The signature is written in a cursive style with a large initial 'R'.

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

**16 June 2020**

## Parliamentary accountability and audit report

### Statement of Parliamentary Supply

#### For the 12 months ended 31 March 2020

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

#### Summary of resource and capital outturn 2019-20

	2019-20								2018-19
	£000								£000
	Note	Estimate			Outturn			Voted outturn compared with Estimate: saving/ (excess)	Total
Voted		Non-voted	Total	Voted	Non-voted	Total			
<b>Departmental Expenditure Limit</b>									
- Resource	SOPS1.1	151	-	151	(410)	-	(410)	561	(888)
- Capital	SOPS1.2	220	-	220	181	-	181	39	121
<b>Annually Managed Expenditure</b>									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
<b>Total Budget</b>		<b>371</b>	-	<b>371</b>	<b>(229)</b>	-	(229)	<b>600</b>	<b>(767)</b>
Total Resource		151	-	151	(410)	-	(410)	561	(888)
Total Capital		220	-	220	181	-	181	39	121
<b>Total</b>		<b>371</b>	-	<b>371</b>	<b>(229)</b>	-	(229)	<b>600</b>	<b>(767)</b>

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

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

Further details of the main variances between our budgets and outturn can be found in the financial commentary on page 40.

## Net cash requirement 2019-20

2019-20 £000				2018-19 £000
Note	Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
SOPS3	<b>4,000</b>	<b>(160)</b>	<b>4,160</b>	<b>3,191</b>

The variance between outturn and estimated net cash requirement is £4.2 million. During the year we drew £2.3 million as cash from the Consolidated Fund for settlement of 2018-19 working capital balances and to fund pension payments in respect of the retired Directors General pension scheme and capital purchases. Our residual cash balance at the end of the year will be returned to the Consolidated Fund.

## Administrative costs 2019-20

The £0.15 million estimate represents Parliamentary supply provided to us in relation to the retired Directors General pension scheme, for which we cannot charge the industry. The variance between outturn and estimate relates to income received in excess of expenditure during the period.

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

The notes on pages 106 to 122 form part of these accounts.

## SOPS1: Net Outturn

For the 12 months ended 31 March 2020

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

	2019-20 £000											2018-19 £000
	Outturn							Estimate				Total
	Administration			Programme				Net total	Net total compare to Estimate	Net total compared to Estimate, adjusted for virements		
	Gross	Income	Net	Gross	Income	Net						
Spending in Departmental Expenditure Limit Voted:												
A	32,471	(32,881)	(410)	-	-	-	(410)	151	561	561	(888)	
<b>Total</b>	<b>32,471</b>	<b>(32,881)</b>	<b>(410)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(410)</b>	<b>151</b>	<b>561</b>	<b>561</b>	<b>(888)</b>	

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

	2019-20 £000							2018-19 £000
	Outturn			Estimate				Total
	Administration			Net total	Net total compare to Estimate	Net total compared to Estimate, adjusted for virements		
	Gross	Income	Net					
Spending in Departmental Expenditure Limit Voted:								
A	181	-	181	220	39	39	121	
<b>Total</b>	<b>181</b>	<b>-</b>	<b>181</b>	<b>220</b>	<b>39</b>	<b>39</b>	<b>121</b>	

Section A - Water Services Regulation Authority.

The notes on pages 106 to 122 form part of these accounts.

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



## SOPS3: Reconciliation of net resource outturn to net cash requirement

For the 12 months ended 31 March 2020

	2019-20 £000			
	Note	Estimate	Outturn	Net total outturn compared with estimate; saving (excess)
<b>Resource Outturn</b>	SOPS1.1	151	(410)	561
<b>Capital Outturn</b>	SOPS1.2	220	181	39
<b>Accruals to cash adjustments:</b>		3,629	66	3,563
of which:				
Adjustments to remove non-cash items:				
Depreciation	4	(360)	(249)	(111)
New provisions and adjustments to previous provisions	4	(150)	(71)	(79)
Other non-cash items	4	(38)	(43)	5
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables	10	-	1,123	(1,123)
(Increase)/decrease in payables	11	4,030	(1,787)	5,817
Use of provisions	13	147	1,093	(946)
<b>Net cash requirement</b>		<b>4,000</b>	<b>(160)</b>	<b>4,160</b>

## SOPS4: Income payable to Consolidated Fund

For the 12 months ended 31 March 2020

	Note	2019-20 £000		2018-19 £000	
		Outturn		Outturn	
		Income	Receipts	Income	Receipts
Excess cash surrenderable to the Consolidated Fund	9	2,460	2,460	1,191	1,191
Other amounts collectable on behalf of the Consolidated Fund		-	-	-	-
<b>Total income payable to the Consolidated Fund</b>		<b>2,460</b>	<b>2,460</b>	<b>1,191</b>	<b>1,191</b>

The notes on pages 106 to 122 form part of these accounts.

## **Parliamentary Accountability Disclosures**

The following information was subject to audit.

We do not have anything to report for 2019-20 in respect of:

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

A handwritten signature in black ink that reads "Rachel Fletcher". The signature is written in a cursive style with a large initial 'R'.

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

**16 June 2020**

## **The certificate and report of the Comptroller and Auditor General to the House of Commons**

### **Opinion on financial statements**

I certify that I have audited the financial statements of the Water Services Regulation Authority (Ofwat) for the year ended 31 March 2020 under the Government Resources and Accounts Act 2000. The financial statements comprise: Ofwat's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

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

In my opinion:

- the financial statements give a true and fair view of the state of Ofwat's affairs as at 31 March 2020 and of Ofwat's Comprehensive net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on regularity**

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2020 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## **Basis of opinions**

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Ofwat in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## **Conclusions relating to going concern**

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- Ofwat's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- Ofwat have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Ofwat's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## **Responsibilities of the Accounting Officer for the financial statements**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

## **Auditor's responsibilities for the audit of the financial statements**

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ofwat's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of the Ofwat's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Ofwat's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause Ofwat to cease to continue as a going concern.

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

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

## **Other Information**

The Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Remuneration and Staff Report and Parliamentary Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## **Opinion on other matters**

In my opinion:

- the parts of the Remuneration and Staff Report and Parliamentary Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;

- in the light of the knowledge and understanding of Ofwat and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Report**

I have no observations to make on these financial statements.

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

**2020**



# Part 3

**Financial statements**



## Financial statements

### Statement of Comprehensive Net Expenditure

For the 12 months ended 31 March 2020

	Note	2019-20 £000	2018-19 £000
Licence fees		(32,768)	(31,146)
Miscellaneous		(113)	(257)
<b>Total operating income</b>		<b>(32,881)</b>	<b>(31,403)</b>
Staff costs	3	20,021	18,683
Purchase of goods and services	4	11,181	9,704
Rental costs	4	906	871
Depreciation and impairment charges	4	249	253
Other non cash	4	114	1,004
<b>Total operating expenditure</b>		<b>32,471</b>	<b>30,515</b>
<b>Net income for the 12 months ended 31 March 2020</b>		<b>(410)</b>	<b>(888)</b>
<b>Other comprehensive net expenditure</b>			
Items which will not be reclassified to net operating costs:			
Actuarial loss on pension scheme liabilities	13.3	124	7
<b>Comprehensive net income for the 12 months ended 31 March 2020</b>		<b>(286)</b>	<b>(881)</b>

The notes on pages 106 to 122 form part of these accounts.

## Statement of Financial Position

As at 31 March 2020

	Note	31 March 2020 £000	31 March 2019 £000
<b>Non-current assets:</b>			
Property, plant and equipment	5	623	858
Intangible assets	6	168	2
<b>Total non-current assets</b>		791	860
<b>Current assets:</b>			
Trade & other receivables	10	1,613	490
Cash and cash equivalents	9	2,460	1,191
<b>Total current assets</b>		4,073	1,681
<b>Total assets</b>		4,864	2,541
<b>Current liabilities:</b>			
Trade and other payabl	11	(7,751)	(4,695)
Provisions	12	-	(900)
<b>Total current liabilities</b>		(7,751)	(5,595)
<b>Total assets less current liabilities</b>		(2,887)	(3,054)
<b>Non-current liabilities:</b>			
Provisions	12	-	-
Pension liabilities	13	(2,549)	(2,547)
Other payables	11	-	-
<b>Total non-current liabilities</b>		(2,549)	(2,547)
<b>Total assets less total liabilities</b>		(5,436)	(5,601)
<b>Taxpayers' equity and other reserves:</b>			
General Fund		(5,436)	(5,601)
Revaluation Reserve		-	-
<b>Total equity</b>		(5,436)	(5,601)



**Rachel Fletcher**  
Accounting Officer

**16 June 2020**

The notes on pages 106 to 122 form part of these accounts.

## Statement of Cash Flow

For the 12 months ended 31 March 2020

	Note	2019-20 £000	2018-19 £000
<b>Cash flows from operating activities</b>			
Net operating income		410	888
Adjustments for non-cash transactions	4	363	1,257
(Increase)/decrease in trade and other receivables	10	(1,123)	61
Increase/(decrease) in trade payables	11	3,056	(67)
Less movements in payables relating to items not passing through the Comprehensive Statement of Net Expenditure		(1,385)	(856)
Use of provisions	12-13	(1,093)	(190)
<b>Net cash inflow from operating activities</b>		<b>228</b>	<b>1,093</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(15)	(121)
Purchase of intangible assets	6	(168)	0
Net movement in capital receivables (payables)		115	(95)
<b>Net cash outflow from investing activities</b>		<b>(68)</b>	<b>(216)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - current year		2,300	313
Advances from the contingencies fund		6,000	6,000
Payments to the contingencies fund		(6,000)	(6,000)
Capital element of payments in respect of finance leases		-	-
<b>Net cash inflow from financing activities</b>		<b>2,300</b>	<b>313</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
		2,460	1,191
Receipts due to the Consolidated Fund which are outside the scope of the Departments activities		-	-
Payment of amounts due to the Consolidated Fund		(1,191)	(241)
<b>Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>1,269</b>	<b>950</b>
<b>Cash and cash equivalents at the beginning of the period</b>	9	<b>1,191</b>	<b>241</b>
<b>Cash and cash equivalents at the end of the period</b>	9	<b>2,460</b>	<b>1,191</b>

The notes on pages 106 to 122 form part of these accounts.

## Statement of changes in taxpayers' equity

For the 12 months ended 31 March 2020

	Note	General Fund £000	Total Reserves £000
<b>Balance at 1 April 2018</b>		(5,642)	(5,642)
<b>Changes in taxpayers' equity for 2018-19</b>			
Net Parliamentary Funding		313	313
Comprehensive Net Expenditure for the year		881	881
Notional Auditors' Remuneration	4	38	38
Amounts issued from consolidated fund but not spent at year end	9	(1,191)	(1,191)
<b>Balance at 31 March 2019</b>		<b>(5,601)</b>	<b>(5,601)</b>
<b>Changes in taxpayers' equity for 2019-20</b>			
Net Parliamentary Funding		2,300	2,300
Comprehensive Net Income for the year		286	286
Notional Auditors' Remuneration	4	40	40
<b>Amounts issued from consolidated fund but not spent at year end</b>	9	<b>(2,460)</b>	<b>(2,460)</b>
<b>Balance at 31 March 2020</b>		<b>(5,436)</b>	<b>(5,436)</b>

The notes on pages 106 to 122 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 2019-20 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, we have selected the policy we judge to be most appropriate to our particular circumstances for the purposes of giving a true and fair view. The particular policies adopted by Ofwat are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention.

#### 1.2 Property, plant and equipment

Items of property, plant and equipment have been stated at fair value using depreciated historic cost as a proxy and they are subject to an annual impairment review.

An annual verification exercise is completed to ensure that the assets are present and in working condition. Any damaged equipment that is beyond economical repair is disposed of. Items include furniture and fittings, office machinery and telecommunications equipment, leasehold improvements and ICT equipment.

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

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

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

## Estimated useful lives of property, plant and equipment classes

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

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

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

### 1.3 Intangible assets

Intangible assets include separable software licences, such as those for the finance system. They are separable, in that the ICT equipment will operate without them. All individual items must exceed a capitalisation threshold of £2,500 for inclusion as an intangible asset.

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

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

### 1.4 Financing

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

## **1.5 Operating income**

Since our costs are primarily recovered through licence fees and invoiced in advance based on estimated costs, any licence fee income that materially exceeds actual levels of operating costs is returned to appointed water companies and Tideway through credit notes in relation to the following year's licence fees with immaterial values surrendered to the Consolidated Fund.

We are mandated to collect licence fees from the appointed water companies and licensed suppliers in the business retail market in respect of CCWater's operating costs. This income is then transferred to the Department for Environment, Food and Rural Affairs (see note 15). In accordance with HM Treasury guidance, we do not record these transactions in our financial statements.

## **1.6 Cash**

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

## **1.7 Trade receivables**

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when evidence supports the view that we will not be able to collect all amounts due in accordance with the original terms of the receivables.

## **1.8 Fines and penalty income**

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

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

## 1.9 Leases

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

## 1.10 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). We recognise the expected cost of this scheme on a systematic and rational basis, over the period during which it benefits from the employees' services, by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

The retired Directors General are covered by 'by-analogy' pension schemes that offer similar benefits to the PCSPS. However, unlike the PCSPS, a pension liability is included in the accounts as required by International Accounting Standard (IAS) 19.

## 1.11 Value-added tax

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

## 1.12 Provisions

Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury discount rate. The real discount rate for pension liabilities changed from **0.10%** real per annum to **0.29%** real per annum from **31 March 2020**.

## 1.13 Contingent liabilities

As well as contingent liabilities disclosed in accordance with IAS 37, we disclose (for Parliamentary reporting and accountability purposes) certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is



remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

### **1.14 Going concern**

The Statement of Financial Position at 31 March 2020 shows negative taxpayers' equity of £5.4 million (2018-19: £5.6 million).

Under the Government Resources and Accounts Act 2000, and similar to other Government departments, we are required to surrender all cash balances to HM Treasury at the end of each financial year. This results in a corresponding deduction against reserves and in negative taxpayers' equity, and means we are unable to retain cash or reserves to offset our liabilities. The future financing of liabilities will be met by future grants of supply and the application of future income. This is approved annually by Parliament, and there is good reason to believe these future approvals will continue. The impact of Covid-19 has been considered and built into future cash flow assumptions which will be subject to ongoing review. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Our budget for 2020-21 was agreed via our Main Estimate, presented to the House of Commons on 4th May 2020.

### **1.15 Staff costs**

Under 'IAS19: Employee benefits', all staff costs must be recorded as an expense as soon as an organisation is obliged to pay them. This includes the cost of any unused leave entitlements at the end of the financial year.

### **1.16 Accounting estimates**

Each year we commission an actuarial valuation. This was carried out by the Government Actuary's Department in relation to the by-analogy pension scheme. The demographic assumptions are consistent with those used elsewhere in central

government for resource accounting purposes and with those adopted in previous years.

Note 13 to these accounts provides further information on the main demographic assumptions and sensitivity analysis.

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

### **1.17 Operating costs**

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

### **1.18 Adoption of new and revised accounting standards**

IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases' and related interpretations and is effective for annual periods beginning on or after 1 January 2019 (to be adopted by Government for annual periods beginning 1 April 2021).

Had this standard been adopted in the 2019/20 annual accounts, the gross assets and gross liabilities would be £2.0m higher respectively, and net expenditure for the year £0.6 million lower subject to the completion of transition work.

## 2. Statement of operating costs by programme

For the 12 months ended 31 March 2020

Programme	2019-20 £000	2018-19 £000
Business Improvement	7,456	7,342
Communications Hub	1,014	807
Finance and Governance	2,085	1,980
Market Outcomes and Enforcement	3,721	2,878
PR19	15,805	16,053
Strategy Hub	1,321	1,236
RAPID	714	-
Thames Tideway Project Regulation	354	218
<b>Total Expenditure</b>	<b>32,471</b>	<b>30,515</b>
<b>Total Income</b>	<b>(32,881)</b>	<b>(31,403)</b>
<b>Net income</b>	<b>(410)</b>	<b>(888)</b>

## 3. Staff costs

For the 12 months ended 31 March 2020

	2019-20 £000	2018-19 £000
Wages and salaries	14,851	14,337
Social security costs	1,558	1,613
Other pension costs	3,612	2,733
<b>Total</b>	<b>20,021</b>	<b>18,683</b>

## 4. Expenditure

### For the 12 months ended 31 March 2020

	2019-20 £000	2018-19 £000
Purchase of goods and services:		
Consultancy services	6,782	6,282
Contingent labour	2,073	903
Training	258	244
Travel and subsistence	424	495
Taxation charges	90	18
Rates	240	235
Information Technology	482	633
Other hire and maintenance	35	32
Seminars, meetings and conferences	52	64
Publications, books and periodicals	80	97
Telecommunications	226	279
Recruitment costs	103	109
Office consumables	54	24
Accommodation expenses	96	84
Internal Audit fees	36	51
Records management	39	21
Other	111	133
	<b>11,181</b>	<b>9,704</b>
Rentals under operating leases:		
Accommodation	892	857
Office equipment	14	14
	<b>906</b>	<b>871</b>
Non cash items:		
Depreciation	247	250
Amortisation	2	3
Loss on disposal of assets	3	-
Addition/(release) of provision	-	900
Other finance costs	71	66
External Auditors' remuneration	40	38
	<b>363</b>	<b>1,257</b>
<b>Total</b>	<b>12,450</b>	<b>11,832</b>

Spend on contingent labour costs increased in the period as a result of delivering the final determinations on PR19, preparing for appeals against the final determinations to the CMA and providing support on strategy.

Expenditure on Information Technology was lower in 2019-20 due to the procurement of the Casework Management System, which was classified as capital expenditure.

The provision which was made for the performance-related element of the delivery partner contract was paid in 2019-20 due to successful achievement of the performance milestones.

## 5. Property, plant and equipment

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

2019-20	Assets under construction £000	Furniture & Fittings £000	Office machinery & Telecomms £000	Leasehold Improvements £000	Information Technology £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2019	53	131	13	968	842	2,008
Additions	-	-	-	-	15	15
Disposals	-	-	-	-	24	24
Reclassifications	53	-	-	42	11	-
<b>At 31 March 2020</b>	<b>-</b>	<b>131</b>	<b>13</b>	<b>1,010</b>	<b>844</b>	<b>1,999</b>
<b>Depreciation</b>						
At 1 April 2019	-	71	13	468	598	1,150
Charged in year	-	19	-	145	83	247
Disposals	-	-	-	-	21	21
<b>At 31 March 2020</b>	<b>-</b>	<b>90</b>	<b>13</b>	<b>613</b>	<b>660</b>	<b>1,376</b>
<b>Carrying amount at 31 March 2020</b>	<b>-</b>	<b>41</b>	<b>0</b>	<b>397</b>	<b>184</b>	<b>623</b>
<b>Carrying amount at 31 March 2019</b>	<b>53</b>	<b>60</b>	<b>0</b>	<b>500</b>	<b>244</b>	<b>858</b>
<b>Asset Financing:</b>						
Owned	-	41	0	397	184	623
Finance Leased	-	-	-	-	-	-
<b>Carrying amount at 31 March 2020</b>	<b>-</b>	<b>41</b>	<b>0</b>	<b>397</b>	<b>184</b>	<b>623</b>
<b>2018-19</b>						
2018-19	Assets under construction £000	Furniture & Fittings £000	Office machinery & Telecomms £000	Leasehold Improvements £000	Information Technology £000	Total £000
<b>Cost or valuation</b>						
At 1 April 2018	-	131	13	960	783	1,887
Additions	53	-	-	8	59	121
Disposals	-	-	-	-	-	0
<b>At 31 March 2019</b>	<b>53</b>	<b>131</b>	<b>13</b>	<b>968</b>	<b>842</b>	<b>2,008</b>
<b>Depreciation</b>						
At 1 April 2018	-	41	13	332	515	901
Charged in year	-	30	-	136	83	249
Disposals	-	-	-	-	-	-
<b>At 31 March 2019</b>	<b>-</b>	<b>71</b>	<b>13</b>	<b>468</b>	<b>598</b>	<b>1,150</b>
<b>Carrying amount at 31 March 2019</b>	<b>53</b>	<b>60</b>	<b>-</b>	<b>500</b>	<b>244</b>	<b>858</b>
<b>Carrying amount at 31 March 2018</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>628</b>	<b>268</b>	<b>986</b>
<b>Asset Financing:</b>						
Owned	53	60	-	500	244	858
Finance Leased	-	-	-	-	-	-
<b>Carrying amount at 31 March 2019</b>	<b>53</b>	<b>60</b>	<b>-</b>	<b>500</b>	<b>244</b>	<b>858</b>

## 6. Intangible assets

Intangible assets consist of purchased software licences.

2019-20	Purchased software licences £000	Assets Under Development £000	Total £000
<b>Cost or valuation</b>			
At 1 April 2019	360	-	360
Additions	-	168	168
<b>At 31 March 2020</b>	<b>360</b>	<b>168</b>	<b>528</b>
<b>Amortisation</b>			
At 1 April 2019	358	-	358
Charged in year	2	-	2
<b>At 31 March 2020</b>	<b>360</b>	<b>-</b>	<b>360</b>
<b>Carrying amount at 31 March 2020</b>	<b>0</b>	<b>168</b>	<b>168</b>
<b>Carrying amount at 31 March 2019</b>	<b>2</b>	<b>-</b>	<b>2</b>

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

## 7. Capital and other commitments

### 7.1 Operating leases

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

	2019-20 £000	2018-19 £000
<b>Obligations under operating leases comprise:</b>		
Buildings		
Not later than one year	874	874
Later than one year and not later than five years	1,345	2,219
<b>Total</b>	<b>2,219</b>	<b>3,093</b>
Other		
Not later than one year	27	27
Later than one year and not later than five years	49	76
<b>Total</b>	<b>76</b>	<b>103</b>

## 8. Financial instruments

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

### 8.1 Liquidity risk

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

### 8.2 Interest rates and foreign currency risks

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

### 8.3 Fair values

There is no material difference between the book values and the fair values of Ofwat's financial assets and liabilities at 31 March 2020.

## 9. Cash and cash equivalents

Any cash held at 31 March 2020 by Ofwat must be surrendered to the Consolidated Fund per note 1.6.

	2019-20 £000	2018-19 £000
Balance at 1 April 2019	1,191	241
Net change in cash and cash equivalent balances	1,269	950
<b>Balance at 31 March 2020</b>	<b>2,460</b>	<b>1,191</b>
The following balances at 31 March 2020 were held at:		
Government Banking Services (GBS)	2,460	1,191
Commercial banks and cash in hand	-	-
<b>Total</b>	<b>2,460</b>	<b>1,191</b>

## 10. Trade receivables and other current assets

	2019-20 £000	2018-19 £000
<b>Amounts falling due within one year</b>		
Trade receivables	1,066	39
Deposits and advances	50	48
HM Revenue and Customs (VAT)	149	44
Prepayments and accrued income	348	359
<b>Total</b>	<b>1,613</b>	<b>490</b>



## 11. Trade payables and other current liabilities

	2019-20 £000	2018-19 £000
<b>Amounts falling due within one year</b>		
Trade payables	1,871	706
Other payables	372	323
Other taxation and social security	437	456
Accruals	2,547	1,932
Deferred income	64	87
Amounts issued from the consolidated fund for supply but not spent at year end	2,460	1,191
<b>Total</b>	<b>7,751</b>	<b>4,695</b>

## 12. Provisions for liabilities and charges

Provisions	2019-20 £000		2018-19 £000
	Incentive Payment Costs	Total	Total
Balance at 1 April 2019	900	900	-
Provided in the year	-	-	900
Provisions utilised in the year	(900)	(900)	-
Provisions not required written back	-	-	-
<b>Balance at 31 March 2020</b>	<b>-</b>	<b>-</b>	<b>900</b>

Analysis by type	2019-20 £000		2018-19 £000
	Incentive Payment Costs	Total	Total
<b>Amounts falling due within one year</b>	-	-	900
	-	-	<b>900</b>
<b>Amounts falling due after more than one year</b>	-	-	-
	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>900</b>

Analysis of expected timing of discounted flows	2019-20 £000		2018-19 £000
	Incentive Payment Costs	Total	Total
Not later than one year	-	-	900
Later than one year and not later than five years	-	-	-
Later than five years	-	-	-
<b>Balance at 31 March 2020</b>	<b>-</b>	<b>-</b>	<b>900</b>

## 13. Pensions Liabilities

### 13.1 Pensions Liabilities

Pension liabilities	2019-20 £000	2018-19 £000
Balance at 1 April 2019	2,547	2,664
<b>Analysis of the amount charged to the Statement of Comprehensive Net Expenditure</b>		
Interest costs	71	66
<b>Benefits paid</b>		
Benefits paid	(193)	(190)
<b>Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity</b>		
Experience loss	40	55
Actuarial loss/(gain)	84	(48)
<b>Balance at 31 March 2020</b>	<b>2,549</b>	<b>2,547</b>

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

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2020.

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

- Mortality improvements to 2016 are based on historic population experience for those years. Improvements since 2016 are based on improvements underlying 2018-based UK principal population projections by the Office for National Statistics.
- All members are assumed to have a spouse or eligible partner from the date their pension is assumed to be paid. Male members are assumed to be three years older than their partners and female members are assumed to be two years younger than their partners.

The main financial assumptions used to assess liabilities at 31 March 2020 are as follows:

- The gross discount rate is assumed to be 1.8 % a year (31 March 2019: 2.9%).
- The consumer price index (CPI) is assumed to be 2.35% (31 March 2019: 2.6%).
- Net (of CPI) discount rate is assumed to -0.5% (31 March 2019: 0.29%).

### 13.2 Sensitivity analysis of main actuarial assumptions

The sensitivity analysis of the main actuarial assumptions indicates the following.

- Increasing the discount rate by 0.5% would result in a corresponding increase in liabilities of approximately 4.0%, or (£112,000).
- Increasing the CPI inflation assumption by 0.5% would result in a corresponding decrease in liabilities of approximately 5.0%, or £120,000.
- Increasing assumed life expectancies in retirement to equal those of people one year younger would result in a corresponding increase in liabilities of approximately 3.0%, or £83,000.

The opposite changes in assumptions will produce approximately equal and opposite changes in the liability. Similarly, doubling the changes in the assumptions will produce approximately double the changes in the liability.

The sensitivities show the change in each assumption in isolation. In practice, such assumptions rarely change in isolation and, given the interdependencies between them, their impacts may offset each other to some extent.

### 13.3 Analysis of actuarial loss

Analysis of actuarial (gain)/loss	2019-20 £000	2018-19 £000	2017-18 £000
Experience losses arising on the scheme liabilities	40	55	40
Changes in assumptions underlying the present value of scheme liabilities	84	(48)	(191)
Per Statement of Changes in Taxpayers' Equity	124	7	(151)

## 13.4 History of experience losses

History of experience losses	2019-20 £000	2018-19 £000	2017-18 £000	2016-17 £000	2015-16 £000
Experience (gains)/losses arising on the scheme liabilities					
Amount	40	55	40	13	(20)
Percentage of the present value of the scheme liabilities	1.6%	2.2%	1.5%	0.4%	(0.7)%
Total amount recognised in Statement of Taxpayers' Equity					
Amount	124	7	(151)	335	(130)
Percentage of the present value of the scheme liabilities	4.9%	0.3%	(5.7)%	11.5%	(4.9)%

## 14. Contingent liabilities disclosed under IAS37

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

In 2018-19 we disclosed a contingent liability in relation to a company requesting the re-opening of a determination made in 2015 and threatening to challenge us if we did not agree to reopen our decision. We responded on 19 March 2019, declining to reopen the determination. To date we have received no further correspondence, therefore this is no longer disclosed as a contingent liability.

In 2019-20 proceedings were brought in the County Court for damages of approximately £10,000 against either or both Ofwat and Southern Water for breach of statutory duty relating to sewer flooding.

Ofwat has powers to issue enforcement orders to bring companies back into compliance in the context of sewer flooding if they are in breach of their responsibilities under section 94 Water Industry Act 1991. We can fine companies accordingly, but we do not have powers to award compensation for sewer flooding. We are disputing the jurisdiction of the County Court and are awaiting a decision on that. However, we will defend the claim if it does proceed in the County Court.

## 15. Related party transactions

### 15.1 Defra/CC Water

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

We transferred £5.8 million to Defra in respect of CC Water's operating costs in 2019-2020 (2018-19: £5.5 million).

## **15.2 Other**

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

With the exception of remuneration disclosed in the Senior Managers Remuneration section (page 77), there are no undisclosed related party transactions between Ofwat and any of our Directors.

## **16. Events after the reporting period**

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

The cover features a large orange vertical bar on the left side. A green circle is centered on the page, overlapping the orange bar and a magenta square on the right. The text 'Part 4' is written in white inside the green circle.

# Part 4

**Appendices**

## Appendices

The appendices are not subject to audit.

### A1 Progress on projects described in ‘Ofwat’s forward programme 2019-20’

Below we highlight our progress against the projects we outlined in [Ofwat’s forward programme 2019-20](#). The status shown reflects progress against the forward programme during the year as a whole. In a number of instances, while our in-year expectations were met, this work has highlighted areas we need to develop further in the coming year and beyond.

Programme	What we said	Status
<b>April to June 2019</b>		
Business Improvement	We will focus on embedding and continuously improving our approaches to people, processes, systems and governance so we are efficient, effective and continue to operate well as an organisation throughout the whole of 2019-20. This includes making the most from our major investments in IT and digital capability, our approach to skills mapping and workforce planning, and finance and business processes.	Met
	Publish and lay our annual accounts 2018-19 before the UK Parliament and National Assembly for Wales to account for our work and expenditure during the year. Explain how we have contributed to delivering the strategic priorities and objectives set for us by the UK and Welsh Governments.	Met
Finance and Governance	We will implement the first phase of our review and refinement of the regulatory ring-fencing framework, with the intention of bringing all licences up to the industry leading standard.	Met
	We will embed our revised principles for board leadership, transparency and governance, ensuring all companies and their boards are accountable for delivering high standards.	Met
Market Outcomes and Enforcement	Make a final decision on the Retail Exit Code to consider price protections for business retail market customers and the promotion of effective competition.	Met

<b>Programme</b>	<b>What we said</b>	<b>Status</b>
	Publish our new connection charging rules for 2020-21 for companies operating wholly or mainly in England. This is to help ensure that charges covered by these rules are fair, transparent, predictable and promote environmental protection.	Met
PR19	Make our draft decisions ('draft determinations') for appointed water companies whose plans we categorise as 'exceptional' or 'fast track' (April 2019).	Met
Strategy Hub and Communications Hub	We will develop a new shared vision for the sector, which will set out the ambitions for the sector and what we – that is all of us in the sector – think the future shape of water should look like.	Met
	In April, we will publish more details on our strategy and continue engagement with key stakeholders.	Met
<b>July to September 2019</b>		
Business Improvement	To support the delivery of our new Ofwat Strategy, we will develop any changes required to our approach to IT and digital, data, people, accommodation and ways of working. This will ensure we have the right people, skills, systems, processes, culture and governance to enable us to deliver our evolving approach to regulation. This work is likely to be iterative and will build on the strategy work undertaken in 2018-19.	Met
	We will also prepare for and participate in the Comprehensive Spending Review – the timing of which is yet to be confirmed.	Met
Market Outcomes and Enforcement	Publish our second Annual State of the Market report – our assessment of competition in the second year of the business retail market. This is to understand how well the market is delivering benefits for customers.	Met
PR19	Make our draft decisions ('draft determinations') for appointed water companies whose plans we categorise as 'slow track' or 'significant scrutiny' (July 2019).	Met
Strategy Hub and Communications Hub	Having engaged further with stakeholders, we will refine our strategy, and release more detailed proposals on priority areas, for example on innovation, resilience and the environment.	Met
<b>October to December 2019</b>		
Business Improvement	Following our selection scheme, our 2019-20 graduates will start with us in October to support	Met



<b>Programme</b>	<b>What we said</b>	<b>Status</b>
	critical skills development as part of our strategic workforce plan.	
Finance and Governance	We will review our systems and processes in respect of financial distress to ensure we have appropriate mitigations and protections in place, and then implement any improvements as appropriate.	Met
PR19	Consult on and determine the in-period underperformance penalties and outperformance payments for three regional water and wastewater companies, based on their performance during 2018-19. This process incentivises companies' management to deliver what matters to their customers, and also ensures that bills reflect recent service performance.	Met
	Make our final decisions ('final determinations') for all appointed water companies (December 2019).	Met
Strategy Hub and Communications Hub	Communicate the outcome and implications of PR19 so that customers, investors and other stakeholders can be assured that our final determinations are fair and in the best interests of customers.	Met
<b>January to March 2020</b>		
Business Improvement	Consult on our draft forward programme of work for 2020-21 to get feedback from our stakeholders on our plans, and publish the final version ahead of the new financial year.	Met
	Publish our updated two-year rolling business plan for 2020-21 to 2021-22.	Deferred to Q4 2020-21
Finance and Governance	We will publish our post-PR19 governance and assurance framework, to ensure that customers and stakeholders can understand and trust the information that companies produce in the next price review period.	Delayed and will be part of the next RAGs consultation for the 2021-22 financial year
	Publish final Regulatory Accounting Guidelines (RAGs) 2019-20 to ensure that the annual performance report is prepared consistently and in line with our overall regulatory reporting framework.	The RAGs remained unchanged for 2019-20.
	Publish Annual Information Notice on Performance Reporting to set out the way in which we expect all companies to report their performance for 2019-20.	Met
PR19	Publish reconciliation rulebook for consultation – Feb/March 2020	Met

<b>Programme</b>	<b>What we said</b>	<b>Status</b>
	Procure and appoint C-MeX/D-MeX survey company – Feb/March 2020	Met

## A2 Performance against stated levels of service

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

Where a stakeholder is unhappy with how we have handled a complaint or case, they can ask us to review what we did in line with our [complaints process](#). In 2019-20, five internal reviews were started. All were completed within the deadline bar one which extended into the next financial year. Process changes were recommended and have been implemented in two cases.

[The Freedom of Information Act 2000](#) (FOIA) and the [Environmental Information Regulations 2004](#) (EIR) provide a general right of access to all types of recorded information held by public authorities, including Ofwat. They place a number of obligations on us and also set out exemptions to rights of access. Detailed information on the FOIA and EIR is available from the Cabinet Office and the Information Commissioner's Office (ICO). You can view the performance of participating bodies on their website. Ofwat responds to Subject Access Requests (SARs) to meet its responsibilities under the [Data Protection Act 2018](#).

We have standards of service within which we aim to complete our work. Below we set out how we performed against them during 2019-20. Where we have fallen materially short of our targets we have identified actions to improve our performance in 2020-21.

<b>Metric</b>	<b>Details of what is being measured</b>	<b>Total number</b>	<b>Target</b>	<b>2019-20 Actual</b>
<b>Information requests</b>				
FOI/EIR requests	Enquiries responded to within the deadline	149	100%	98% (142) (4 outstanding)
SARs	Enquiries responded to within the deadline	14	100%	100%
<b>General enquiries</b>				
General enquiries	Enquiries responded to within 10 working days of receipt	657	95%	97.4% (640)
<b>Disputes and complaints about water and wastewater services</b>				
General complaints - Ofwat has no legal role <sup>6</sup>	Complaints where Ofwat has no legal role responded to within 10 working days of receipt	1756	95%	97.1% (1,705)
Complex complaints – Ofwat has no role	Complaints acknowledged within 10 working days of receipt	23	95%	100%
	Complaints responded to within 20 working days from day of receipt	23	95%	87% <sup>7</sup> (20)
Complaints – Ofwat may/does have a role – Preliminary Assessment <sup>8</sup>	Complaints acknowledged within 10 working days of receipt	17	95%	100%
	Complaints responded to within 20/40 working days from day of receipt	17	95%	82.4% (14)
Internal Reviews	Reviews conducted within the deadline	5	100%	100%* 1 was due to complete in 20/21
<b>Investigations we carry out</b>				

Customer disputes cases <sup>9</sup>	Formal cases closed within our service standard timeframes (including those cases closed prior to final decision/ determination due to informal resolution or withdrawal by the customer)	4	100%	100%
<b>Licensing</b>				
NAV applications <sup>10</sup>	NAV applications for which we completed our initial checks within five working days of receipt	91	100%	77% (70)
	NAV applications processed within 85 working days	68	100%	87% <sup>11</sup> (59)
WSSL applications <sup>12</sup>	WSSL applications (including self-supply) for which we completed our initial checks within five working days	7	100%	71% (5)
	The proportion of standard WSSL applications processed within 45/60 working days	5	100%	60% (3)

<sup>6</sup> When we receive a customer complaint, we consider if it falls within the scope of our legal powers. Many of the customer complaints we receive are not issues we have legal powers to address, but rather matters on which CCWater can provide assistance, including by trying to mediate a resolution for the customer.

<sup>7</sup> Some complex complaint issues require more internal or external subject matter expert advice and so can take longer to respond to.

<sup>8</sup> We have a legal duty to investigate some types of customer complaint, whilst for others, legislation provides us with discretion as to whether it is appropriate for us to investigate. When we receive a customer complaint that may fall within our legal powers, we complete a preliminary assessment to confirm this jurisdiction, consider any discretion we have, and make our decision on whether to open a formal case to investigate further.

<sup>9</sup> Further information on what we can investigate and our timescales can be found on our website -

<https://www.ofwat.gov.uk/regulated-companies/investigations/how-we-investigate/>

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

<sup>10</sup> Further information on new appointments and variations can be found on our website -

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

<sup>11</sup> A number of non-standard complex applications were received in a period when we also had higher than projected volumes of applications.

<sup>12</sup> Further information on water supply and sewerage licences and our processing timescales can be found on our website - <https://www.ofwat.gov.uk/regulated-companies/markets/business-retail-market/water-supply-sewerage-licences/>

## **A3 List of impact assessments carried out during 2019-20**

None

## A4 Progress in reducing regulatory burdens

### Background

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

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

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

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

### Report on progress

Programme	How we intend to reduce regulatory burdens
Strategy and Planning	<p>The Strategy Hub has facilitated the development of Ofwat’s new strategy and the three strategic goals which align to what customers have said they want from their water companies. In the strategy we are putting greater emphasis on evaluating the impact of our policy interventions.</p> <p>This sharper focus on evaluation will enable us to pinpoint the need for modification or relaxation of our regulation, or any additional intervention required and in doing so helps ensure we minimise the regulatory burden of any intervention.</p>
Finance and Governance	<p>Our risk-based approach to monitoring and intervention means that we use a variety of tools that are proportionate to the different risks that companies and customers face. Our informal tools focus on highlighting performance and allowing companies to manage and respond themselves, rather than our needing to intervene formally, although we will do so where appropriate.</p> <p>We published our consents guidance which builds on this, reinforcing that it is companies’ responsibility to ensure they are compliant so helping to minimise the extent to which we might have to intervene either by creating new rules or through enforcement action. We recognise that the impacts of Covid-19 and our related interventions</p>

Programme	How we intend to reduce regulatory burdens
	<p>may require a closer scrutiny of companies' positions in the coming financial year.</p>
Market Outcomes and Enforcement	<p>On 16 June 2019 changes were made to our Business Customer Protection Code of Practice which sets out the rules that all retailers must follow to ensure that Non-Household Customers are protected in the business retail market. The changes to the Code have enabled microbusiness customers (with their agreement) to agree contracts orally. Retailers were previously required to obtain written confirmation from these customers.</p> <p>In November 2017, we published our Code for Adoption Agreements, which covers agreements that developers or self-lay providers enter into when they want an appointed water or sewerage company to take over responsibility for infrastructure that they have constructed. As required by the Code for Adoption Agreements, appointed water companies have since submitted draft water and sewerage sector documents for our approval. We have subsequently approved the sewerage sector documents, which went live on 1 April 2020, but we are still assessing the water sector documents. Once live, we anticipate these documents will reduce regulatory burdens on businesses (both developers and self-lay providers) constructing new connections infrastructure by ensuring that water companies operating wholly or mainly in England take a consistent approach to the procedures for entering into adoption agreements.</p> <p>In July 2019 we published our decisions on the Retail Exit Code (REC) from April 2020. The REC places requirements on the default price and non-price terms and conditions that apply to non-household customers. Changes include a simplification of the way the Code is implemented. This reduces regulatory burdens by reducing the amount of information retailers need to collect from customers. We have also relaxed the level of protections to some extent, which gives retailers more flexibility over their pricing.</p> <p>We intervened in the business retail market at the end of the year in response to the Covid-19 pandemic, modifying the Market Arrangements Code, Wholesale Retail Code and Customer Protection Code of Practice, to provide additional protections to customers and ensure the smooth operation of the market. While these interventions were necessary, we were mindful of the need for them to be proportionate and targeted.</p>
PR19	<p>Our PR19 final methodology included measures to encourage markets, where appropriate, in water resources and bioresources. Over time, these could allow a reduction in prescriptive price and service regulation in these parts of water and wastewater service delivery.</p> <p>In January 2019, we awarded three companies fast-track status in the initial assessment of business plans (IAP), and these companies</p>



Programme	How we intend to reduce regulatory burdens
	<p>benefitted from a reduced regulatory burden. As these companies submitted plans that set a new standard for the sector, we enabled those companies to get started on delivering their plans for customers - they benefitted from early draft determinations in April 2019, with a relatively small level of intervention from Ofwat.</p>
Thames Tideway	<p>We have adapted our regulatory approach to be more appropriate to the specific issues associated with the Thames Tideway Tunnel. We have ensured that in those limited cases where we need to be prescriptive, that the requirements we set, for example when considering requested consents pursuant to the project licence, are proportionate.</p>
Business Improvement Programme	<p>This programme has helped improve the way we work, and to deliver value for public money and more of what matters for customers. The aim has been to ensure that we deliver best value from licence fees and help reduce the burden on companies and in turn, their customers.</p>
RAPID	<p>The Regulators' Alliance for Progressing Infrastructure Development (RAPID) was set up during 2019-20 to be a cross-regulatory unit focused on facilitating timely and co-ordinated development of large-scale water resources infrastructure schemes. RAPID provides a single point of contact and coordination across the three water regulators to ensure the timely and efficient resolution of regulatory issues affecting strategic infrastructure development.</p> <p>RAPID is working collaboratively with the water industry to develop proportionate approaches. One example is the design of stage gate submissions. Working alongside the industry we have co-designed a template that meets our requirement for each specified activity in a succinct way. We have also established a risk-based approach to reporting, providing common reporting pro formas and establishing cross company groups to share good practice.</p>

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

None

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

On 10 October 2019, we imposed a penalty on Southern Water Services Limited under section 22A of the Water Industry Act 1991.

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

On 19 March 2020, Ofwat made four references to the Competition and Markets Authority for a redetermination of the PR19 final determinations issued to Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water. These references were made under section 12 of the Water Industry Act 1991 in March 2020.

On 24 March 2020 the CMA appointed a special reference group to consider these references and on 2 April 2020 it published its [administrative timetable](#). The timetable targets the CMA publishing its provisional determinations in mid-September 2020 with a target for the final decisions at the end of November or the start of December 2020.

## A8 Staff composition 2019-20

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

Level and salary range	2019-20			2018-19			2017-18			2016-17		
	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Band 1 – £17,829 to £24,492	6	33	0	0	0	0	0	0	0	0	0	0
Band 2 – £24,493 to £33,850	13	77	15	13	62	8	14	57	7	5	40	60
Band 3 – £33,851 to £50,615	13	62	9	22	68	23	31	58	13	18	50	16
Band 4 – £50,616 to £77,422	9	44	13	17	47	6	18	33	22	19	57	21
Band 5 – £77,423 to £116,134	1	100	0	3	67	0	6	67	33	8	62	12
Total	42	60	10	55	61	13	69	52	19	50	54	22

All figures rounded to the nearest whole number.

**Staff in post**

Type	31 March 2020	31 March 2019	31 March 2018	31 March 2017
Employed staff head count	240	248	233	190
Agency staff and consultants head count	8	17	4	13

**Employed staff information**

Area	31 March 2020	31 March 2019	31 March 2018	31 March 2017
Full-time equivalent staff	232 FTE (240 headcount)	240	201	161
Proportion of women (%)	50 (51% from headcount)	50	50	47
Proportion from ethnic minorities (%)	15 (14% from headcount)	15	15	17
Proportion disabled (%)	3	4	3	1
Members of the Senior Civil Service	10	10	7	9
Number of fixed-term and casual contracts	32	50	47	31
Number of staff working part-time	28 (headcount 36)	39	37	31
Staff turnover (%)	16	16	13	9

\*FTE figure rounded up to nearest whole number

**Staff training attendance (by ethnic group)**

Ethnic group	2019-20		2018-19 <sup>1</sup>		2017-18		2016-17	
	Number of training days <sup>3</sup>	%	Number of training days <sup>2</sup>	%	Number of training days <sup>2</sup>	%	Number of training days <sup>2</sup>	%
White			–	-	–	–	–	–
Other ethnic groups			–	-	–	–	–	–
Unknown			2125	100	1,972	100	1,673	100
Total number of training days			2125	100	1,972	100	1,673	100

1. We did not collect information on training days by ethnic group in 2016-17, 2017-18 or 2018-19
2. Rounded up to the nearest whole number
3. No information on training days was recorded in 2019/20

**Staff by gender**

Area	31 March 2020	31 March 2019	31 March 2018	31 March 2017
Employed staff head count	240	248	233	190
Number of women	123	124	117	90
Number of men	116	124	116	100
Number of unspecified	1			

### Senior Directors by gender\*

Area	31 March 2020	31 March 2019	31 March 2018	31 March 2017**
Employed head count	10	10	9	7
Number of women	6	7	6	3
Number of men	4	3	3	4

\* These figures exclude the role of the Chief Executive

### Members of Senior Civil Service by gender

Area	31 March 2020	31 March 2019	31 March 2018	31 March 2017
Employed head count	10	10	7	8
Number of women	7	7	5	3
Number of men	3	3	2	5



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

### Background

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

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

The equality duty is supported by specific duties set out in regulations. The specific duties require public bodies, such as Ofwat, to publish relevant, proportionate information demonstrating compliance with the equality duty and to set specific equality objectives.

### External

In October 2019 we published our new strategy in which we have set out our expectations on companies to drive improvements in their relationships with customers, and improve their ability to meet the diversity of needs, especially those of the most vulnerable in society. We aim to see the water industry moving up the cross-sectoral league tables on customer service.

In December 2019 we published our final determinations for PR19, our programme to set water companies' price and service packages for their customers for the 2020–25 period. We designed the PR19 process to place a strong emphasis on the companies conducting rigorous research, and engaging with their customers and reflecting these needs accurately in their plans. We emphasised the importance of companies engaging with representative samples of their customers, including hard-to-reach customers and customers in circumstances that make them vulnerable.

Our decisions in PR19 will assist customers who need support due to affordability and vulnerability concerns in a number of ways. Average water bills across England and Wales will fall by **12% before inflation between 2020 and 2025**. Companies will increase the number of customers on concessionary tariffs and expand the support mechanisms for customers such as payment matching schemes, hardship funds and

payment holidays. In addition, companies will increase the number of customers registered for priority services enabling them to identify and support customers whose circumstances make them vulnerable.

Our PR19 decisions also replaced our existing Service Incentive Mechanism (SIM) with two new mechanisms: C-MeX (customer measure of experience) and D-MeX (developer services measure of experience). C-MeX will incentivise companies to improve the overall experience customers have of their water company. We tested the new C-MeX mechanism further during the year following a pilot the year before.

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

In line with the Equality Act we also where appropriate make reasonable adjustments for disabled customers who would otherwise face difficulties contacting us to raise an enquiry or complaint.

We also have a Welsh language scheme and use a scoring system to objectively identify which material needs to be published in Welsh or bilingually. For more information, please see Appendix A11.

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

## **Internal**

In 2019 we developed a new People Strategy which identifies what activity we need to take to move Ofwat from good to a 'Great Place to Be'. All of our themes are around enabling our people to be the very best they can in a supportive and inclusive environment.

Equality, Diversity and Inclusion (EDI) is a specific theme in the new People Strategy demonstrating our overall objective:

**“To create an environment where everyone can feel comfortable being themselves and part of a team. Working to ensure that our people are representative of the communities we serve, in order to hear diverse views and better understand and respond to their needs as we carry out our regulatory work, particularly those who are vulnerable.”**



We commissioned an external Equality, Diversity and Inclusion review in late 2019 which will inform the development of our EDI strategy and highlight where we should prioritise our focus in this area.

In the meantime we continue to promote and develop a community of Dignity at Work advisors who support people across the organisation to live out our Equality and Dignity at work policy. In 2019 we also recruited and trained a number of Mental Health First Aiders who are available to provide support for our people. We continue to support communities of interest within Ofwat and to encourage staff to share their views and experiences. We know we have room for improvement but were pleased that in the 2019 Civil Service People Survey results, 91% of respondents at Ofwat

felt they were treated with respect by the people they work with and 80% of respondents believed that Ofwat respects individual differences, which is higher than the Civil Service average.

Alongside developing our own EDI aims and objectives we also joined the London Infrastructure group working on behalf of the London Mayor to commit to a number of pledges in order to deliver greater diversity and inclusion in the water industry and infrastructure sector.

We have set ourselves three key EDI objectives for 2020-21. Our three year EDI objectives will then flow from the new EDI strategy we are developing, and from the intelligence we are able to gain from improved data collection and analysis.

### Equality objectives for 2020

Objectives	Measured by	Due date
Develop an EDI strategy and plan to deliver the EDI aims identified in the People Strategy	EDI strategy complete and published	December 2020
Improve the information we hold on our workforce to better support delivery of our EDI strategy	EDI information compliance improves across all protected characteristics and regular reporting and publishing of information	September 2020
Contribute to delivery of the London Infrastructure EDI Pledges	Inclusion in EDI strategy and plan and reported via SLT and Board	2023 (review March 2021)

## A10 Trade Union Time

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

### Relevant union officials

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

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
5	4.8 FTE

### Percentage of time spent on facility time

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

Percentage of time	Number of employees
0-0.99%	2
1-50%	3
51%-99%	0
100%	0

### Percentage of pay bill spent on facility time

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

Total cost of facility time	£2.5k
Total pay bill	£17,419m
Percentage of the total pay bill spent on facility time	0.01%

### **Paid trade union activities**

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

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

## **A11 Welsh language report**

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

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

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

This Appendix outlines the progress that Ofwat has made during the period 1 April 2019 to 31 March 2020 in delivering public services in accordance with our Welsh Language Scheme. It also identifies areas of improvement.

### **Communicating with the Welsh-speaking public**

#### **Correspondence**

In accordance with our scheme, if someone writes to us in Welsh, then we will reply in Welsh. However, during 2019-20, we did not receive any enquiries written in Welsh.

#### **Telephone communications**

During 2019-20, we did not receive any telephone enquiries in Welsh.

#### **Public meetings**

We held no public meetings in Wales or in England during 2019-20.

## Meetings with the public in Wales

We met with members of the public in Wales as part of our ‘Water Stories’ campaign. We received no requests to speak in the Welsh language.

## Other dealings with the public in Wales

We have not carried out any public surveys wholly or mainly in Wales during 2019-20. We will be mindful of the need to produce bilingual surveys should the need arise in the next reporting period.

## Our public face

### Publicity campaigns and advertising

We did not carry out any publicity campaigns wholly or mainly in Wales during 2019-20. Nor did we place any advertisements in English language papers published wholly or mainly in Wales.

### Publications

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

During 2019-20, we have been proactive about using the scoring system that we agreed with the Welsh Language Commissioner to identify objectively any material that needs to be published in Welsh.

We have carried out a scoring exercise for each document that we published over the past 12 months, which has resulted in us translating:

- Welsh language compliance report 2018-19;
- [Ofwat annual report and accounts 2018-19](#);
- Non-Executive Directors recruitment advert and candidate pack;
- Head of Welsh Office recruitment advert and candidate pack;
- ‘[Time to act, together – Ofwat’s strategy](#)’, plus social media posts;
- ‘[Ofwat’s emerging strategy: Join the conversation](#)’, plus social media posts;
- ‘[Welsh Government priorities and our 2019 price review draft determinations](#)’;



- 2019 price review draft determinations social media posts and animations relating to leakage, flooding and catchment management, and posts specifically for Dŵr Cymru and Hafren Dyfrdwy for Facebook and Twitter;
- [‘Welsh Government priorities and our 2019 price review final determinations’](#); and
- 2019 price review final determinations social media posts and animations relating to leakage, flooding and catchment management, and posts specifically for Dŵr Cymru and Hafren Dyfrdwy for Facebook and Twitter

If we identify a need for a document to be published in Welsh and English, then we do our best to make sure that both versions are published at the same time. But where this is not practicable (for example, when deadlines make it difficult), then we make sure that we publish both versions as close together as possible.

We will continue to publish our key corporate publications in Welsh, and use the scoring system proactively.

## Website

We have continued to maintain the [‘Cymraeg’](#) section of the Ofwat website, which is accessible to Welsh-speaking users from the home page. This is available from the main menu bar on the website, so it is prominent.

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

Below we set out the number of views each of the three pages in the ‘Cymraeg’ section received in 2019-20 and the average length of time users spent on them. We have included information for the previous two years for comparison.

### Ofwat ‘Cymraeg’ website section: usage statistics 2019-20, 2018-19 and 2017-18

	2019-20		2018-19		2017-18	
Pages	Page views	Average length of time on page	Page views	Average length of time on page	Page views	Average length of time on page
<a href="#">Amdanom ni</a>	54 times	45 seconds	16 times	17 seconds	15 times	30 seconds

Cysylltu â ni	40 times	30 seconds	9 times	17 seconds	18 times	43 seconds
Cyhoeddiadau	116 times	45 seconds	14 times	31 seconds	45 times	1 minute 7 seconds

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

### **Official notices, public notices and staff recruitment notices**

During 2019-20, we published no official notices relating to issues wholly or mainly in Wales. We have appropriate processes in place to ensure these activities can be carried out in accordance with the scheme should the occasion arise.

### **Press releases and contact with the media**

We have not issued any press releases with a particular focus on Welsh issues during 2019-20. But in accordance with the scheme, we translated one press release ([‘PN 20/19: Ofwat sets out strategy to improve life through water’](#), 8 October 2019) that we issued to the Welsh language press and broadcast media.

## **Implementing the scheme**

### **Staffing and recruitment**

We do not ask job applicants to provide information about their Welsh language skills.

While we had no Welsh speakers during the year, in accordance with the scheme we would consider whether fluency in Welsh would be a desirable or essential skill if the need arose.

In 2019 we did the following:

- We recruited a Head of our new Welsh Office. We ensured the advert and candidate pack was in Welsh and English. We made oral and written Welsh language skills a desirable skill for the role.

- In advertising for Non-Executive Director roles in the course of 2019-20, we ensured that the advertisement and candidate pack were translated into Welsh.

## **Information and communications technology**

We have had no need to provide information and services in Welsh in 2019-20 in relation to the information and communications technology (ICT) products or services that we have designed or purchased.

## **Internal arrangements**

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

While we have not prepared a detailed action plan, we take our commitment to the scheme very seriously. For example, during 2019-20, we continued to use only qualified translators to help us deliver against the scheme. The translators we use are members of the Association of Welsh Translators and Interpreters.

## **Monitoring**

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

## **Reviewing and amending the scheme**

We are aware that we have not reviewed our existing Welsh Language Scheme since 2007. We plan to review the scheme and seek approval of the revised scheme from the Welsh Language Commissioner.

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

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