

July 2021

Water Services Regulation Authority (Ofwat)

# Annual report and accounts 2020–21

For the period 1 April 2020 to  
31 March 2021

HC 267

Ofwat

Water Services Regulation Authority (Ofwat)

# **Annual report and accounts 2020–21**

For the period 1 April 2020 to 31 March 2021

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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## About this document

This document sets out our annual report and accounts for the period 1 April 2020 to 31 March 2021.

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 Senedd.

Further information about our work is available on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

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# Part 1

Our performance report

## Overview

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 strategy [Time to act, together](#), explains how we will drive progress in the water sector; making sure we are focused on sustaining improvements 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 2020-21

We achieved most of the milestones set out in our [forward programme 2020-21](#). We deferred three milestones to reprioritise because of the pandemic and the Competition and Markets Authority (CMA) redetermination process. The deferred milestones were the consultation on our policy approach for water resource bilateral markets, key findings on the policy impact and benefits realisation of PR14, and our initial proposals for key PR24 areas and building blocks. More information on our progress is in Appendix A1 on page 134.

Following a [consultation](#) earlier this year, we have published our [forward programme 2021-22](#), 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 risks 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 53 gives more information on 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 118.



## Chair's foreword



The last year has been defined by Covid-19 and its impacts on us all. The pandemic has tested everyone, and Ofwat and the water sector are no exception. Extreme weather and EU exit added further pressure across the sector. Both Ofwat and the water sector rose to these challenges, adapting ways of working, maintaining supplies and providing additional support to the changing needs of both household and business customers. I want to pay tribute to Ofwat's leadership and all staff for their outstanding commitment during this time.

During the year a priority for our team was to provide the CMA with the information needed to consider requests from four companies to review the price and service packages we set in 2019. The CMA made its final decisions in March. The appeals are now concluded. The revised determinations support our drive for water companies to focus their efforts on delivering a service fit for the future – one that is more resilient, environmentally sustainable and that meets customers' expectations at a price they can afford.

To meet their commitments set out in our 2019 price review (PR19) companies must demonstrate innovation. Earlier this year the sector's first £200 million Innovation Fund launched with the opening of the Innovation in Water competition. We are pleased to have seen a number of highly innovative and collaborative initiatives which could improve service, efficiency or the environment. Current and future competitions will continue to incentivise companies to be ambitious throughout the 2020-25 period, not just when it comes to forming business plans for the following five years.

Companies must strive to deliver across all areas, as providers of an essential public service. This year we assessed how companies are meeting our updated Board leadership, transparency and governance principles. I welcome the improvements and good examples of where companies have met their wide responsibilities to public service. However, there is scope for companies to improve and continually evolve to meet the highest, and latest, standards of leadership, governance and customer expectations.

Throughout 2020-21 we have continued to work in partnership with government, key sector regulators and other stakeholders to support the sector during the pandemic, to secure a better understanding of customer needs, to develop new ways of delivering large investment, and to contribute to collective action in tackling prominent environmental issues including discharges to watercourses and net zero. We look forward to working alongside the sector to drive performance, while at the same time

ensuring that companies respond to the urgent challenges of environmental sustainability. We welcome ongoing commitment from investors to a long-term view and improvements in performance, supporting the sector’s resilience for the future.

In March, we said goodbye to Rachel Fletcher. We thank Rachel for her leadership, and the significant changes she led within Ofwat and the sector over the past three years. I am delighted that David Black has stepped into the role as Interim Chief Executive, having served as our Chief Regulation Officer. David brings deep experience of Ofwat and the water sector. Together with the leadership team, David will continue to drive forward work on our strategy, [Time to Act, together](#), bringing a greater focus on the challenges the sector must meet, while at the same time transforming Ofwat’s ways of working.

During the year we said goodbye to three of our Non-Executive Directors: Tim Waggott, Christine Farnish and Martin Lawrence. I thank them for their outstanding contribution over their terms of appointment. We welcomed Nicola Bruce, David Jones, Seema Kennedy and Jonathan Kini. I’m delighted that our new Board members bring a broad diversity of expertise and experience that will help us to strengthen our relationships, particularly through our newly established Wales Office, and see us through PR24 and beyond the pandemic. I feel confident Ofwat is in good shape to continue to drive value for customers, the environment and society in a sector that continues to offer an attractive proposition for long term investors.



**Jonson Cox**  
Chair

## Interim Chief Executive's report



Covid-19 has reshaped our lives in ways that few of us could have imagined. It has had a tragic impact for many, including those of us working at Ofwat, with the loss of family members, friends and a much-loved Ofwat colleague.

Alongside the profound impact of the pandemic, there has been a fresh reminder of the importance of water. Research conducted jointly by Ofwat and Water UK highlighted some of the ways in which the pandemic has affected the water sector; including higher demand for water and greater need for support for customers in vulnerable circumstances, as well as opportunities for greater efficiency. Throughout the pandemic, water companies have worked tirelessly to ensure safe and resilient supplies, adapting almost overnight to shifting patterns of water usage and increased demands for water from homeworkers, for handwashing and for hygiene.

As the economic regulator for the water and wastewater sector in England and Wales, we are here to enable and drive value creation for customers and the environment and to make sure that customers get their fair share of this value. We do this by working together with companies to tackle the long-term challenges we all face; by driving improvements in company performance and, where markets are established, by doing what we can to improve their effectiveness.

Over the past year we have welcomed companies' public interest commitments and work, including the proposed transition to net zero, commitments related to storm overflows and action on leakage. Our growing partnership working with the Consumer Council for Water (CCW) is contributing to greater insight into the needs of customers, particularly those who are vulnerable or struggling to pay.

Although the sector has made improvements, we recognise that in some areas, such as storm overflows, water efficiency and sewer flooding, performance is not where it should be and more needs to be done to drive progress across all companies. To help facilitate this change, we have joined the national effort to address some of the key environmental challenges, such as protecting our precious chalk streams. We will continue to play our part to ensure that companies protect, restore and enhance our environment.

As we look beyond the pandemic, we will continue our work to drive performance improvements for customers, better environmental outcomes and innovation. I am delighted in the sector response to contribute towards a green recovery with an £850

million investment programme for improving the environment, alongside its enthusiasm to take part in the Innovation Fund competitions.

Following the publication of our final determinations for PR19, four companies referred their price and service package to the CMA, while the other 13 companies pressed ahead with the challenges we set. The redetermination process was demanding for all involved and our thanks go to the CMA for their careful consideration of our decisions. We were pleased that the final outcome, issued in March 2021, endorsed our ambition for the sector and our approach in many areas, whilst we acknowledge they reached different conclusions on some issues. We will carefully consider the CMA's findings and wider learning from PR19 as we develop our approach to future price reviews.

We have used the full range of our regulatory tools this year, from building on PR19 to begin to design the next price review; using our comparative reports on service, financial resilience and board leadership to shine a light on examples of good and poor performance; and using our enforcement tools strategically where companies' performance is not of the standard customers should expect. We will build on our successes, particularly the substantial growth in the market for new appointments which has more than doubled this year. Companies and their investors can expect to see a continued focus on how we can best optimise the tools at our disposal to achieve improved outcomes for customers.

We were pleased to open our office in Wales during the year, following the recruitment of a new Head of Wales. We look forward to deepening our connection with the wider stakeholder community in Wales and with the Welsh Government and considering how we can better reflect the policy perspective of the Welsh Government in our work.

I took over as Interim Chief Executive in March 2021. I look forward to leading the delivery of our strategy, [Time to Act, together](#), and to position Ofwat and the sector for the future and the challenges it will bring. I am pleased to be able to build on the work begun under Rachel Fletcher's leadership and look forward to leading the organisation forward over the months ahead and to seeing the sector step up to meet customers' needs and deliver vital improvements for the environment.

Finally, my thanks go to all of Ofwat's people, who have demonstrated resilience, good humour and care for each other and our team spirit has continued to thrive. We have worked hard to ensure we are effectively supporting our people and I welcome the results of our Civil Service people survey which show an increase in our overall employee engagement to 72%. Our results place us in the Civil Service high performing employer group. I am very pleased to have achieved this, and so much for customers, society and the environment over the last year in such challenging circumstances and I look forward to us continuing this work in the year ahead.

A handwritten signature in black ink, appearing to read 'D Black', written on a light-colored background.

**David Black**  
**Interim Chief Executive**

## Performance summary

As the regulator for the water and wastewater sector 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.

Our performance and impact are measured by how well companies deliver positive outcomes for customers, the environment and their local communities for both current and future generations, and by the success of these markets. In this report, we consider company performance during 2020-21, reflecting information published during the financial year or provided to us, including through our ongoing working relationship with companies. We also consider the most recent data submitted through company annual reporting which covers the period 2019-20, enabling us to provide information on trends for the previous price control period through to March 2020.

Although we have yet to see complete information on the immediate impact of Covid-19 during the last financial year, overall, companies have worked to ensure that customers reliably continued to receive safe water and wastewater services throughout the course of the pandemic. Companies also took action and put in place support measures for both household and business customers in response to the economic impact of Covid-19. We remained alert to areas of underperformance and recognise that despite this background, companies must go further to drive improvements across the services they provide, including to protect and enhance our environment.

During the pandemic, in addition to ensuring that companies delivered the services on which customers rely, we reinforced the principle that companies' ambitions for customer service and performance should not be diminished for the full price review period 2020-25. We will have a more comprehensive view on the overall performance of the sector during Covid-19 when companies publish their performance reports in summer 2021.

While our most recent company data (collected for the period 2019-20) precedes the pandemic, it informs us how companies met their commitments and delivered the outcomes set out in the last price review in 2014. Our role is to enable companies to deliver efficiently and effectively through our five-yearly price reviews and markets while incentivising them to go further and deliver more for customers and the environment. We monitor progress throughout the period to test whether our objectives from the last review are being met and to inform future policy work, including the next price review.

Where companies fall short, we respond using a range of regulatory tools, both within and outside of our price review mechanisms. Data from 2019-20 and areas of

underperformance have also laid the foundations for the development of additional areas of policy during 2020-21, which we have detailed in this report.

As a whole the 2019-20 data reveals some areas of good progress. A steady reduction in the average customer bill in real terms since 2015, alongside a significant increase in the number of customers supported by social tariffs and other ‘help to pay’ schemes, show clear signs of how the sector has improved its support for customers, particularly those in vulnerable circumstances. There have also been significant improvements in some service levels such as supply interruptions, which are at their lowest since 2016-17, and data shows that the sector has made good progress in improving its performance on leakage.

However, there are areas where performance has lagged such as on internal sewer flooding incidents. Pollution incidents increased by 19% in 2019-20 compared to 2018-19, although the current level is roughly half that in 2012-13. Also, despite some companies delivering a reduction in water consumption since 2012-13, overall the sector's performance in 2019-20 (before the impact of the pandemic) deteriorated by 2%. This performance is disappointing. If we are to build a sustainable, resilient future, the sector must take rapid action to address these issues.

Overall, performance for 2019-20 shows all companies demonstrating some aspects of good performance in at least one area. However, some companies fall short of our expectations.

In the following pages, we provide more detail on the sector's performance for customers in 2019-20 against our four customer outcomes:

- Great customer service;
- Value for money;
- Companies being resilient in the round; and
- Companies and investors being committed for the long term.

These outcomes are also used to illustrate performance against the UK and Welsh Governments’ priorities and objectives for Ofwat.

We have measured companies' performance against the service levels set for the 2015 to 2020 period, using a range of data submitted to and collected by Ofwat, as well as data from other agencies.

We then report on our own performance in 2020-21 in driving improvements for customers, society and the environment against our goals from our strategy [Time to act, together](#):

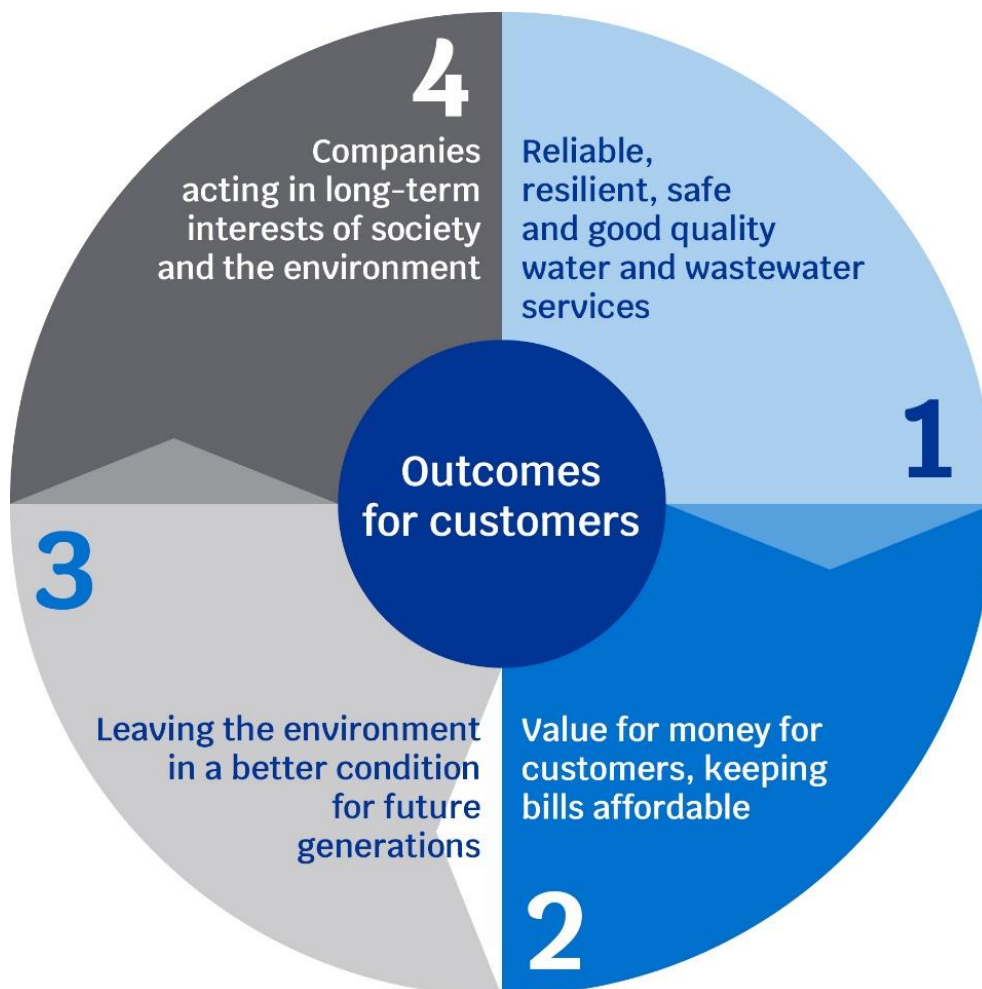
- To transform company performance;
- To drive companies to address the long-term challenges of climate change, population growth and changing customer expectations; and
- For water companies to provide greater value for customers, society and the environment.

Despite the challenges of the pandemic, in 2020-21 we have continued to drive companies to deliver positive outcomes while responding to areas of poor performance. Overall, we have seen progress in markets in the sector, such as growth in the new appointment and variations (NAV) market, where new entrants provide a water and/or wastewater service to customers in an area which was previously served by the incumbent provider. We have also continued to work to achieve our strategic vision for the sector, particularly through the launch of the first multi-million pound Innovation Fund, funded directly by water companies, and our collaborative work with industry stakeholders and UK and Welsh Governments. We are also delighted to have established a permanent presence in Wales for the first time.



## Outcomes for customers: industry performance

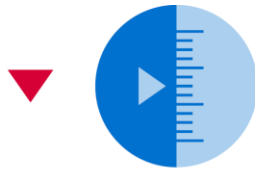
In this section we report on the industry’s performance against the four customer needs identified in our [forward programme 2020-21](#). We capture data on the water sector’s performance for customers in 2019-20, covering both monopoly and competitive elements of the market. Where appropriate, we consider this in the context of emerging trends over our five year PR14 price control period (2015-20), and in some cases over a longer period.



## Outcome 1: customers receive a great service



▲ Slight year-on-year increase in household customer satisfaction with water (91%) and wastewater services (86%), although still down from 2014 high



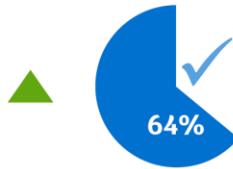
▼ Shadow year (2019-20) results of our new customer measure of experience (C-MeX), introduced at PR19, declined against the metrics. C-MeX/D-MeX reset the baseline for future years



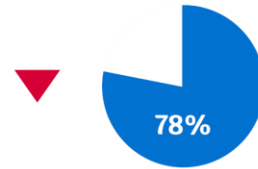
▲ Slight year-on-year increase in trust in water companies to highest point since 2015. Trust in water companies remains higher than trust in energy



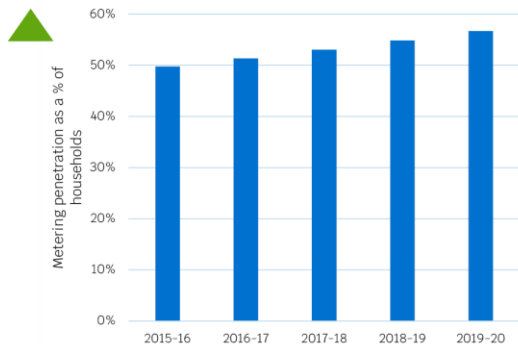
Reduction in total supply interruption minutes since 2012-13, with average falling year on year to 11 minutes and 45 seconds per household



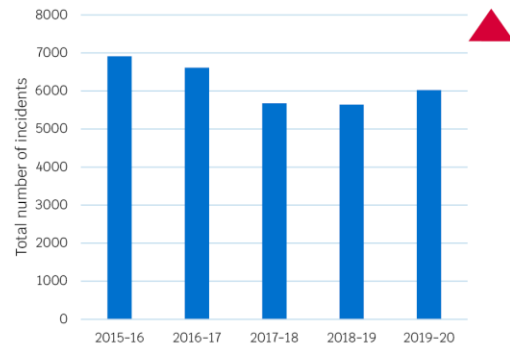
Performance commitments met in 2019-20, a small improvement from previous year but lower than first three years of PR14 period (2015-20)



Satisfaction of non-household customers in business retail market, reduced from 80%\*



Increase in number of households in England and Wales with a water meter, up from 50% in 2015-16

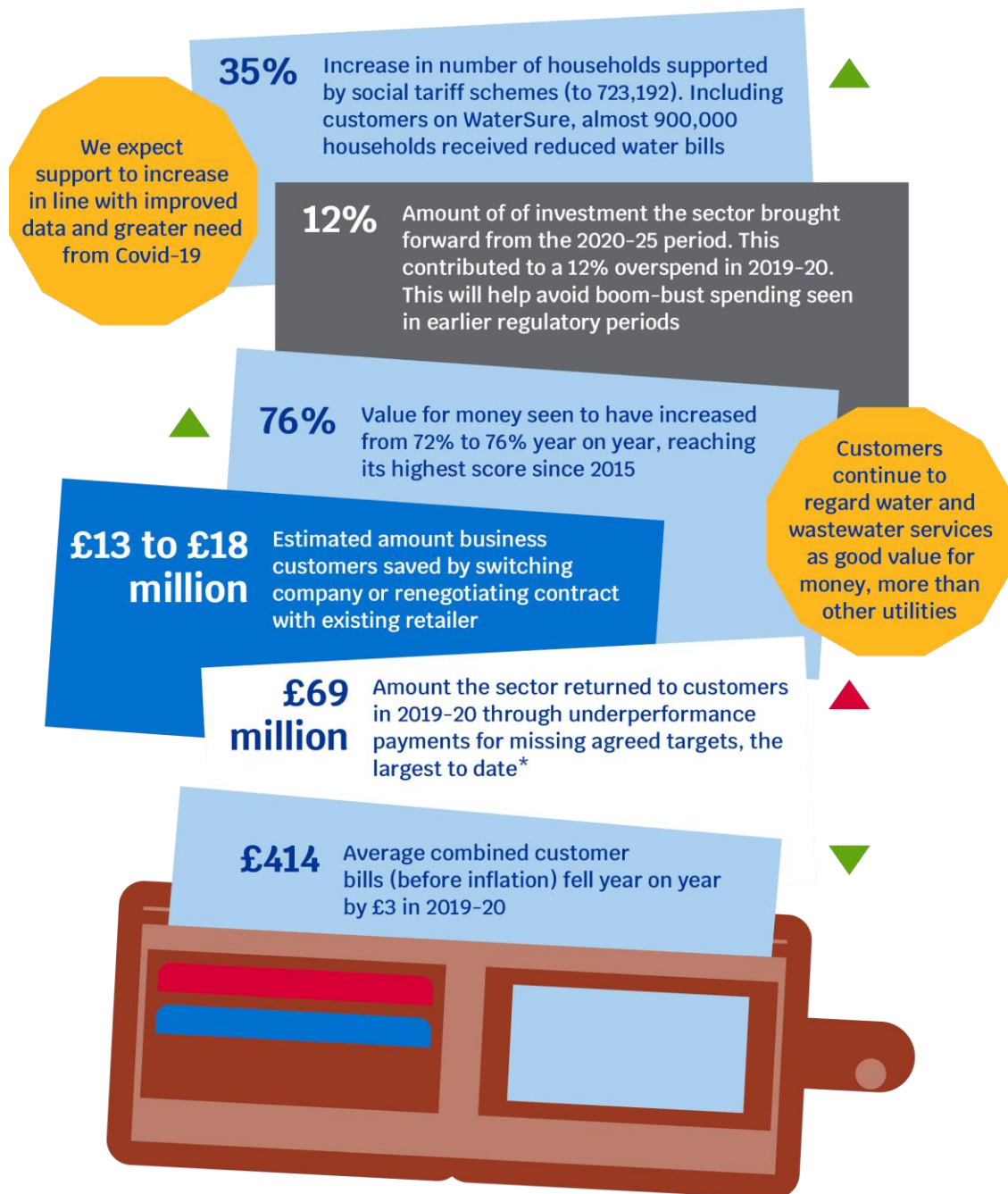


More incidents of internal sewer flooding in 2019-20 (6,025) than in 2018-19 (5,645), reversing progress made on reducing sewer flooding last year

\* Complaints to CCW reduced from 3,975 in 2018-19 to 3,208 in 2019-20. Complaints to Ofwat reduced from 482 in 2018-19 to 388 in 2019-20.

Sources: Ofwat analysis, CCW Water Matters report August 2020 and Ofwat analysis of annual performance data.

## Outcome 2: Value for money and keeping bills affordable



\* £69 million includes the large underperformance payment incurred by Thames Water for non-delivery of its Counters Creek strategic storm relief sewer. Excluding this, the sector has incurred net financial penalties under the performance commitment and outcome delivery incentive framework of £63 million.

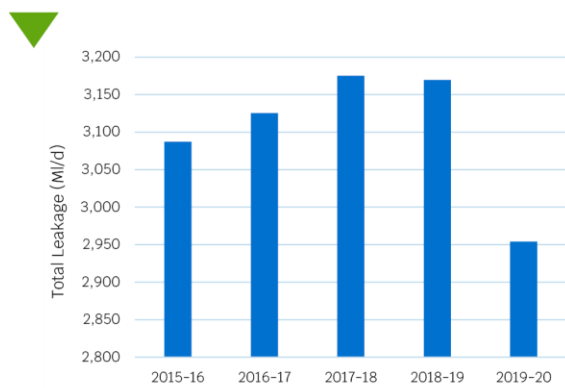
Sources: Ofwat analysis, CCW Water Matters report August 2020, CCW Water for All report 2019-20 and Ofwat State of the market report 2019-20.

## Outcome 3: Leaving the environment in a better condition for future generations

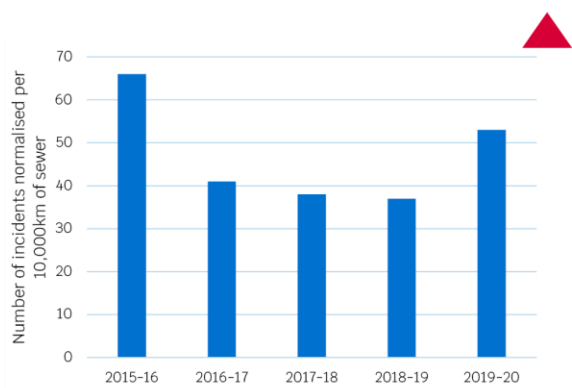


**Increase in percentage of sludge treated by anaerobic digestion (68% in 2017-18). This renewable energy boosts the transition to net zero carbon emissions and lower customer bills**

**Increase in sector's per capita consumption. Just six companies have reduced per capita consumption since 2012-13. The pandemic has affected how much, and how, we use water. Using water efficiently is more important than ever**



**Reduction in leakage (216 MI/d) in 2019-20, suggesting our PR19 challenge to reduce leakage is already delivering results for customers and the environment**



**Increase in pollution incidents in 2019-20 compared to 2018-19. The sector had decreased pollution incidents by 41% since 2012, but in 2019-20 this decrease almost halved to 21%. We expect rapid action in this area**

\* Common reporting guidelines for per capita consumption came into effect for PR19, which means there are variations in the data recording methodology across companies for the prior period. Therefore, we have not shown company specific comparisons.

Sources: Discover Water, Ofwat Service delivery report 2019-20.

## Outcome 4: Companies acting in the long-term interests of customers and the environment



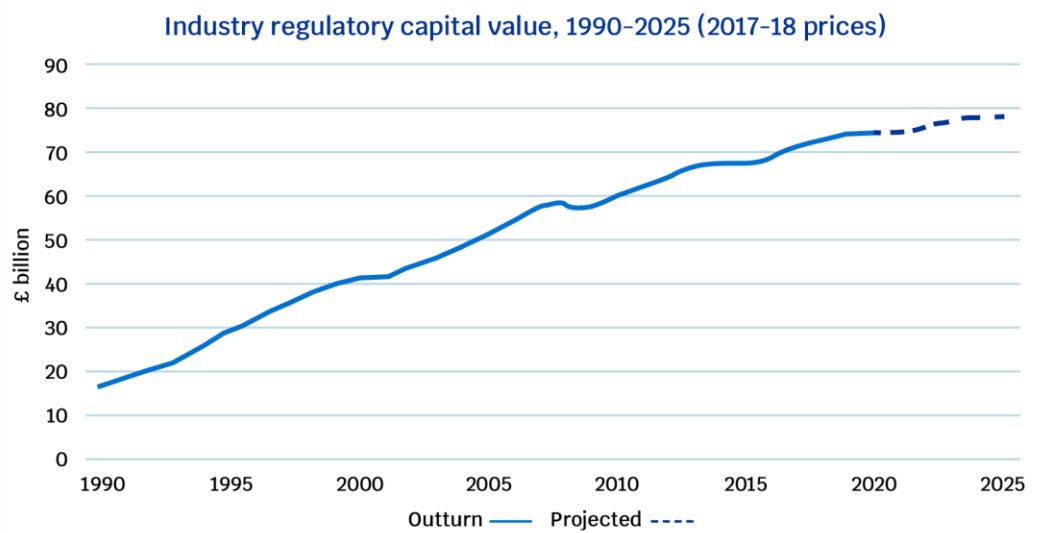
2019-20 was the last year of the PR14 determination period. In total over the five year period, companies incurred total expenditure of £51.0 billion against our allowance of £50.5 billion in maintaining and improving services for customers



Our PR19 determinations provided for £51 billion of expenditure in 2020-25. Companies will report progress achieved in the first year of the PR19 determination period in their annual performance reports, published in July this year



A number of companies committed to improve financial resilience over 2020-25 as part of their PR19 submissions, by reducing gearing or restricting dividends. We continue to monitor the companies' financial position and engage with them where we have concerns



Net investment in the sector continues to grow. Water companies continue to raise long-term finance at attractive rates and water company equity remains attractive to investors

Source: Ofwat analysis

## Performance against UK and Welsh governments’ strategic priorities

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

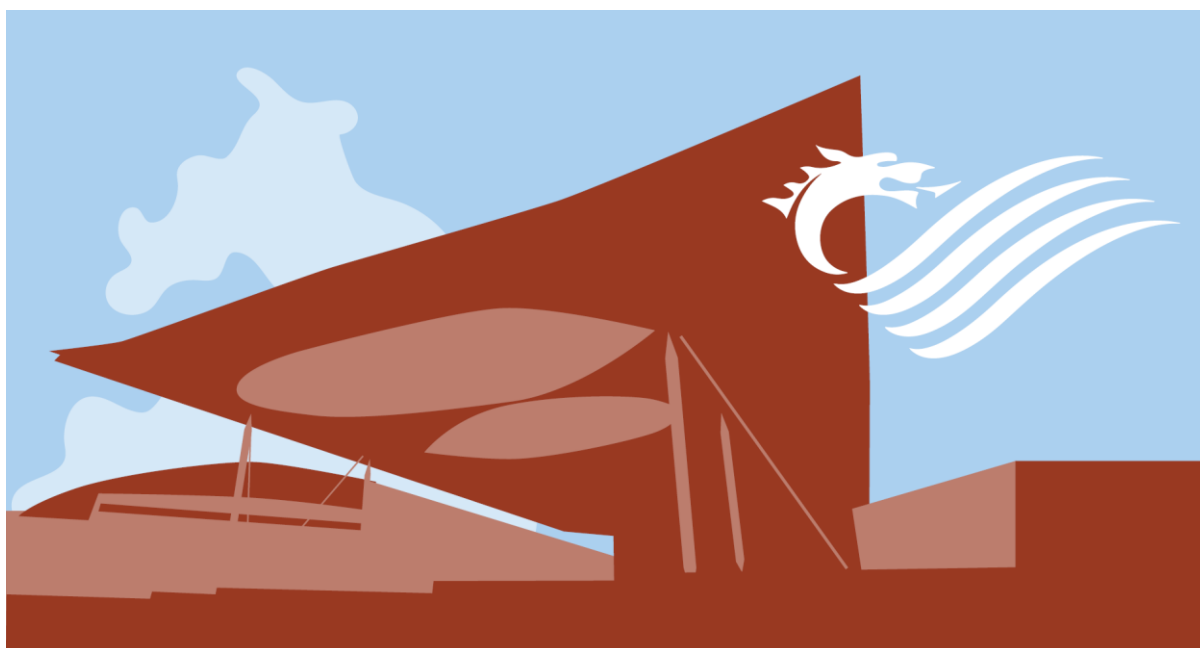
We are required to report annually on our compliance with these objectives and priorities. The diagrams below illustrate how the governments’ objectives and priorities align with our strategic goals and customer outcomes and the following section sets out the work we undertook during 2020-21 to reflect these outcomes and goals. The table below shows how our customer outcomes, and the work we have done to achieve them, align with the UK and Welsh strategic priorities and objectives.

### Alignment of our strategic goals and customer outcomes to the strategic priority statements





Welsh SPS objectives	Our customer outcomes	Defra SPS objectives
Strong customer focus	Reliable, resilient, safe and good quality water and wastewater services	Protecting customers Making markets work
Affordability	Value for money for customers, keeping bills affordable	
Innovation	Leaving the environment in a better condition for future generations	Securing long-term resilience
Markets and competition where appropriate		
Resilience	Companies acting in the long-term interests of society and the environment	
Sustainable management of natural resources		
Long-term affordability and resilience		



To better support delivery of the Welsh Government's strategic priorities, we have strengthened Ofwat's presence in Wales this year by establishing a Wales Office for the first time. We appointed [our new Head of Wales](#) in September 2020 to develop stakeholder relationships, boost our engagement in Welsh policy development and support our consideration of where we may need to refine or adapt our regulatory approach to align with Welsh legislation and policies. We were also pleased to welcome

David Jones to our Board in December 2020. He brings additional expertise and experience from a Welsh perspective to the Board.

Since opening the Wales Office in September, we have:

- Established the Wales Strategic Regulatory Quad to bring together senior representatives of Welsh Government, Natural Resources Wales (NRW), Ofwat and the Drinking Water Inspectorate (DWI) for the first time, to develop a clearer shared agenda for water policy;
- Facilitated the development of a shared vision for the sector in Wales through explorative workshops with the Welsh government, regulators and companies in Wales to inform our regulatory approach going forwards; and
- Consulted on a range of issues including Developer Services Charging in Wales as well as customer engagement for our 2024 price review (PR24) which notes the potential for differences in approach on this issue as between England and Wales.



## Performance analysis

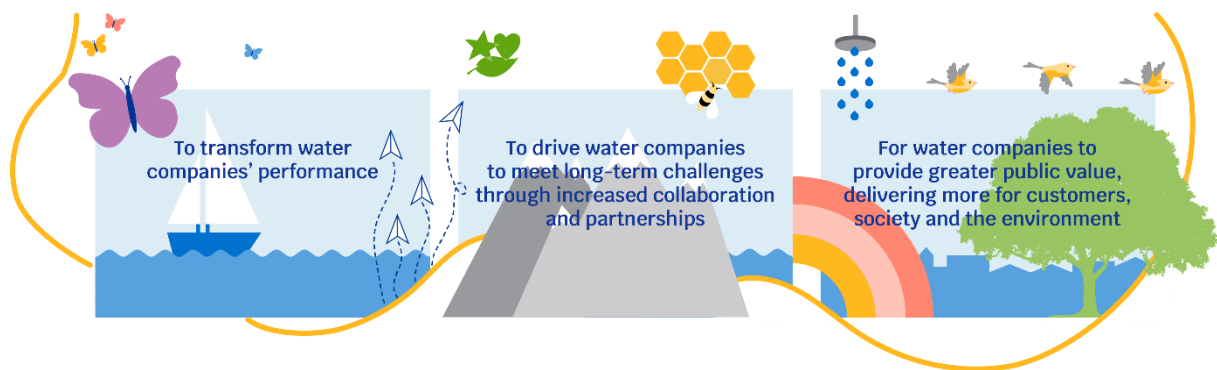
### Our 2020-21 performance – Improving life through water

Water companies support all aspects of life. It is vital that they deliver safe, reliable and sustainable water and wastewater services, while keeping bills affordable and providing the best possible service for customers.

The sector is facing significant challenges and needs to take action to ensure that it can deliver essential services to customers while sustaining long-term progress.

Our strategy [Time to act, together](#), sets out how we will support the sector through three strategic goals to ensure that it can improve life through water.

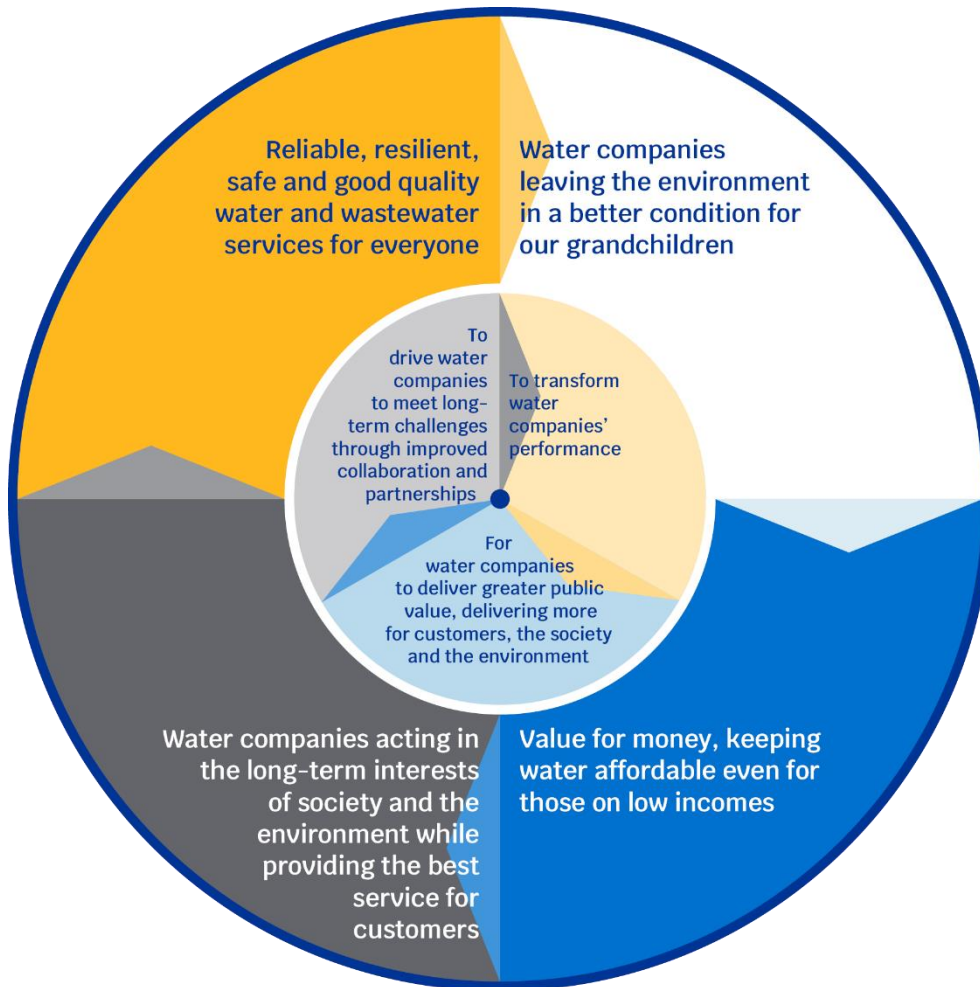
#### Our three strategic goals



In this section, we report on the work we have done throughout 2020-21 against our three strategic goals, which are also consistent with the requirements of the UK and Welsh Governments' strategic priorities statements. More information on how we will do this next year can be found in Ofwat's [forward programme 2021-22](#).

The majority of our work during 2020-21 spanned all three strategic goals. The work we have highlighted under each goal progresses our overall ambition of improving life through water.

## Our customer outcomes and strategic goals



## Goal 1: To transform water companies' performance

### PR24 launch: Delivering for current and future customers

PR19 made a significant step towards improving the outcomes delivered by the water sector and many of the performance commitments and outcome delivery incentives we incorporated into PR19 were designed to reinforce and address the detailed company performance outcomes we expect to see. We will be reporting against these in the years ahead.

But we know there is more to do if the sector is to meet the profound challenges ahead, including addressing long-term environmental issues, the impact of the Covid-19 pandemic, and changes in customer behaviour and expectations. Our approach, and the tools and regulatory levers we use, must evolve too, including our approach to future price reviews. We are considering how we can use this core price review mechanism at PR24 and beyond to equip the sector to adapt and transform its performance to meet expectations both now and in the long-term.

On 9 December 2020, we published three key documents, which launched the beginning of our PR24 process, in order to look beyond the current five year price control period:

- [PR19 lessons learnt document](#)
- [Future challenges and opportunities for the water sector](#)
- [Reflecting customer preferences in future price reviews](#)

#### PR19 lessons learnt

Our PR19 lessons learnt document built on the engagement we had with stakeholders about our price review process since the final determinations in December 2019. The lessons learnt exercise found that PR19 was challenging, promoted improved service and efficiency, and saw a step change in the level of customer engagement. A number of stakeholders made recommendations for improvements to the process and reflected on key issues that they considered needed to have more focus in PR24.

We are committed to continually improving as a regulator and this feedback will help us to develop our future approach, alongside evidence of company performance and the impact of Covid-19, in the coming years.

## **Future challenges and opportunities: Future Ideas Lab**

To promote effective discussion and debate around our thoughts and future regulation we established the [Future Ideas Lab](#). This gives the water sector and wider stakeholders a space to share ideas on how the design of future price reviews could enable companies to achieve more and better align the interests of customers and investors. By working collaboratively with our stakeholders, we aim to support the sector in maximising opportunities through innovation and, where appropriate, markets to deliver better environmental improvements, customer service and public value.

### **Reflecting customer preferences in future price reviews**

Our [discussion paper](#) reflected on the customer engagement approach in PR14 and PR19, and set out our initial thinking and expectations on how we could best reflect customer preferences in PR24 and beyond.

We published our initial consultation on PR24 and beyond in May 2021. This suggests specific goals for the price review, and the principles we could adopt in our approach to designing it. It discusses the high-level ideas for maximising the potential of this key regulatory tool, including beyond 2024, so that the water sector can create greater value for customers and communities.

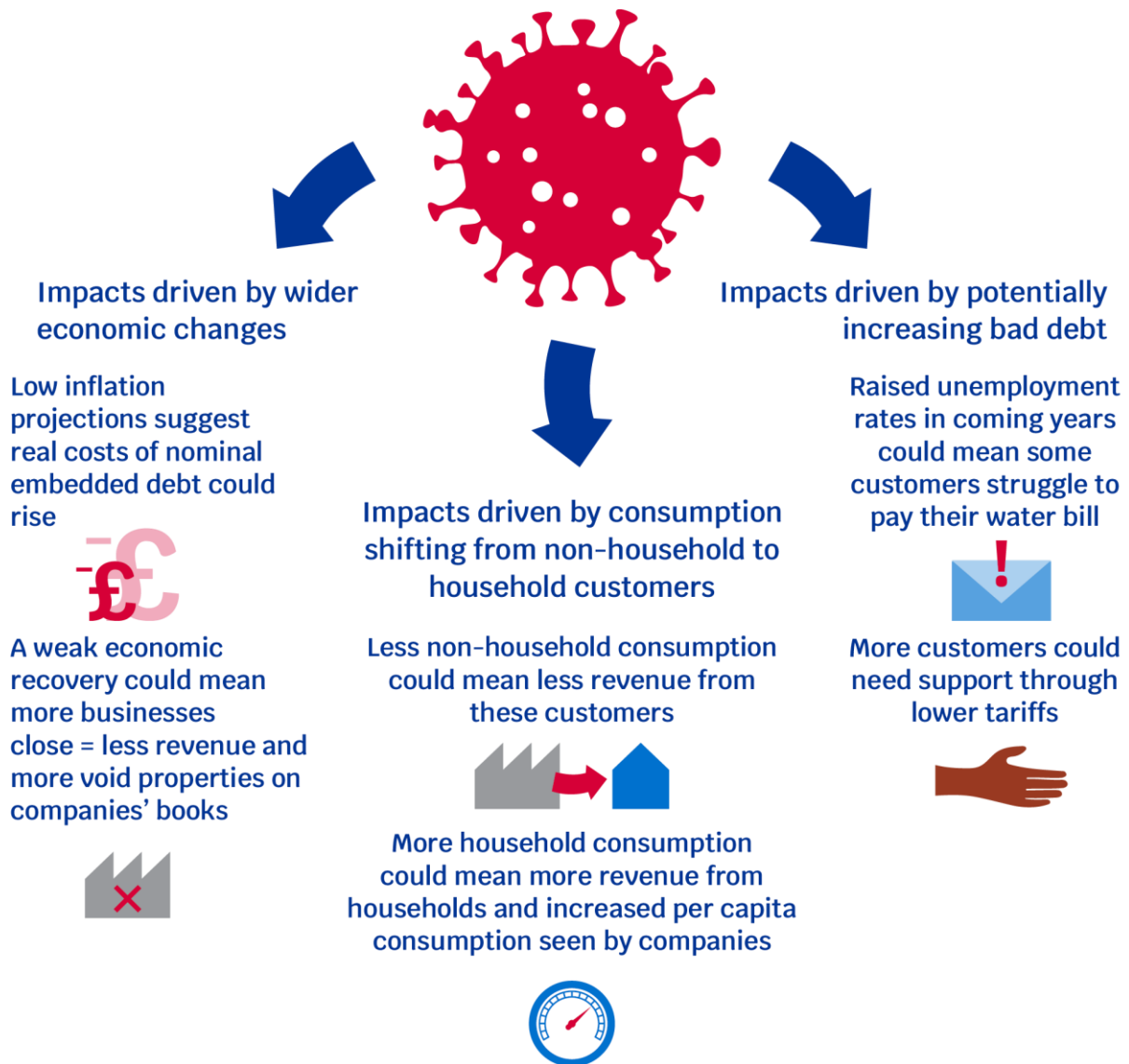
## **CMA redeterminations**

In March, the CMA published their final determinations following requests for redetermination of their 2019 price reviews from four water companies (Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water). We are grateful to the CMA for its engagement and the considerable analysis it conducted over the 12 month period.

As part of its redeterminations, the CMA reached different conclusions from Ofwat on certain issues, such as allowed returns to investors, and taking account of new information such as the 2019/20 cost data. Overall, we are pleased that the CMA supported the ambition we have for the industry and that its decisions require the four companies to make a step change in productivity and performance. We were also pleased that the CMA supported the principle that returns to investors must be linked to performance. We will continue to reflect on the CMA's findings and take account of its approach in our development of PR24.

## Supporting companies to deliver for customers during Covid-19

### Potential impacts of Covid-19 on the water sector



Source: Atkins and Frontier Economics Economic impacts of Covid-19 on the water sector report, December 2020

The pandemic placed unprecedented challenges on the UK economy and society. Water companies, as providers of essential services, have had a key role to play in supporting the diverse needs of their customers and communities.

To enable and support this we wrote to each water and wastewater company in [July 2020](#) reiterating our message from [March 2020](#) that our regulation would not act as a barrier to prioritising the needs of customers, particularly those in vulnerable circumstances and those struggling to pay bills as a result of Covid-19. We were pleased

to see companies respond positively, and we expect to see more customers added to their priority services registers and more support provided to customers.

We also worked with companies to understand the potential impact of Covid-19 on their operations. In December 2020, we published [Economic impacts of Covid-19 on the water sector](#): a jointly commissioned piece of research with Water UK to better understand the potential impacts of Covid-19 on the sector.

The report identified areas of potential impact on companies as well as opportunities for future efficiency resulting from companies adapting their ways of working and their technologies. The areas identified with the greatest potential for impacts were the:

- financing costs for companies if inflation deviated significantly from what we assumed for PR19;
- changing consumption patterns, in particular driven by customers shifting demand to households as a result of working from home; and
- potential bad debt costs and an increase in customers accessing social tariffs.

There were also opportunities to improve performance through:

- virtual home visits to support vulnerable customers;
- digital meter readings; and
- accelerating the use of lower cost digital channels for some customer interactions.

We continue to draw on this work as we keep the effect of Covid-19 on company operations under review. While some adjustments may need to be made to the way in which our performance commitment on per capita consumption operates, we expect companies to continue to deliver high levels of service to customers, recognising that companies benefit from a number of protections within the regulatory framework not available to companies in other sectors of the economy. Any other adjustments that may be appropriate as a result of Covid-19 will be assessed in the round.

## **Protecting business customers during Covid-19**

During the pandemic we worked closely with the [market operator \(MOSL\)](#), CCW and the wider sector to make several interventions to protect business customers from the impacts of Covid-19, including from the risk of systemic retailer failure, while ensuring access to reliable water and retail services.

We acted quickly to make [proposals to address liquidity challenges and increases in bad debt](#). These included:

- Strengthening the protections for business customers, via changes to the Customer Protection Code of Practice (CPCoP) in April and June 2020, to ensure that business customers affected by Covid-19 were provided with additional support where appropriate. These changes restricted retailers' ability to pursue debts and other enforcement activities and placed a requirement on retailers to offer business customers affected by Covid-19 with a repayment plan tailored to the needs of the individual customer. In December 2020 we made further changes to the CPCoP which placed more responsibility on retailers in terms of promoting and signing up customers to Covid-19 repayment schemes where appropriate. In March 2021 we extended these requirements until 30 June 2021.
- Our commitment to revise regulatory protections if customer bad debt costs for retailers exceeded levels that an efficient retailer could reasonably have expected or planned for (2% of non-household revenue). As the year progressed it became clear that this was likely to be necessary and in March 2021 we published our [Business retail market: customer bad debt consultation](#) with specific proposals to amend the Retail Exit Code to provide suitable protection to business retailers.
- The measures we put in place to support the provision of liquidity to protect business customers against systemic retailer failure due to the infancy of the market. This created more time for retailers to establish enduring forms of financial support and meant they could defer up to 40% of primary charges due to wholesalers between March and October 2020. There are no balances outstanding at the year end.
- The introduction of a temporary vacancy flag between March and August 2020 which allowed retailers to exempt customers from fixed and, in some cases, volumetric charges if their business was completely shut or activities at the premises had fallen by at least 95% due to Covid-19 restrictions.
- The temporary suspension of the invoicing and payment of market performance charges as they could be materially affected by business closures and social distancing measures. This temporary suspension of market performance charges was further extended in July 2020 and again in November 2020. Performance charges were reintroduced for wholesalers from 1 January 2021, and for retailers from 1 April 2021.

We also took the opportunity to tackle some long-standing issues in the business retail market, such as to strengthen our interim supply process which protects customers in the event of retailer failure.

## A RISE for markets

We published the results from our review of incumbent company support for effective markets ('Project RISE')<sup>1</sup>, alongside open letters to each company, in August 2020.

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<sup>1</sup> Project RISE covered companies operating wholly or mainly in England only.



Overall we found that there is room for incumbent companies to play a more active role in supporting the business retail and developer services markets. The headline findings were:

- There are real differences between companies and within companies in their approach to supporting markets, with some companies performing much better than others.
- Collaboration can support markets and so benefit customers, and there are many ways collaboration can take place without creating competition law risk. We continue to encourage companies to explore this further in order to enable them to be more responsive to the needs and specific circumstances of individual market participants.
- Too few companies embrace the markets they participate in and the role they can play in helping them address the strategic issues they are facing. Companies need greater commitment at senior or board level to support these markets and to do so in a way that goes beyond mere compliance.

The [final report](#) sets out next steps. We also plan to use the information gathered during this project to explore ways of making incumbent company support for markets more visible to all stakeholders going forward.

## Success in the new appointments and variations market

The new appointments and variations (NAV) framework enables new entrants ('new appointees') to compete to replace an existing company as the provider of water and/or sewerage services for a specific geographic area, often new housing developments. The NAV market has seen rapid growth in recent years, with 162 applications received by us in 2020-21. The number of sites served by new entrants approached 250 by the end of 2020-21, more than double the previous year.

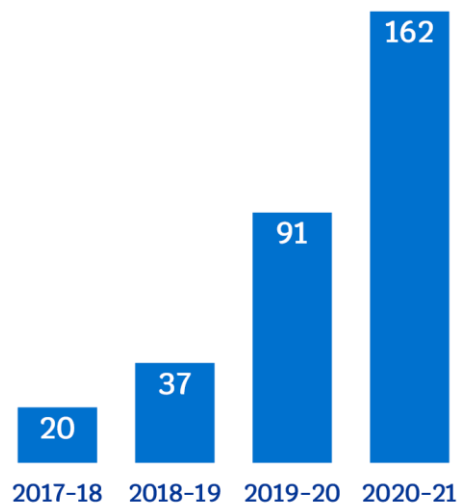
To secure the future success of this market, ensuring it brings the biggest benefits to customers while improving its effectiveness, over the course of 2020-21 we have:

- Worked with the sector to review how incumbent companies enable an effective NAV market, identifying good practice and areas to improve;
- Worked with new appointees and incumbent companies on the bulk charges to be paid by new entrants to incumbents for bulk supplies of water and/or discharges of sewerage;
- Consulted on [our future monitoring and reporting approach](#) for new entrants, including on their performance and resilience; and
- Worked to examine and remove potential barriers and burdens where appropriate.



We will progress these areas of work and continue to examine ways to improve the operation of the new appointments and variations market where this can bring the biggest benefits to customers.

### Number of NAV applications received



Source: Ofwat analysis

### Future homes

During 2020-21 Ofwat has been an active member of the Future Homes Taskforce, led by the Home Builders Federation at the request of government. The taskforce is focused on the delivery of environmentally sustainable new homes and our contribution has particularly focused on establishing strong commitments to homes with high water efficiency and sustainable drainage. We have ensured expert input by collaborating with Water UK and others in the sector.

### Partnership working with CCW

Over this year, we have worked in partnership with CCW to help generate better outcomes for customers. Examples of our collaborative work include:

- a [joint report](#) examining water companies' handling of customer complaints and what steps can be taken to improve their service;
- our [joint statement](#) setting out our expectations of retailers in their approach to ensuring business customers are treated fairly; and
- our contribution to CCW's review of the affordability support available to customers in England and Wales.

The joint report with CCW on complaints handling, published in November 2020, made five recommendations on how water companies respond to customer complaints, to:

- raise their ambition on response times on written complaints;
- improve their understanding of complainant satisfaction;
- share good practice;
- make better use of data; and
- improve their understanding of the experiences of people raising complaints who are in vulnerable circumstances.

We will continue to work with CCW to ensure that companies improve their performance in dealing with complaints over the coming year in light of the action plans they submitted to us to address these issues.

Our work with CCW will continue as we consider the policy implications of our consultation on customer preferences for PR24 and beyond. We are also developing our customer insight function and have been exploring areas for jointly funded research in 2021-22.

## **New customer and developer measures of experience**

As we continue to navigate the social and economic impacts of Covid-19 we remain in regular contact with companies to ensure that customers' interests are at the heart of their business and that they continue to deliver sustainable and reliable services. One of the ways we do this is through our customer measure of experience (C-MeX) and our developer measure of experience (D-MeX), which [launched in April 2020](#) after a successful year of shadow running.

C-MeX and D-MeX measure the quality of services delivered to household customers and developers respectively which incentivises companies to improve the overall experience customers have when dealing with their water company. Throughout the year we have undertaken two consultations to update the metrics used within D-MeX to align them with the latest Water UK metrics developed as part of the Code for Adoption Agreements. We sought to ensure the metrics continue to be in customer interests, support consistent and fair comparisons between companies and align with our wider duties.

We have been monitoring companies' performance in line with the methodology set out in our PR19 final determinations and will publish our first C-MeX and D-MeX league tables in September 2021.

## PR19 ambitions on water efficiency and leakage

Water efficiency and leakage reduction are central for resilient water supplies in the long term to combat the impacts of climate change and to protect and improve the environment and the transition to net zero.

While being mindful of the challenges posed by Covid-19, such as increased handwashing, we have continued to work with the sector and other stakeholders to enable companies to achieve these commitments. For example we have continued our work with the Environment Agency (EA) in driving efficiency in the business retail market: water use in that market accounts for a third of all water delivered to customers in England. We wrote [a joint letter with the EA](#) to the sector setting out our support for the Retailer-Wholesaler Group's action plan on water efficiency and meeting national needs over the long-term.

PR19 final determinations will continue to incentivise companies to promote water efficiency and drive down consumption. To varying degrees, measures introduced to combat Covid-19 have shifted consumption from non-households to households. To retain the strongest incentives for companies to deliver on their original targets, we are considering adapting our PR19 incentive mechanism to allow companies and Ofwat to more accurately understand the impact of Covid-19 on consumption and customer behaviour and what this might mean for managing water supply and demand in the longer term.

At the same time we have signalled that we want the sector to learn the lessons of the pandemic and the actions taken to manage demand during the period. We want companies to take this into account in considering new and effective ways to make a sustained effort to reduce consumption and change behaviour.

## Collaborative work to tackle the harm from storm overflows

As a core member of the Defra-led Storm Overflows Taskforce, we have worked to eliminate the harm from storm overflows at a national level. The taskforce brought together government, regulators, industry and environmental groups for this common purpose. It has already led to proposals for new additional investment and an acceleration in the near-term of company monitoring activities, alongside significant PR19 investment in improvements to infrastructure condition and capacity. Increased monitoring has been an important first step in addressing the harm from overflows. It will improve our understanding of discharge events and trigger investigations and improvements when overflows operate too frequently. Understanding the costs, benefits and feasibility of different options to decrease the frequency and harm of storm overflow discharges remains a priority.

We have continued to support substantial investment for the largest infrastructure project delivered in the water sector since privatisation, the Thames Tideway Tunnel project. With raw sewage the most significant source of pollution in the River Thames, the Thames Tideway Tunnel will improve river quality by considerably reducing storm overflow discharges in London. Progress on delivery continues to be impacted by the pandemic, but at the year end all construction sites, and the project as a whole, were reporting good progress. The full impact of Covid-19 is not yet known but we have been advised that it has resulted in some cost increases and delays in key milestones, such as the start of tunnel commissioning and potentially, ultimately, handover to Thames Water. We will hold both companies to account for taking steps to keep on track as far as possible.

## Goal 2: To drive water companies to meet long-term challenges

### Holistic, national approach to future water needs

In 2019, alongside the EA and DWI, we set up the Regulators' Alliance for Progressing Infrastructure Development (RAPID). During 2020-21 RAPID worked to remove regulatory barriers to help the sector respond to long-term challenges. Examples include:

- RAPID's work with partner regulators to assess the progress made on the strategic water resource solutions to address the water resource deficit in Hampshire;
- ongoing work to develop strategic resources via gated processes;
- acting as an enabler to ensure the effective implementation of the EA's Water Resources National Framework, including co-ordinating the collaborative work of the five regional water resources groups;
- RAPID's focus on the national picture by identifying, tracking and mitigating risks associated with the development of regional plans, while challenging groups to innovate and explore opportunities to deliver wider benefits; and
- the support of long-term decision making through two projects: the development of a national simulation model for water resources; and a simpler England and Wales supply-demand model.

### Direct procurement for customers and strategic infrastructure projects

Direct procurement for customers (DPC) enables third parties to participate in the sector by competing to deliver infrastructure projects. The approach requires water and sewerage companies to competitively tender for third parties to design, build, finance, operate and maintain large-scale infrastructure assets where this offers value for money for customers.

DPC is a key part of our strategy to ensure customers continue to receive safe and reliable services in the future at a fair price. To make this happen, during 2020-21 we have:

- carried out a further in-depth engagement and consultation on licence changes essential to enable the delivery of DPC schemes and have amended the licences of four English and one Welsh company; and
- considered and approved the first three strategic outline business cases allowing the sponsoring companies to move towards procurement of the schemes.

Procurement, which is expected to exceed £1 billion in new investment, is anticipated to commence in 2021-22.

Outside of the DPC process, we have continued to support other mechanisms to meet the need for delivering water on a long-term sustainable basis. As part of PR19, we developed a bespoke regulatory framework for the Havant Thicket reservoir which will enable Portsmouth Water, which has good access to water, to sell water to Southern Water, which is water stressed. In March 2021, we published our [final guidance to facilitate the development, construction and operation of the Havant Thicket reservoir](#) which provides more information on how we will treat the project in our future price controls. The parties successfully concluded the negotiation of the bulk supply agreement in February 2021.

## **Investment in environment, growth and resilience allowed under PR19 and green recovery funding**

PR19 laid the foundations for substantial environmental improvements. Water companies will be delivering more green solutions over the coming years and we have continued to adapt, support and facilitate additional opportunities to improve the environment. For example, over this year we have:

- Collaborated with Defra, the EA, CCW and DWI to send a joint letter to water companies in July 2020 inviting them to play their part in the country's green economic recovery. We wrote a follow up letter in November 2020 to set out how each regulator would assess companies' green recovery proposals. We worked collaboratively with other industry regulators in assessing these and published our draft decisions on the proposals on 17 May 2021. We intend to publish our final decisions in July 2021.
- Scrutinised proposals to ensure that Thames Water's north east London resilience programme improves the water network in London through clear, efficient and measurable plans which include funding from Thames Water's investors.
- Published our [Asset management maturity assessment](#) questionnaire in March 2021 which aims to build on existing frameworks to ensure that companies have the tools to address resilience needs including the impact of climate change and that assets are being managed appropriately for the long-term.

## **Water industry national environment programme and nature-based solutions**

PR19 included £4.8 billion to deliver the ambitious National Environment Programme (NEP) for Wales and the Water Industry National Environment Programme (WINEP) for England.

These programmes will help tackle some of the biggest challenges facing the water environment. Throughout 2020-21 we contributed to these vital programmes in a number of ways, for example:

- We are a core member of the WINEP improvement taskforce which focuses on improvements to the WINEP so that it is more outcomes-driven, adopts a more catchment-oriented approach, accommodating more nature-based solutions, and allows those involved to co-design, co-deliver and co-fund the most appropriate and effective solutions.
- Alongside Defra, the EA, DWI and Natural England, we have also set up a nature-based solutions regulatory group which is tasked with looking at any regulatory barriers that may stand in the way of greater adoption of nature-based solutions.
- In our engagement with stakeholders on the design of the next price review, PR24, we are also asking for views on how we can encourage companies to collaborate and work in partnership with others to better achieve positive outcomes for customers and the environment.

## Moving towards net zero

Our commitment to meeting the challenges of climate change is made clear in our strategy, [Time to act, together](#), which highlights that we want to strengthen the sector's approach to climate change mitigation and adaptation.

Achieving net zero is a collective effort, with late 2020 marking the launch of the industry's 2030 net zero routemap. Throughout 2020-21, our focus has been on laying the foundations so that we can play our part to encourage progress, as well as provide scrutiny and challenge. For example we:

- Continued our work to understand the industry's commitment to and performance on net zero by introducing greenhouse gas (GHG) reporting requirements which will allow us to better support, scrutinise and challenge companies on their plans to achieve net zero;
- Ensured that net zero is an important driver in the [Innovation fund competition](#) and started to consider our approach to PR24;
- Worked closely with the UK Regulators Network (UKRN) climate working group, helping to shape their multi-year work plan in relation to net zero to facilitate cross-sectoral learning and innovation.

## Multi-agency approach to preserving chalk streams

Chalk streams are rare globally, with the majority found in southern England. Our PR19 final determinations will help to relieve pressures on some local chalk streams, and as

part of a wider national effort to restore, protect and enhance chalk streams in England, we are core members of the [Catchment Based Approach \(CaBA\) Chalk Streams working group](#). As part of this group, we are working to support the restoration and management of chalk streams in England.

Over the course of 2020-21, the group has explored opportunities for funding to deliver improvements to chalk streams and their catchments. It has also supported partnership in chalk stream catchments by helping build capacity, expertise and more effective engagement with key stakeholders on chalk stream water management issues. The group is supporting the development of a chalk stream restoration strategy, which is planned to be published later in 2021.

## Launch of Innovation Fund

We encouraged collaboration and transformational innovation in water and wastewater services to benefit customers, wider society and the environment by launching the first of two innovation competitions – the [£2 million ‘Innovation in water challenge \(IWC\)’](#). Companies have collected from their customers a combined total of £200 million which will be used to facilitate and deliver innovation in the water sector through these competitions.

We received 61 entries to the IWC from partnerships between water companies, new appointees and organisations from within and beyond the water sector. To make this happen, during 2020-21 we:

- carried out a further in-depth engagement and consultation to develop the fund and competitions;
- announced final decisions on the design and implementation of the fund and competitions;
- Appointed Nesta Challenges, supported by Arup and Isle Utilities, as delivery partners to help administer, run and market the fund and competitions;
- appointed an expert panel of judges to recommend winning entries; and
- launched a competitions website as part of efforts to market the fund to the sector and beyond.

We announced the winners of the first round of the IWC and launched the £40 million Water Breakthrough Challenge for larger innovation projects in May 2021. The aim is to encourage innovation but also help the water sector to build the capacity and capabilities to keep on innovating in the long term. These competitions are complementary to our other tools – such as price reviews and markets – and the sector’s own work to develop their strategy for innovation to 2050.



## Goal 3: For water companies to provide greater public value, delivering more for customers, society and the environment

### Financial resilience and board leadership

Customers rightly expect companies to act ethically and in the interests of our planet and society. In December 2020 we published [our fifth Annual Monitoring Financial Resilience Report](#) which we used to push companies to focus more on the importance of transparency around dividend reporting and management of pension deficits. In particular we:

- Set out clear expectations that companies should explain how they take account of a number of factors when declaring any dividends, including the need to maintain financial resilience, the delivery of companies' obligations and commitments to customers and other stakeholders, and the company's future financing needs.
- Reminded companies of their responsibility to employees and former employees and the need to be transparent regarding their pension deficit liabilities and to manage them appropriately.

In line with our strategic goal to transform water companies' performance, we continue to engage with companies directly where we have concerns about their financial or operational performance or where we see indicators of a risk to financial resilience.

Alongside this, through our board, leadership, transparency and governance work we have also reinforced the special responsibilities attached to regulated water companies providing an essential public service. We used companies' annual reporting to assess how they are meeting the objectives of our board leadership, transparency and governance principles and [published a report on what we found](#). We found a lot of good examples of how companies are meeting the objectives of the principles and of how they are reporting on this. However, we also highlighted a number of areas where companies can improve.

In addition, we made changes to the licences of 16 out of 17 of the large monopoly water companies to better support financial resilience. These changes ensure that the licences of those companies contain consistent provisions which meet the industry leading standard for the regulatory ring-fence.

## Public value

With their clear geographical and environmental footprint, water companies are ideally placed to make material and positive contributions to society. The effects of Covid-19 on local communities has highlighted the need for businesses to have strong a public service ethos and to support this, we published [a discussion paper on public value in the water sector in December 2020](#). We set out our reflections on how we can enable cultures that support and embed public value within companies in order to drive outcomes which benefit society and the environment as part of our approach to PR24.

## #ListenCareShare consumer campaign

We started work on a new campaign called Listen Care Share, working with CCW and other key partners. The campaign will enable us to develop a better understanding of the needs and experiences of water consumers in the context of changing circumstances during the pandemic. It is focusing on three key areas:

- The challenges facing those people who are struggling to pay their bills or need extra support for any other reason;
- The impact of the pandemic on customers' mental wellbeing and what this might mean in the context of an essential service such as water;
- Understanding how the pandemic might be affecting some people's access to information, even more so information they trust.

Updates about the campaign will be published on our website and social media channels.

## New stakeholder strategy to engage and influence a broader range of stakeholders

We invest in developing our relationships with a range of stakeholders to support our work in holding companies to account and to deliver the ambitions in our strategy.

Although in 2020 we faced initial difficulties, we held a range of meetings, external sector events, site visits and roundtables via virtual platforms. Key examples include:

- Our 'Outside In' project which brings external voices and experiences into Ofwat via blogs and talks so we have a richer and wider view of new and important topics;
- In September and October 2020, we held a series of roundtables with the investor community. We also carried out our investor survey in November 2020 which considered what we did well and what we can improve on in terms of our investor engagement.

We will continue to build on our progress and engage beyond the sector with a broader range of stakeholders so we can enable companies to adapt, develop and deliver the services their customers want and deserve.

## Financial commentary

Our financial highlights are summarised below.

### Operating costs summary

#### Operating costs 2020-2021

	2020-21 £000			2019-20 £000
	Core Regulation	Thames Tideway Project	Total	Total
<b>Income</b>				
Licence fees received	29,266	400	29,666	34,101
Other income	105	-	105	112
Credit note issued at end of year	-	(27)	(27)	(1,332)
	<b>29,371</b>	<b>373</b>	<b>29,744</b>	<b>32,881</b>
<b>Expenditure</b>				
Administration costs	(29,027)	(373)	(29,400)	(32,471)
<b>Net operating surplus</b>	<b>344</b>	<b>-</b>	<b>344</b>	<b>410</b>

### 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 discussion and agreement with HM Treasury through the spending review process.

The core regulation operating budget estimated at the beginning of the year was £31.4m. However, we revised our budget down to £29.7m in recognition of our in year financial position and reduced spend on our payroll, running costs due to Covid-19 and anticipated financial risks which did not materialise during the year. At the end of the year we underspent by 1% against our revised budget.

The Board confirmed our core budget for 2021-22 at £31.8m.

## 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 budget for 2020-21 was estimated at £0.5m. We invoiced £0.4m 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 £0.03m of excess licence fees recovered to Tideway by credit note. The budget for 2021-22 has been confirmed as £0.5m.

## 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 2020-21 was agreed at £0.15m. We underspent against our capital budget by £0.03m, part of which we held as contingency.


Our core capital budget for 2021-22 has been confirmed as £0.6m. The capital programme for 2021-22 includes upgrading of IT equipment including a hardware refresh, for example of our Surface Pros.

## Covid-19 and EU Exit

During 2020-21 Ofwat adapted its ways of working and took the necessary steps to ensure that staff had the right equipment to work from home. Hand sanitiser stations and additional cleaning supplies were purchased during the year to ensure a safe and clean office environment. Additionally, the internal room booking system was enhanced for staff to book desks in the office. The total expenditure of these Covid-19 measures was around £80,000.

We saw substantially lower costs on travel and subsistence during the year as a direct impact of the Covid-19 pandemic and lower energy costs, totalling around £200,000.

There was no EU exit related expenditure during 2020-21.



**David Black**  
Accounting Officer

**25 June 2021**

## 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 213.4 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). The largest source of our emissions was our working from home model as a result of the pandemic, which accounts for 160.84 tonnes of CO<sub>2</sub>e (75% of the total). Electricity consumption is responsible for 44.54 tonnes of CO<sub>2</sub>e (21% of the total). We do not have any direct (Scope 1) emissions.

### Breakdown of annual greenhouse gas emissions by activity type for 2020-21

Type of emissions	Activity	Units	(tCO <sub>2</sub> e)	% of total
Indirect energy (Scope 2)	Purchased electricity (kWh)	191,051	44.54	21%
	Subtotal	191,051	44.54	21%
Other indirect emissions (Scope 3)	Business travel (miles)	8,954	0.76	0.4%
	Flights (miles)	-	-	0.0%
	Rail (passenger km)	7,225	0.27	0.1%
	Taxi (km)	-	0.02	0.0%
	Motor mileage (miles)	1,729	0.48	0.2%
	Car hire (miles)	-	-	0.0%
	Waste and water	4.35	0.10	0.04%
	Emissions from water consumption (m <sup>3</sup> )	3.75	0.00	0.002%
	Waste (tonnes)	0.60	0.09	0.04%
	Electricity T&D (kWh)*	191,051	6.68	3.1%
	WTT**	8,954	0.22	0.1%
	Home working model	-	160.84	75%
	Subtotal		168.60	79%
<b>Total emissions (tCO<sub>2</sub>e) 213.14</b>				

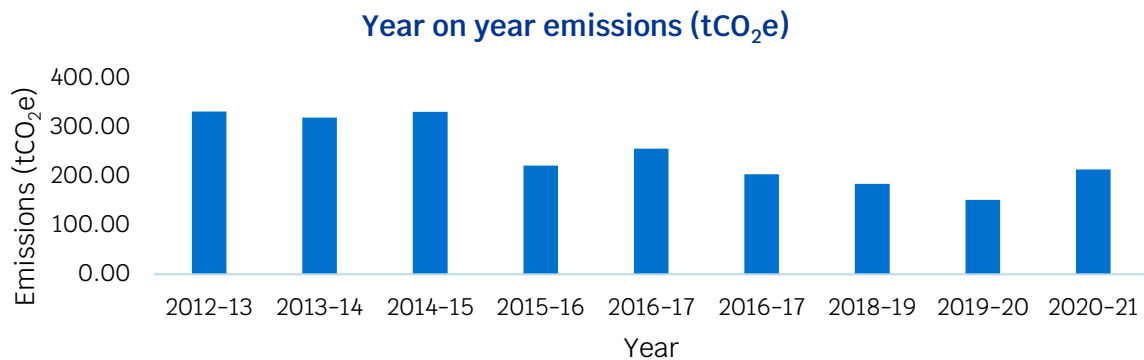
\*Transmission and distribution (T&D) are those emissions associated with grid losses (the energy loss that occurs in getting the electricity from power plant to the organisations that purchase it).

\*\* 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

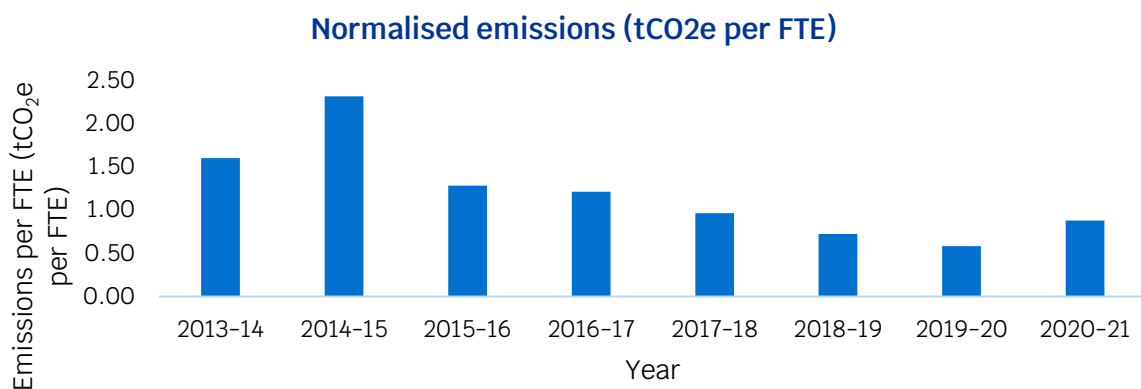
Our total carbon emissions have increased by 61.70 tonnes of CO<sub>2</sub>e (10%) compared to 2019-20. This is mainly due to the inclusion of the home working model. Ofwat’s overall emissions decreased in 2019-20 and the main reason for the increase this year is the inefficiency of multiple small home offices compared to Ofwat’s central offices.

### Ofwat’s greenhouse gas emissions



We have chosen staff numbers (FTE) against which to benchmark our emissions. Our FTE numbers have decreased from an annual average of 260 to 242 over the 2019-20 to 2020-21 period. While FTE numbers have decreased, normalised emissions (tonnes of CO<sub>2</sub>e per FTE) have increased by 51.2%, from 0.58 tCO<sub>2</sub>e to 0.88 tCO<sub>2</sub>e as seen 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	2020-21	
		(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)	(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	44.54	
	<b>Subtotal</b>	<b>207.83</b>	<b>187.64</b>	<b>201.00</b>	<b>127.12</b>	<b>125.14</b>	<b>104.28</b>	<b>92.93</b>	<b>81.45</b>	<b>44.54</b>	
Other indirect emissions (Scope 3)	Business travel (miles)	58.55	71.98	60.49	48.36	79.81	56.33	53.95	38.51	0.76	
	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	0.27	
	Taxi (km)	1.00	1.43	0.74	0.68	0.40	0.31	0.19	0.21	0.02	
	Motor mileage (miles)	3.17	4.66	4.23	4.99	5.58	3.92	1.91	0.29	0.48	
	Car hire (miles)	1.69	0.66	0.27	0.25	0.25	0.18	-	-	-	
	Waste and water	<b>5.36</b>	<b>3.67</b>	<b>7.96</b>	<b>5.21</b>	<b>5.98</b>	<b>4.05</b>	<b>3.78</b>	<b>4.01</b>	<b>0.10</b>	
	Emissions from water consumption (m <sup>3</sup> )	0.97	0.96	0.92	0.25	0.15	0.15	0.13	0.14	0.004	
	Waste (tonnes)	4.39	2.71	7.04	4.96	5.84	3.90	3.65	3.87	0.09	
	Electricity T&D (kWh)*	<b>32.12</b>	<b>28.81</b>	<b>32.92</b>	<b>20.82</b>	<b>20.49</b>	<b>27.93</b>	<b>22.88</b>	<b>19.24</b>	<b>6.68</b>	
	WTT**	<b>27.24</b>	<b>26.95</b>	<b>28.53</b>	<b>19.42</b>	<b>24.57</b>	<b>11.32</b>	<b>10.45</b>	<b>8.23</b>	<b>0.22</b>	
	Home working model										<b>160.84</b>
	<b>Subtotal</b>		<b>123.27</b>	<b>131.42</b>	<b>129.90</b>	<b>93.81</b>	<b>130.86</b>	<b>99.63</b>	<b>91.06</b>	<b>69.99</b>	<b>167.84</b>
<b>Total emissions (tCO<sub>2</sub>e)</b>		<b>331.11</b>	<b>319.06</b>	<b>330.89</b>	<b>220.93</b>	<b>256.00</b>	<b>203.91</b>	<b>183.98</b>	<b>151.44</b>	<b>213.14</b>	
Normalised emissions	Average FTE across reporting period		199.00	142.84	172.00	211.00	211.00	254.00	260.00	242.00	
	Normalised emissions (Tonnes of CO <sub>2</sub> e per FTE)		1.60	2.32	1.28	1.21	0.97	0.72	0.58	0.88	

\*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 3.75m<sup>3</sup> of water in our kitchen and toilet facilities, equivalent to 0.004 tonnes of CO<sub>2</sub>e in 2020-21. This is a 97% decrease from the previous year, mainly due to only 6 (monthly average) staff attending the Birmingham and London offices due to the Covid-19 pandemic. Water consumption at our London site was estimated based on consumption per FTE in the Birmingham office.

## Waste

All general waste is segregated for recycling or landfill disposal. Ofwat is unable to measure the latter as it is disposed of via a central collection point in a multi-tenanted building. We have assumed that 70% of total waste is recycled. 0.3 tonnes of waste was recycled in 2020-21, resulting in 0.01 tonnes of CO<sub>2</sub>e. Landfill waste has been estimated at 0.18 tonnes, resulting in 0.08 tonnes of CO<sub>2</sub>e. Waste figures at Ofwat's London site were estimated. The reduction in waste emissions is mainly due to the Covid-19 pandemic and an increase in home working.



Ofwat is committed to a net zero carbon footprint in line with Government net zero targets to gain a 78% reduction by 2035 and net zero by 2050. We are working with the support of Defra to assess the actions Ofwat can take to achieve this. This will cover our key office locations and our hybrid home working model.

## 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>2</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 may 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.

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. If so, we will decide what, if any, further action or investigation is needed. This can include us speaking to the relevant water company, internal and external subject matter experts and/or the worker referring the matter to us (if possible) to understand the issue further and to decide what, if any, steps we can take to resolve 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 2020-21 reporting year.

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<sup>2</sup> [The Public Interest Disclosure \(Prescribed Persons\) Order 2014](#)

The table below shows the number of qualifying disclosures made to Ofwat in 2020-21 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.

In relation to the matters listed below, having considered the position carefully, including the nature of the disclosure, our ability to find out more information and with input from internal experts, we concluded in three cases that it was not appropriate for us to pursue the matters with the companies concerned. We are seeking further information from the whistleblower in one case, and on receipt of that we will consider if it is appropriate for us to contact the company concerned to pursue further. In addition, we continue to investigate a whistleblower complaint received in March 2020. We continue to urge individuals who would like to come forward with a complaint to provide as much relevant information as possible.

### Whistleblowing 2020-21

Metric	Details of what is being measured	Total number
Whistleblowing	Number of qualifying disclosures of information made by water sector workers to Ofwat	4
	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).	4
	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

# Part 2

Our accountability report

## Corporate governance and accountability 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 David Black, 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 £43k (2019-20: £40k). There was no auditor remuneration (actual or notional) for non-audit work. As Accounting Officer, I have taken all steps necessary 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 service is provided by 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 2020-21 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 2020-21 that we considered sufficiently serious as to require the Information Commissioner to be informed, consistent with legislation and ICO guidance.

## Supplier payment performance

As at 31 March 2021 we are achieving an average of 81% against our target for paying 100% of agreed invoices within 30 days of receipt during the year. The corresponding full year figure for 2019-20 was 91%.

The Government set a target for paying 80% of agreed invoices within 5 days of receipt. In 2020-21, we are achieving an average of 8% against this target and in 2019-20 it was 10%. 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, achievement against targets fell at the start of the year as we transitioned to a new internal structure and as a result of the impact of Covid-19 and processing paperless invoices away from the office. During the year we have actively worked with suppliers and we are continuing to explore ways to improve our efficiency in this respect, alongside the preparation work for a new finance system which will lead to more efficiencies in our processes and the way we work more generally.

## Financial instruments

We do not have borrowings; we rely for our cash requirements primarily on licence fee income, claims on HM Treasury 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.



**David Black**  
Accounting Officer

**25 June 2021**

## 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 of its income and expenditure, Statement of Financial Position 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 is fair, balanced and understandable. The Accounting Officer takes personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed David Black, 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: summary

This Governance Statement sets out our governance, risk management and internal control arrangements. It applies to the financial year 1 April 2020 to 31 March 2021 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.

We are a non-Ministerial Government Department, and 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We manage the public funds we receive in line with HM Treasury guidance and as 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 is made to the Secretary of State, Department for Environment, Food and Rural Affairs, and to Welsh Ministers. Copies are laid before each House of Parliament and the Senedd.



## 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 2020-21; and
- the Accounting Officer's statement.

## 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 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. I took over as Interim Chief Executive at the end of the financial year. Taking account of my role within Ofwat prior to that date, I received a comprehensive handover from the outgoing Chief Executive on the controls and systems in place and as to the level of assurance she considered was in place during and at the end of the year. On the basis of this, and additional 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, People Leaders and project delivery managers regularly review progress against our plans. The Senior Leadership

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

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 our controls across our activity throughout the year, to provide assurance that those controls and the assurance we receive from them are effective throughout Ofwat. Our internal auditors, Mazars LLP, 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 risk registers in project teams, 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.

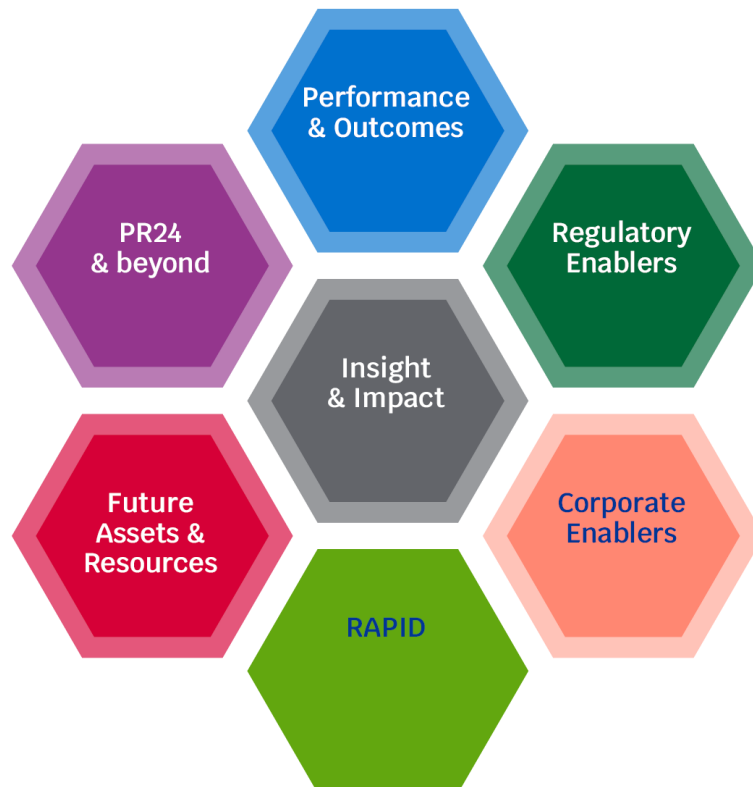
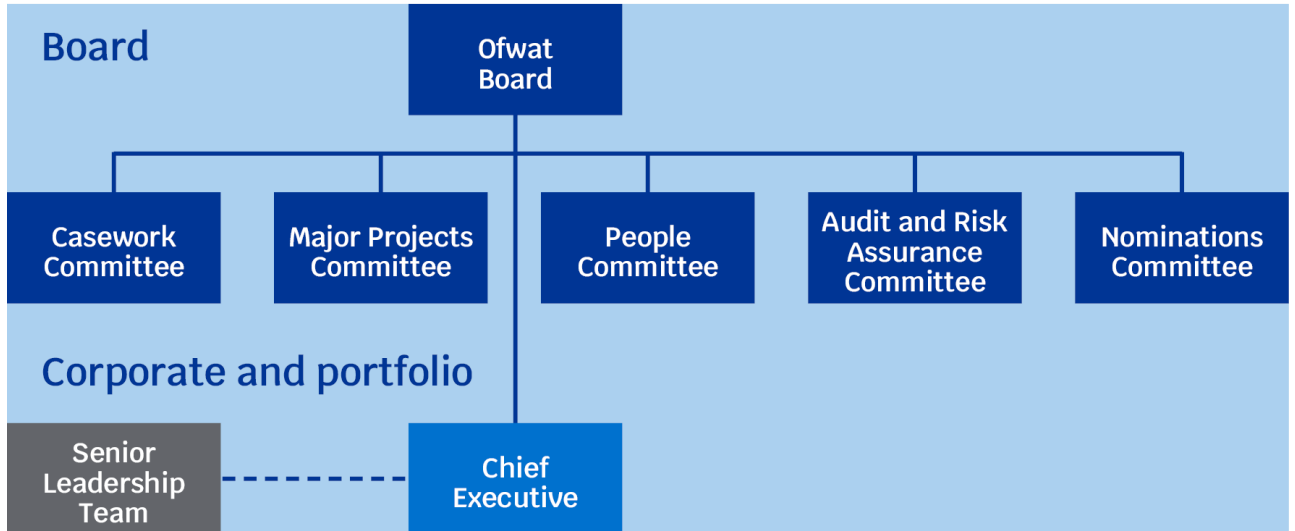
In addition, ARAC receives deep dive risk review presentations on key risk areas from the accountable team, covering strategic and project risks. The reviews by ARAC this year have focused in particular on effective risk management and assurance of the PR19 CMA redetermination process, the impact of Covid-19, including in terms of management of business continuity, our approach to the 'green recovery', and risk management in the context of the RAPID programme. ARAC also considered our evaluation strategy, budget management and the operation of our governance framework during the year.

Our resource requirements are assessed regularly in the context of our rolling operational plan and this year taking full account of the ongoing impacts of the Covid-19 pandemic. 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 budgets and progress against the milestones we have set. This is also reflected in the 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, ensuring our people's wellbeing during this year remained at the heart of our delivery.

## **Ofwat's governance framework during 2020-21**

At the start of the year, Ofwat moved away from a rigid programme structure to encourage a greater focus on outcomes, collaboration and agility across closely interconnected areas of work. The cluster structure is set out below. The teams within

clusters are supported by Project and Programme Management (PPM) partners to ensure management and delivery of the portfolio of work both within the Clusters and across Ofwat as a whole.



## 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 Directors, 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 Chair. In the course of 2020-21, the Board comprised between five and seven Non-Executive Directors (taking account of retirements and re-appointments during the year) in addition to the Chair and four Executive Directors, including the Chief Executive. We set out for the first time data on Board diversity reflecting Board composition at the end of the financial year. A key focus of the recruitment campaign for new Non-Executives was diversity in its broadest sense.

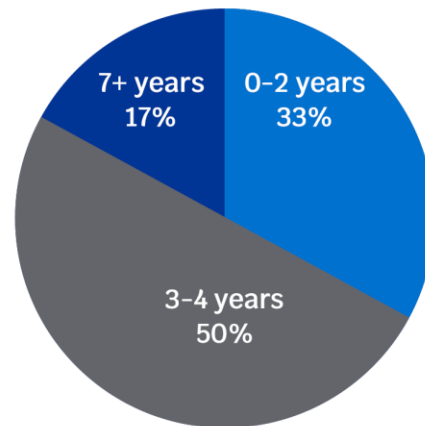
To strengthen the knowledge and skills mix of committee membership, we have an independent member on our Audit and Risk Assurance Committee.

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

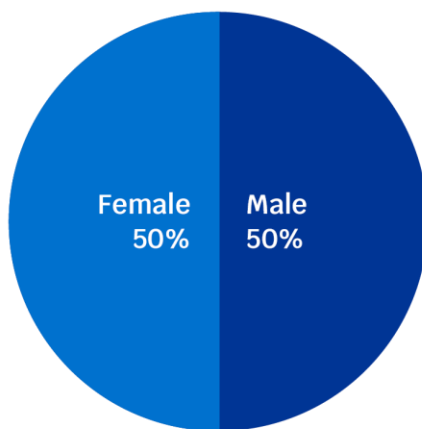
### Board composition



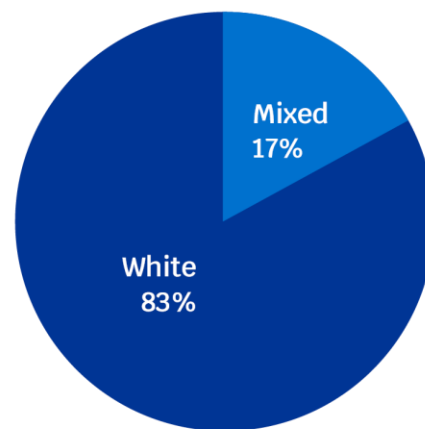
### Board length of service\*



### Board – gender breakdown



### Board – ethnicity breakdown



\* Graphs are a snapshot as at 31 March 2021. Catherine Waddams stepped down from the Board on 30 April 2021.

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 2020-21 the Board played a key role in overseeing the implementation of Ofwat's

strategy published in October 2019 and issues reserved to it, including matters that raised new major issues of principle or were considered particularly sensitive. The Board also played an important oversight role in relation to the management of the references to the Competition and Markets Authority of the 2019 price review final determinations for four water companies.

- **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 ensuring 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.
- **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. Some minor amendments were made to the Rules of Procedure and published in January 2021. This included the expansion of the role of the Thames Tideway Committee to cover other major projects, specifically Ofwat's oversight of sector Direct Procurement for Customers (DPC) projects.

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

The Board met formally 13 times in 2020-21. This slight increase from last year was in order to provide additional support to the team on handling the pandemic, and then to allow for shorter on-line meetings. The Board 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. In addition the Board met on occasion on an informal basis in between formal meetings in particular to monitor our response to the Covid-19 pandemic.

The Chair 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 Board member 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.

To maintain public trust in Ofwat, the Rules of Procedure also contain requirements in relation to appointments on leaving office to manage potential conflicts. All external appointments are subject to scrutiny in line with the business appointment rules. During the year, the advice of the Advisory Committee on Business Appointments (ACOBA) was sought in relation to Rachel Fletcher's new role and published in February 2021. ACOBA's advice provided to Seema Kennedy, as a former Government Minister, has also been published.

## Board committees

Work is delegated or assigned to five Board committees, where smaller groups of Non-Executives and members of the Senior Leadership Team can examine issues in more detail. Reports are provided to the Board for discussion and, where appropriate, for decisions to be made. Each committee is chaired by a Non-Executive Director. The Board's supporting committees are:

- Audit and Risk Assurance Committee
- People Committee
- Casework Committee
- Major Projects Committee<sup>4</sup>
- Nominations Committee

	Audit and Risk Assurance	People
<b>Roles and responsibilities</b>	The purpose of the Audit and Risk Assurance Committee (ARAC) is to support the Board and the Accounting Officer in their 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	The role of the People Committee is to oversee the implementation of the People Strategy and to specifically address pay and conditions of employment of Senior Civil Service (SCS) employees.

<sup>4</sup> Previously called the Thames Tideway Tunnel Committee

	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.	
<b>Chair</b>	<b>Alison Munro</b>	<b>Seema Kennedy<sup>5</sup></b>
<b>Issues covered</b>	<p>During the period of this report, the Committee met five times. In May 2020, the Committee submitted its recommendation to the Board to approve the annual accounts. Other matters discussed by the Committee in 2020-21 included:</p> <ul style="list-style-type: none"> <li>• regular deep dive reviews focusing on key strategic risks and cluster risks (including risk management relating to the CMA process; the longer term impacts of Covid-19; an integrated approach to green recovery);</li> <li>• deep dive review on budget management;</li> <li>• evaluation strategy;</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>• Business continuity planning and emergency planning – Covid-19;</li> <li>• Partnership working;</li> <li>• Health and Safety;</li> <li>• Contract management; and</li> </ul>	<p>Matters discussed during 2020-21 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 non-SCS staff and the SCS pay remit; and</li> <li>• the Senior Leadership Team draft objectives.</li> </ul>

<sup>5</sup> Seema Kennedy became Chair on 1 December 2020, taking over from Martin Lawrence who retired from the Board at the end of November 2020.



	<ul style="list-style-type: none"> <li>Information governance.</li> </ul> <p>Overall for the 2020-21 financial year, Mazars' internal audit opinion on the framework of governance, risk management and control is that it 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>	
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	Casework	Major Projects <sup>6</sup>	Nominations
<b>Roles and responsibilities</b>	The Casework Committee is responsible for making certain final decisions in strategic enforcement cases Ofwat pursues.	The purpose of the Committee is to make certain relevant decisions and to provide challenge, support and advice to the Executive with respect to the Thames Tideway Tunnel project and Direct Procurement for Customers projects.	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 members, 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>7, 8</sup></b>
<b>Issues covered</b>	During the period of this report, the Committee has not had reason to meet or to make any final decisions regarding enforcement activities.	<p>During the year the Committee met six times where they received updates on the Thames Tideway Project and DPC projects including HARP, Elsham and Cwm Taf.</p> <p>Decisions that were made included:</p> <ul style="list-style-type: none"> <li>Approval of a commercial settlement agreement between Tideway and one of its Main Works Contractors</li> <li>An agreement in principle on an increased customer sharing rate for Covid-19 related costs, subject to a licence change and its associated consultation.</li> </ul>	During 2020-21, the Committee met once in relation to the appointment of new Non-Executive Directors.

## Board members' terms of appointment and attendance

<sup>6</sup> Previously Thames Tideway Tunnel Committee

<sup>7</sup> Other than when dealing with matters relating to chairing the Board

<sup>8</sup> In relation to changes in roles in the Executive team and nominations to the Board during 2020-21 (including the appointment of David Black as Ofwat's Interim Chief Executive), the Chair consulted with the full Board in order to gather the widest range of views.

April 2020 to March 2021<sup>Ω</sup>

Board member		Board Meetings (13)	Audit and Risk Assurance Committee Meetings (5)	People Committee Meetings (5)	Casework Committee Meetings (0)	Nominations Committee Meetings (1)	Major Projects Committee Meetings (6)
Jonson Cox Chair		13/13	-	5/5	-	1/1	6/6
Term started 01/11/2012	Term ends 31/10/2021						
Martin Lawrence Non-Executive Director		8/8	-	3/3	0/0	-	-
Term started 01/05/2013	Term ended 30/11/2020 <sup>Y</sup>						
Catherine Waddams Non-Executive Director		13/13	-	-	0/0	-	-
Term started 01/05/2013	Term ended 30/04/2021						
Christine Farnish Non-Executive Director		8/8	2/3	-	-	-	4/4
Term started 01/01/2014	Term ended 30/11/2020 <sup>Y</sup>						
Mark Bayley Non-Executive Director		12/13	5/5	-	-	1/1	6/6
Term started 28/04/2016	Term ends 31/10/2021						
Alison Munro Non-Executive Director		13/13	5/5	-	-	1/1	-
Term started 28/04/2016	Term ends 31/10/2021						
Tim Waggott Non-Executive Director		1/1	-	-	-	-	-
Term started 28/04/2016	Term ended 27/04/2020						
Nicola Bruce Non-Executive Director		5/5	-	-	0/0	-	-
Term started 01/12/2020	Term ends 30/11/2025						
David Jones		5/5	2/2	-	0/0	-	-

<b>Non-Executive Director</b>							
Term started 01/12/2020	Term ends 30/11/2024						
<b>Seema Kennedy Non-Executive Director</b>							
Term started 01/12/2020	Term ends 30/11/2024	5/5	-	2/2	-	-	-
<b>Jonathan Kini Non-Executive Director</b>							
Term started 01/12/2020	Term ends 30/11/2023	5/5	-	2/2	-	-	2/2
<b>Rachel Fletcher Chief Executive</b>							
Term started 08/01/2018	Term ended 31/03/2021	13/13	5/5	4/5	0/0	1/1	6/6
<b>Aileen Armstrong Senior Director</b>							
Term started 16/05/2016	Term ends 14/05/2026	12/13	-	-	-	-	-
<b>John Russell Senior Director</b>							
Term started 25/07/2016	Term ends 23/07/2021	12/13	-	-	-	-	1/1
<b>David Black Chief Regulation Officer</b>							
Term started 29/05/2017	Term ends 27/05/2022	13/13	1/1	1/1	-	-	3/3

<b>Vanessa Howlison Independent Member<sup>β</sup></b>							
Term started 01/01/2015	Term ends 30/06/2022	1/1	5/5	-	-	-	-

Ω Attendance is noted by reference to the number of meetings Board members could have attended while members of the Board and Committees.

¥ The terms of office of both Martin Lawrence and Christine Farnish ended on 30 November 2020. They were invited to attend Board meetings as advisers to the Board until the end of the financial year.

β Vanessa Howlison attended part of the July Board meeting as an observer.

## 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 Chair. The Board takes the opportunity to meet more informally throughout the year to enhance its cohesion as a team.

Four Non-Executive Directors joined the Board on 1 December 2020 and three retired in the course of the year. In light of this, and the transition to a new interim Chief Executive, we concluded that it was not appropriate to conduct an internal review of board effectiveness at the end of the financial year as we have done in recent years. We intend to do so in Q2 or Q3 2021-22 to allow the new members time to become more embedded and to enable a more meaningful review. Nevertheless, the Chair has met regularly with the refreshed Board individually and as a group to gather feedback and observations.

To support the introduction of our new Non-Executive Directors to Ofwat, we refreshed our induction programme, ensuring it was up-to-date and relevant, focusing on key issues of strategy, policy and governance, and providing timely introductions to key areas of Ofwat activity. There are opportunities for additional training for our Non-Executive Directors, and tailored training for committee members if required. We have also encouraged 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 activity 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.

During the year, we established three smaller groups of SLT members to focus on three key areas:

- Business improvement and planning
- People
- Data & IT

## Ways of working to deliver our strategy

Our [Time to Act, together](#) strategy is bold, ambitious and progressive. During the last year we have developed and continued to implement three key enabling strategies – People, IT and Finance – to enable our internal transformation.

The new People Strategy launched in May 2020. The Strategy focuses on five key themes in order to achieve our vision to transform Ofwat from a great place to work to being a great place to be:

- Being Leaders: Leadership;
- Being our Best: Talent Management & Development;
- Being Well: Health & Wellbeing;
- Being Ourselves: Equality, Diversity & Inclusion;
- Great Work: Being Effective & Fulfilled.

We have continued to focus on leadership and the development of our leaders across Ofwat and better defining our professions and career pathways.

Equality, Diversity and Inclusion (EDI) is one of the themes in our People Strategy which will help to make Ofwat a Great Place to Be. Building on our previous activities, we have been working to become more inclusive and diverse, including more divergent thinking in decision-making and making sure that Ofwat reflects the communities we serve. We are particularly encouraged by the results of our 2020 People Survey in relation to the views of our people on questions regarding inclusion and fair treatment (see Appendix A9). This indicates that we are on a progressive trajectory towards achieving a more inclusive and fairer working environment for all of our people.

During the year, we have continued to prioritise the EDI agenda within Ofwat by delivering the following:

- **Developed an EDI strategy for Ofwat:** Our new EDI strategy, confirmed by the Board in April 2021, will enable us to deliver one of the commitments in our People Strategy by creating an environment in which we can all be our true selves at work, promote EDI within the context of our work and help to ensure that all our regulatory and other work reflects the communities we serve.
- **Gender Pay Gap:** We finalised and published our Gender Pay Gap report in June 2020 (see Appendix A8).

- **Created a new EDI steering group:** The group has 16 members from across Ofwat with a rotating chair;
- **Improved our EDI data:** We have changed how we categorise EDI data in line with best practice;
- **Established staff networks around protected characteristics (BAME+ and LGBTQ):** We developed guidance for anyone wanting to set up additional networks and connected with networks in the wider Civil Service and within other regulators;
- **Delivered Inertia to Inclusion training** for our people, including our Board;
- **Set up reverse mentors** for the Chair and Senior Leadership Team members;

For the second year running we've used the Civil Service People Survey to find out how people feel about working at Ofwat and to assess our progress. The survey is run by the Cabinet Office and enables us to benchmark our results with 105 other Civil Service organisations, including other economic regulators and Defra.

We have achieved a positive set of results and scores have improved in the majority of areas (7 out of the 9) and questions compared to 2019. The most notable improvements are in Leadership & Change, Organisational Objectives & Purpose, My Manager and My Work. Our overall employee engagement index figure rose by 6 percentage points to 72%. And 79% of people say they would recommend Ofwat as a great place to work. Our scores compare very well with the Civil Service group of high performing employers. Ofwat outperforms the Civil Service benchmark in 9 of the 10 key theme areas and is at or above the Civil Service high performer level in 7 out of 10 areas.

We have plans in place to address areas of improvement as identified in the survey, Pay & Benefits and Learning & Development, in particular through focusing on developing our future Pay and Reward Strategy and implementing our new Learning and Development model.

We have adapted successfully to remote working during the pandemic given our existing smarter working maturity and have used this as an opportunity to develop our virtual collaboration tools and technology. We have maintained a focus on communications, visible leadership and Health and Wellbeing.

In IT we have focused on our 4 themes – Resilient Infrastructure, Secure Ofwat, Anywhere Ofwat and Innovation and Insight. The IT roadmap has been implemented at pace, adapting to the need to further develop our remote working tools and maintain business continuity. We have migrated services to the cloud and provided support to the IT aspects of our data strategy to improve our efficiency, effectiveness and regulatory outcomes. We have further developed links with the Transforming Government Security Cluster for cyber security knowledge sharing.

We have trained people across Ofwat to be Perform Champions and continued to use this continuous improvement methodology to manage performance, enhance team working and solve problems. Our productivity techniques and support to remote working have been widely accessed – with people experimenting with new ways of running meetings, sharing Lean15 ideas and exploring digital tools in Tech Week.

## 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 risks within our projects are escalated from delivery directors to the SLT as appropriate.

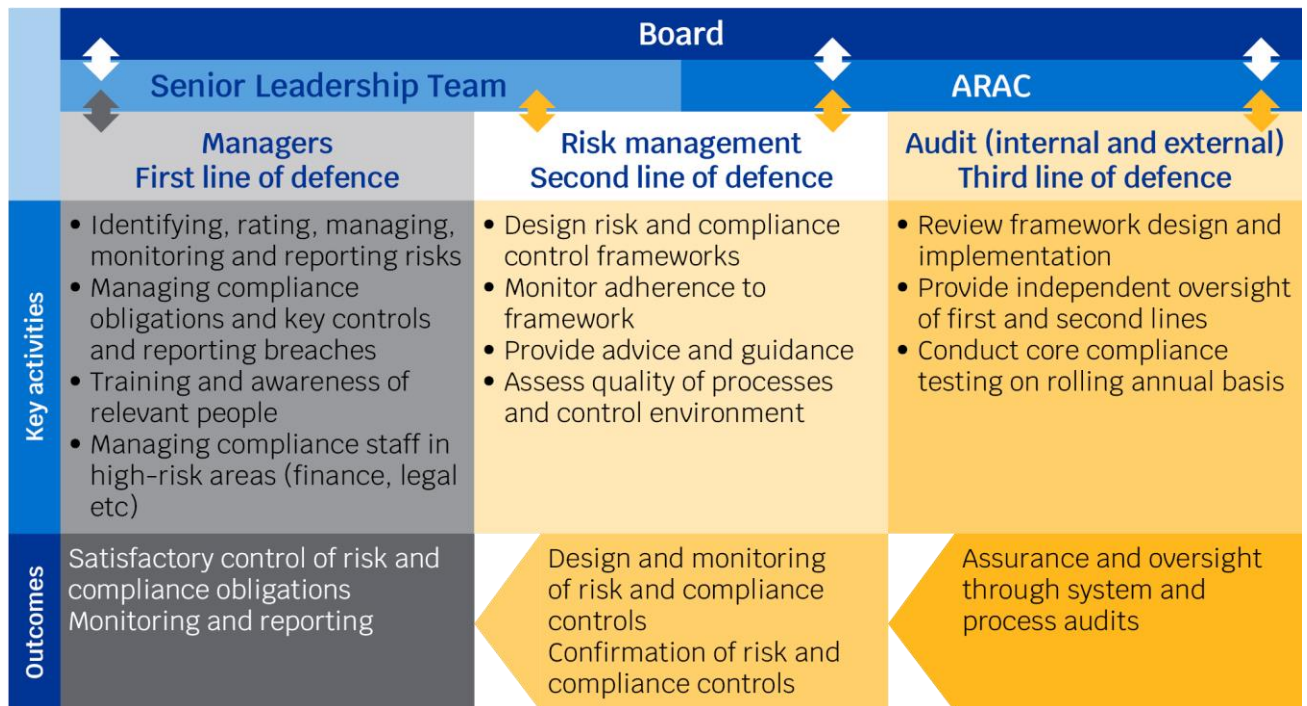
### Ofwat’s risk framework



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



Our risk framework is key to supporting the ambitions in our strategy, helping us to plan and prioritise, and strengthening our ability to be agile to emerging challenges. It is designed to meet the principles of the Orange Book. Having been audited in 2019-20 with substantial assurance, our approach this year has been to build on what we have in place, taking our approach to a greater level of maturity. The Audit and Risk Assurance Committee receives risk review presentations from the owners of particular strategic risks and opportunities and from Senior Directors on a regular basis. Risk and opportunity management is embedded into all of our Clusters and their component projects.

In terms of continuous improvement, our work on risks and assurance throughout the past year demonstrated that the scenarios we face are generally complicated and ambiguous, with no simple, definitive solutions, and the risk environment continues to evolve rapidly. Therefore we have sought to ensure that our risk management framework has developed to support whole system thinking and good risk-based decision making, encouraging constructive challenge, and promoting collaboration, innovation and agility. It also aims to enable different approaches within Ofwat commensurate with our risks, to ensure our governance arrangements are proportionate and flexible. We have explored further the key drivers of risks and trends, and we will consider further whether we can identify any tipping / inflexion points or early warning indicators. In our mitigations, we have prioritised those that we expect to have the greatest impact, and taking account of what we are able to control.



## 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.

The Board 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. Nevertheless, 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 appears 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 strategic risks are those that can obstruct our ability to achieve our strategic goals and ambitions to achieve great outcomes for present and future customers. Our success depends on focusing on activities that will make the greatest difference for customers and on managing their delivery 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:

Our regulatory approach	External relationships and other factors	The way we work
Whether our regulatory approach, framework and tools are effective, relevant and adaptive to long term challenges important to customers, society and the environment	Whether we are managing risks associated with our relationships and other external factors (e.g. weather, pandemics) successfully in terms of company performance and our ability to deliver	Whether we are the highly performing organisation we need to be to deliver our strategy, so that we can be an agent for change and a great place to be

We manage these risks in an integrated way across our portfolio as they are inter-dependent. The management of risks and issues arising from Covid-19 and from EU Exit were also integral to our approach to risk management throughout the year. We have drawn out key points in our description below and other activity to manage and mitigate risks are described in our Performance Report.

## 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 so that we may best prioritise the use of our resources. We look 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.

In general, we have been able to continue to drive forward our thinking on key policy areas in anticipation of the next price review cycle, although this was challenging in light of the extended CMA redeterminations process and Covid-19. Certain other areas of policy development had to be deprioritised, for example our wider policy development in the business retail market to deal with customer credit balances, and in the developer services market. We acknowledge that we did not have the capacity to consider company performance across the sector as deeply as we would have liked, focusing on the performance of only one or two companies. We intend to address both of these issues in the year ahead, assuming external constraints are eased. We note in the performance report how we have addressed, or currently expect to address, the potential impacts of Covid-19 in terms of our regulatory approach both in year and going forward.

The CMA completed its review of four companies' final price review determinations in March 2020. We have been pleased to see a number of companies respond to the incentives set by the 2019 price review to improve their performance and efficiency. We made a start on PR24 policy development by publishing an initial consultation on our approach to the PR24 price review, including on the question of customer engagement, and we intend to build on this in the next financial year in developing the framework for PR24.

The need for long-term resilience to protect customers and the environment was a core plank of our price review for the 2020-25 period, 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. We have continued this focus through several strands of our work this year, including to reduce

damage to chalkstreams and the damaging impact of storm overflows on the environment. We support, and are working to deliver, suitable company initiatives to promote a green recovery.

To further support and incentivise a focus on the long-term, our work in the context of the RAPID alliance with the EA and DWI has made substantial progress. Ofwat was able to make initial gate 1 decisions on the accelerated schemes for Southern Water in January 2021, and RAPID is working with all three partner regulators to address barriers in the regulatory mechanisms that might impede the development of strategic schemes.

We gathered and published comparative information on sector performance across our portfolio of work – for example, charging information and the annual State of the Market report on the business retail market. We have also monitored operational and financial delivery, publishing comparative information through the Service Delivery Report and Monitoring Financial Resilience Report. We have also tracked customer satisfaction through the use of our customer (C-MeX) and developer (D-MeX) measures of experience. The insights from this work inform our priorities and regulatory activities in the year ahead and as we assess the longer term.

## External factors

Ofwat needs to be adequately prepared to deal quickly and effectively with unexpected events, or those outside of our direct control. This year we particularly took account of the potential cumulative impacts of successive risks materialising. As reported last year, we gained considerable assurance by how smoothly we were able to put measures in place to respond to Covid-19, both in terms of our own organisational issues and risks as well as those arising in the sector (see page 26 in the performance report and page 55 in this governance statement). As the pandemic continues, with likely longer term impacts on society and the economy, our work to anticipate and seek solutions to the issues Covid may present remains a priority.

The UK's exit from the EU has had less direct impact on our work, although we have been closely monitoring and engaging with water companies on the potential impacts, particularly with respect to their supply chains.

A central element of our strategy is the importance of deepening our relationships and developing more collaborative partnerships with key stakeholders. This includes water companies and their investors, as well as both governments and other economic and water sector regulators. We have worked closely with all these stakeholders in managing the risks and issues arising from both the pandemic and EU Exit. Our new Non-Executive Director appointments and appointment of a new Head of Wales have

also supported increased focus on demonstrating our alignment with Welsh Government objectives for companies in Wales.

We have worked closely with the key regulators in the sector, the EA, DWI, and NRW, not just in relation to our work in the context of RAPID, but also on other major programmes such as WINEP, Water Resources Management Plans (WRMPs) and Drainage and Wastewater Management Plans. We have deepened our collaborative working within the UKRN. We are working increasingly closely with the Consumer Council for Water (CCW) on a range of matters, as reflected in our Performance Report.

We have broadened our stakeholder engagement as we started to deliver our strategy to take account of wider and new audiences and channels, including in terms of environmental and consumer stakeholders, and have continued to hold events to engage directly with the investor community. Internally, our central communications hub maintains a ‘helicopter view’ over all of our activity and stakeholder engagement. We continue to proactively ‘pre-engage’ with stakeholders as policy is under development in order to ensure transparency, buy-in and sector ownership.

## The way we work

To deliver our strategy, our culture, behaviours and values need to be aligned to delivery of our strategic goals, focussing on outcomes, empowering our people, encouraging collaboration and efficiency and providing resilience now and in future.

We continue to take steps to ensure 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 and extended CMA redeterminations process). 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, and using vacancies to build the workforce we need in the future. We have taken a number of steps to support our people during the pandemic (see page 94).

We put in place our IT and data strategies to provide a clear roadmap for future development, both of which have been subject to independent review and assurance. We have continued to monitor and test our business continuity plans.

## Management of conflicts of interest and business appointments rules

Our Code of Conduct sets out our policy on the declaration and management of conflicts of interest applicable to all staff and on the application of the business appointments rules. For all staff, there is scrutiny of the declaration of any business interests or potential conflicts and appropriate action is taken to manage any potential issues in the context of our policy work and in our recruitment and procurement activities. All our people are required to comply with the Civil Service Management Code. Any outside appointments during employment are approved and assessed by reference to the Code. No members of the Senior Leadership Team hold any company directorships or other significant interests that conflict with their management responsibilities.

On leaving office for roles that may give rise to potential issues with respect to conflicts of interest, we work with individuals and future employers to ensure appropriate measures are in place. We are considering what further work is needed to improve the transparency of any guidance given to senior members of staff, although there has been limited need for this in recent times.

### 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 central government Cluster Security Group 5) and Deputy Security Advisor, as well as Information Asset Owners for all our clusters. 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 4 times during 2020-21.

### 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 implemented a number of the free active cyber defence initiatives from NCSC and continues to assess the services on offer.

We have well 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.

## Quality assurance of analytical models

We have well-established arrangements for the quality assurance of analytical models. Current arrangements include:

- **A standardised approach to excel modelling** – Excel models are normally built following the FAST modelling standard (flexible, appropriate, structured, transparent). This reduces the risk of error and makes the review of models easier. Only in exceptional circumstances should modellers diverge from this standard. All staff in Ofwat have access to training on how to model using the FAST standard.
- **Quality assurance manual and training** – 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. Internal training courses are also available on how to carry out quality assurance on models.
- **External review** – external review is an important part of our approach to quality assurance. We use advisers to carry out external audit or review of particularly important or contentious models. Where possible we publicly consult on the analytical models we use.

Our internal data strategy, agreed in October 2020, includes a review of our quality assurance of analytical models (to be carried out during 2021-22). This includes reviewing both our processes and how these are being followed in practice and considering any improvements we might make.

## Data quality

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

This year, we have continued to develop our internal-facing tools to enable us to monitor progress against the customer outcomes in our strategy.

We will continue to build on our data quality and our efforts to 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 the customer outcomes we seek efficiently and effectively.

## 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 Directors responsible for all of our activity and people leadership that they have acted in accordance with their delegations and the operation of our governance framework. It is also based on the additional assurance provided by the former Chief Executive by reference to the ongoing assurance that she received throughout the year.

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. We are also conscious of the changing external risk environment and 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 2020-21, we continued to review and monitor our governance arrangements with a view to ensuring that they were as streamlined as possible and that they remained proportionate and fit for purpose.



**David Black**  
Accounting Officer

**25 June 2021**



## Remuneration and staff report

### Remuneration report

#### Senior Leadership Team

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

Senior Leadership Team member	Position
Rachel Fletcher <sup>°*</sup>	Chief Executive
Jenny Block <sup>°</sup>	General Counsel and Board Secretary
Alena Kozakova <sup>°</sup>	Chief Economist
John Russell <sup>°*</sup>	Senior Director
Emma Kelso <sup>°</sup>	Senior Director
Aileen Armstrong <sup>°*</sup>	Senior Director
David Black <sup>°*</sup>	Chief Regulation Officer
Keith Mason <sup>°</sup>	Senior Director
Claire Forbes <sup>°</sup>	Senior Director
Lisa Commane <sup>°</sup>	Senior Director
Paul Hickey	Managing Director, RAPID

<sup>°</sup>Members of SLT who 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). Decisions regarding SCS pay and bonuses are made by the People Committee.

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 2020-21 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

Our salaries are set on the basis of recruiting and retaining high-calibre staff within the framework of controlling public sector expenditure and the pay framework set by the Government.

A non-consolidated bonus may be awarded to staff whose performance is exceptional in line with the criteria set by Ofwat. All bonus nominations received are reviewed by members of the Senior Leadership Team (SLT) to determine which should go forward for decision by the Pay Review Group (PRG). The PRG consists of a sub-set of members of the SLT, the Director of People and Head of People. The role of the group is to determine how to allocate the bonus pot in line with Ofwat's agreed criteria, ensuring fairness and consistency.

The annual bonus budget is determined as part of the annual Pay Framework approved by the Permanent Secretary for Defra.

## Non-Executive Directors' remuneration policy

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

## Senior managers' remuneration

### Senior management remuneration 2020-21

The following information is subject to audit

	Salary £000		Bonus payments £000		Benefits in kind (to nearest £100)		Pensions benefits (to nearest £1000)		Total £000	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
<b>Rachel Fletcher Chief Executive (until 31 March 2021)</b>	170-175	165-170	5-10	10-15	2,100	5,700	80,000	76,000	260-265	260-265
<b>Jenny Block General Counsel and Board Secretary</b>	125-130	120-125	-	-	200	5,200	49,000	48,000	170-175	175-180
<b>Alena Kozakova Chief Economist</b>	120-125	120-125	5-10	-	-	-	49,000	48,000	175-180	170-175
<b>John Russell Senior Director</b>	125-130	125-130	5-10	0-5	-	-	53,000	44,000	185-190	170-175
<b>Emma Kelso* Senior Director</b>	95-100 (full year equivalent 125-130)	110-115 (full year equivalent 125-130)	-	5-10	-	2,800	36,000	40,000	130-135	160-165
<b>Aileen Armstrong* Senior Director</b>	115-120 (full year equivalent 125-130)	100-105 (full year equivalent 125-130)	-	0-5	200	2,500	48,000	35,000	160-165	140-145
<b>David Black* Chief Regulation Officer (until 31 March 2021)</b>	135-140	130-135	5-10	15-20	-	-	54,000	52,000	200-205	200-205
<b>Keith Mason Senior Director</b>	120-125	120-125	-	-	-	-	31,000	17,000	150-155	135-140
<b>Claire Forbes* Senior Director</b>	100-105 (full year equivalent 115-120)	100-105 (full year equivalent 110-115)	5-10	-	-	3,800	41,000	40,000	150-155	145-150
<b>Lisa Commane Senior Director</b>	130-135	125-130	5-10	5-10	-	1,700	51,000	49,000	185-190	180-185

\* Claire Forbes and Emma Kelso are employed on part-time contracted hours. Aileen Armstrong became full time in September 2020. From 1 April 2021 David Black was appointed as the interim Chief Executive.

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.

### Third party payments\* 2020-21

The following information is subject to audit

	2020-21 £000 Payment	2019-20 £000 Payment
<b>Environment Agency Paul Hickey, Managing Director, RAPID (From 20 January 2020)</b>	115-120	25-30

\*Civil Service Pension rights are not applicable to members of the Senior Leadership Team while contracted through a third party. Paul Hickey is on secondment from the Environment Agency from 20 January 2020 to 19 January 2022.

## Non-Executive Directors' remuneration

The following information is subject to audit

	Salary £000		Benefits in kind (to nearest £100)		Total £000	
	2020-21	2019-20	2020-21	2019-20	2020-21	2019-20
<b>Jonson Cox Chair</b>	125-130	125-130	2,700	4,100	125-130	130-135
<b>Martin Lawrence*</b> Non-Executive Director	10-15	15-20	-	500	10-15	15-20
<b>Christine Farnish*</b> Non-Executive Director	10-15	15-20	100	700	10-15	15-20
<b>Catherine Waddams</b> Non-Executive Director	15-20	15-20	500	1,000	15-20	20-25
<b>Alison Munro</b> Non-Executive Director	15-20	15-20	-	600	15-20	15-20
<b>Mark Bayley</b> Non-Executive Director	15-20	15-20	-	600	15-20	15-20
<b>Tim Waggott*</b> Non-Executive Director	0-5	15-20	-	600	0-5	15-20
<b>Nicola Bruce**</b> Non-Executive Director	5-10 (full year equivalent 15-20)	-	-	-	5-10	-
<b>David Jones**</b> Non-Executive Director	5-10 (full year equivalent 15-20)	-	-	-	5-10	-
<b>Seema Kennedy**</b> Non-Executive Director	5-10 (full year equivalent 15-20)	-	-	-	5-10	-
<b>Jonathan Kini**</b> Non-Executive Director	5-10 (full year equivalent 15-20)	-	-	-	5-10	-

\*Non-executive term end dates: Tim Waggott – 27 April 2020, Martin Lawrence – 30 November 2020, Christine Farnish – 30 November 2020

\*\*Nicola Bruce, David Jones, Seema Kennedy and Jonathan Kini became Non-Executive Directors of Ofwat on 1 December 2020.

## Independent Members' remuneration

The following information was subject to audit.

### Independent Committee/Programme Board Members' remuneration 2020-21

	Salary £000		Benefits in kind (to nearest £100)	
	2020-21	2019-20	2020-21	2019-20
<b>Vanessa Howlison</b> Independent Member, ARAC	5-10	5-10		200
<b>Martin Crouch</b> Independent Member, PR19 Programme Board	-	10-15	-	-

### 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 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 set out below 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 2020-21 was £180,000 to £185,000 (2019-20: £190,000 to £195,000). This was 3.6

times (2019-20: 3.9 times) the median remuneration of the workforce, which was £51,219 (2019-20: £49,158).

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.

During 2020 Ofwat used its pay adjustment process to address pay equalities and relativity cases and to reward sustained high performance. We are developing our approach to pay and reward further during 2021-22 as part of the implementation of our People Strategy.

## Senior managers' pension benefits

### Senior management remuneration 2020-21

	Accrued pension at pension age as at 31 March 2021 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2021	CETV at 31 March 2020	Real increase in CETV
	£000	£000	£000	£000	£000
<b>Rachel Fletcher</b> Chief Executive (Until 31 March 2021)	40-45	2.5-5	870	776	56
<b>Jenny Block</b> General Counsel and Board Secretary	10-15	2.5-5	174	132	28
<b>Alena Kozakova</b> Chief Economist	10-15	2.5-5	143	109	21
<b>John Russell</b> Senior Director	40-45 lump sum: 90-95	2.5-5 lump sum: 0-2.5	756	698	28
<b>Emma Kelso</b> Senior Director	30-35	0-2.5	468	429	18
<b>Aileen Armstrong</b> Senior Director	35-40 lump sum: 70-75	0-2.5 lump sum: 0-2.5	600	550	25
<b>David Black</b> Chief Regulation Officer	25-30	2.5-5	306	258	28
<b>Keith Mason</b> Senior Director	40-45 lump sum: 125-130	0-2.5 lump sum: 5-7.5	938	916	30
<b>Claire Forbes</b> Senior Director	15-20	0-2.5	215	179	21
<b>Lisa Commene</b> Senior Director	10-15	2.5-5	109	75	21

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 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 two 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 Chair 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 2020-21

	2020-21 £000				2019-20 £000
	Permanent and Fixed Term employed staff	Other staff	Non-exec directors	Total	Total
Wages and salaries	13,386	1,070	256	14,712	14,851
Social security costs	1,582	-	25	1,607	1,558
Other pension costs	3,632	-	-	3,632	3,612
Sub total	18,600	1,070	281	19,951	20,021
Less recoveries in respect of outward secondments	(100)	-	-	(100)	(113)
Total net costs	18,500	1,070	281	19,851	19,908

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 2016. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation

[www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk).

For 2020-21, employers’ contributions of £3.6m were payable to the PCSPS (2019-20 £3.4m) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands. This was due to changes in employer contribution rates effective from 1 April 2020.

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 2020-21 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, or a stakeholder pension with an employer contribution. There were no employees contributing to these schemes in 2020-21 or 2019-20. 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 £4,030, 0.5% of pensionable pay (2019-20: £4,422), 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 in each Cluster\*

	2020-21			
	Permanent & FTC employed staff	Others	Non-Executive Directors	Total
Corporate Enablers	47.52	1.89	0.20	49.61
Future Assets & Resources	12.11		0.20	12.31
Insight & Impact	14.61		0.20	14.81
Performance & Outcomes	60.88		0.20	61.08
PR24 & Beyond	22.74		0.20	22.94
RAPID	11.68	1.16	0.20	13.04
Regulatory Enablers	63.72		0.20	63.92
<b>Total</b>	<b>233.26</b>	<b>3.05</b>	<b>1.40</b>	<b>237.71</b>

\*Clusters were formed at the start of 2020-21 and no comparative data is available in this format for 2019-20. However, the table below illustrates the average whole-time equivalents in each programme for 2019-20, which was analysed differently.

	2019-20			
	Permanently employed staff	Others	Non-Executive Directors	Total
Business Improvement	48.14	2.11	0.14	50.39
Communications Hub	9.32	-	0.14	9.46
Finance and Governance	20.14	-	0.14	20.28
Market Outcomes and Enforcement	32.62	1.32	0.14	34.08
PR19	105.75	1.36	0.14	107.25
Strategy Hub	11.70	-	0.14	11.84
Thames Tideway Project Regulation	2.92	-	0.14	3.06
RAPID	3.06	2.31	0.14	5.51
<b>Total</b>	<b>233.65</b>	<b>7.10</b>	<b>1.12</b>	<b>241.87</b>

## **Civil Service and other compensation scheme exits**

There have been no redundancy or other departure costs paid in 2020-21 (2019-20: 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 within the scope of IR35.

### Off-payroll engagements for more than £245 per day and lasting for longer than six months, as of 31 March 2021

	Number of arrangements
Existing at 31 March 2021	5
Existed for less than one year at the time of reporting	3

### New off-payroll engagements, or those that reached six months in duration, between 1 April 2020 and 31 March 2021 for more than £245 per day and lasting for longer than six months

	1 April 2020 to 31 March 2021
The number of new engagements, or those that reached six months in duration, during the time period	9
The number of these engagements which were assessed within scope of IR35	7
The number of these engagements which were assessed outside the scope of IR35	2
Number engaged directly (via PSC contracted to department) and on departmental payroll	-
The number that were reassessed for consistency / assurance purposes during the year for 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 2020 and 31 March 2021

	Number of arrangements
Number of off-payroll engagements of Board members and/or senior officials with significant financial responsibility during the financial year	1
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

Further details of the off payroll engagement are set out in the remuneration and staff report on page 77.

## Consultancy expenditure

Our expenditure on other consultancy and professional services in 2020-21 was £4.9m, per note 4 of the accounts (2019-20: £6.8m). 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 economical to maintain this expertise in-house.

## Sickness absence

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

	2020-21			2019-20		
	Short term	Long term	Total	Short term	Long term	Total
<b>Days lost</b>	404	658	1,062	522	983	1,504
<b>Average working days lost per person</b>			4.39			6.03

2019-20 absence statistics were reported for the incorrect year in the annual report last financial year, however the correct absence statistics were reported to the Board. 2019-20 absence statistics have therefore been corrected for reporting in the 2020-21 annual report.

A long-term absence is any absence running over a consecutive period of 14 calendar days or more. This is lower than the Civil Service average in 2019-20 of 7.4 days (2020-21 figure not available at time of reporting) and is due to a decrease in long term critical illness absence. The impact of a few instances of longer term absence will be more pronounced given that we are a small organisation. However, we have re-focused our efforts to proactively address issues arising to ensure all of our people are supported to attend work on a regular basis. Wellbeing has been a key focus in 2020-21 and a review of Ofwat's attendance management policy is planned for 2021-22.

## Employee involvement

This year we took part in the Civil Service People Survey which enables us to benchmark ourselves against other Civil Service Employers. The results indicate that we are moving in the right direction and starting to see the impact of efforts to embed our People Strategy and create a highly performing great place to be.

- We saw an impressive response rate of 90%, which equates to 219 responses.
- Our scores improved in the majority of areas (7 out of the 9) and questions compared to 2019. The most notable improvements to scores were in Leadership & Change, Organisational Objectives & Purpose, My Manager and My Work.
- Our overall employee engagement index figure rose by 6% to 72%. 79% of people say they would recommend Ofwat as a great place to work.
- Ofwat saw an increase in its PERMA Index score to 74% which measures how people are flourishing at work.
- Reduction in our Proxy Stress Index score to 23% where a score of 100% indicates operating in a highly stressful environment and a score of 0% the opposite.
- Our scores compare very well with the Civil Service group of high performing employers. Ofwat outperforms the Civil Service benchmark in 9 of the 10 key theme areas.

The survey identified two areas of further focus and improvement – Pay & Benefits and Learning & Development.

## Learning and development

Our Learning and Development approach has had particular importance over the last year, given the seismic shift to our ways of working.



Our approach has shifted from primarily in-person, to almost entirely virtual delivery, supported by in-house training in virtual facilitation techniques.

Central to our approach has been our focus on wellbeing and resilience interventions, to ensure appropriate support to our team members through challenging times, supplemented by tailored support to People Leaders through our People Leader briefings to ensure they remain connected and able to support their teams. We've included 'micro-learning' sessions in these briefings providing additional bite-sized learning opportunities at the point of need.

We've continued to develop our internal skills base via training in lean and agile techniques and new ways of facilitating such as the use of Liberating Structures. Our Ofwat Essentials offer continues to be valued, with a growing range of modules covering a variety of areas including 'performance monitoring', 'introduction to water' and 'casework and enforcement'. We've continued to support and rely on our own internal coaching cohort consisting of five trained individuals and will be moving to develop coaching skills across our wider leadership cohort in 2021-22.

We've supported teams across Ofwat through this time with our own internal expertise in Insights Discovery, facilitating a range of team days and further supporting team cohesion using tools such as 'Manual of Me' to build team relationships at a time when this is particularly challenging due to remote working.

Learning Partners have had a vital role to play in supporting Clusters across Ofwat and will continue to do so. 2020 saw the creation of a new Organisation Development function with a specific remit to develop our Learning Strategy which will be deployed during 2021-22.

We have commenced our Leadership Development focus, with tailored support provided to our Senior Leadership Team which will continue into 2021-22 and expand to include our broader leadership populations.

## **Equal opportunities policy**

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

- race;
- sex;
- sexual orientation;
- age;
- marital status;

- disability;
- religion and belief;
- gender reassignment;
- pregnancy and maternity; or
- working pattern.

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

During the year we carried out 50 separate recruitment campaigns, both external and internal to the organisation, which in some cases sought to fill multiple roles. We also ran a graduate recruitment programme.

## Staff composition

Details of our staff composition by gender and ethnic group is available in Appendix A8, on page 147.



**David Black**  
Accounting Officer

**25 June 2021**

## Parliamentary accountability and audit report

### Statement of Parliamentary Supply

#### For the 12 months ended 31 March 2021

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 2020-21

	2020-21 £000								2019-20 £000
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-voted	Total	Voted	Non-voted	Total		Total
<b>Departmental Expenditure Limit</b>									
- Resource	SOPS1.1	151	-	151	(344)	-	(344)	495	(410)
- Capital	SOPS1.2	150	-	150	120	-	120	30	181
<b>Annually Managed Expenditure</b>									
- Resource		-	-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-	-
<b>Total Budget</b>		<b>301</b>	<b>-</b>	<b>301</b>	<b>(224)</b>	<b>-</b>	<b>(224)</b>	<b>525</b>	<b>(229)</b>
<b>Total Resource</b>		151	-	151	(344)	-	(344)	495	(410)
<b>Total Capital</b>		150	-	150	120	-	120	30	181
<b>Total</b>		<b>301</b>	<b>-</b>	<b>301</b>	<b>(224)</b>	<b>-</b>	<b>(224)</b>	<b>525</b>	<b>(229)</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 for 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 41.

### Net cash requirement 2020-21

2020-21 £000				2019-20 £000
Note	Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)	Outturn
SOPS3	5,000	680	4,320	(160)

The variance between outturn and estimated net cash requirement is £4.3 million. During the year we drew £4.0 million as cash from the Consolidated Fund for working capital balances, 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 2020-21

### SOPS1: Net Outturn

For the 12 months ended 31 March 2021

	2020-21 £000											2019-20 £000
	Outturn							Estimate				
	Administration			Programme			Total	Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total	
	Gross	Income	Net	Gross	Income	Net						
Spending in Departmental Expenditure Limit												
Voted:												
<b>A</b>	29,400	(29,744)	(344)	0	-	-	(344)	151	495	495	(410)	
<b>Total</b>	<b>29,400</b>	<b>(29,744)</b>	<b>(344)</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>(344)</b>	<b>151</b>	<b>495</b>	<b>495</b>	<b>(410)</b>	

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

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.

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

	2020-21 £000								2019-20 £000
	Outturn				Estimate				
	Administration			Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements	Total		
	Gross	Income	Net						

<b>Spending in Departmental Expenditure Limit</b>							
<b>Voted:</b>							
<b>Section A</b>	120	-	120	150	30	30	181
<b>Total</b>	<b>120</b>	<b>-</b>	<b>120</b>	<b>150</b>	<b>30</b>	<b>30</b>	<b>181</b>

The notes on pages 114 to 132 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 2021

	2020-21 £000			
	Note	Estimate	Outturn	Net total outturn compared with estimate; saving (excess)
Resource Outturn	SOPS1.1	151	(344)	495
Capital Outturn	SOPS1.2	150	120	30
Accruals to cash adjustments:		4,699	904	3,795
of which:				
Adjustments to remove non-cash items:				
Depreciation	4	(360)	(306)	(54)
New provisions and adjustments to previous provisions	4	(150)	(463)	313
Other non-cash items	4	(40)	(43)	3
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables	10	-	(96)	96
(Increase)/decrease in payables	11	5,102	1,616	3,486
Use of provisions	12-13	147	196	(49)
Net cash requirement		5,000	680	4,320

**SOPS4: Income payable to Consolidated Fund**

For the 12 months ended 31 March 2021

	Note	2020-21 £000		2019-20 £000	
		Outturn		Outturn	
		Income	Receipts	Income	Receipts
Excess cash surrenderable to the Consolidated Fund	9	3,320	3,320	2,460	2,460
Total income payable to the Consolidated Fund		3,320	3,320	2,460	2,460

The notes on pages 114 to 132 form part of these accounts.



## Parliamentary Accountability Disclosures

The following information was subject to audit.

We do not have anything to report for 2020-21 in respect of:

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



**David Black**  
**Accounting Officer**

**25 June 2021**

# 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 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the 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 2021 and of Ofwat's comprehensive net income for the year then ended; and
- 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 2021 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), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of Ofwat in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that Ofwat's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Ofwat's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for Ofwat is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

## 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 Accountability Report

described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of Ofwat and its environment obtained in the course of the audit, I have not identified material misstatements in the performance and Accountability Report. 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
- certain disclosures of remuneration specified by HM Treasury's Government Financial Report Manual are not made; 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.

## **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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing Ofwat's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by Ofwat will not continue to be provided in the future.

## **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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to Ofwat’s policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including Ofwat’s controls relating to Managing Public Money, the Supply and Appropriation (Main Estimates) Act 2020;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: posting of unusual journals and accounting estimates;
- obtaining an understanding of Ofwat’s framework of authority as well as other legal and regulatory frameworks that Ofwat operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of Ofwat. The key laws and regulations I considered in this context included the Government Resources and Accounts Act 2000, Managing Public Money, Supply and Appropriation (Main Estimates) Act 2020 and relevant Employment Law; and

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a

potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

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.

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.

## 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**

**29 June 2021**

# Part 3

## Financial statements



## Financial statements

### Statement of Comprehensive Net Expenditure

For the 12 months ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
Licence fees		(29,639)	(32,768)
Miscellaneous		(105)	(113)
<b>Total operating income</b>		<b>(29,744)</b>	<b>(32,881)</b>
Staff costs	3	19,951	20,021
Purchase of goods and services	4	7,779	11,181
Rental costs	4	858	906
Depreciation and impairment charges	4	306	249
Other non-cash	4	506	114
<b>Total operating expenditure</b>		<b>29,400</b>	<b>32,471</b>
<b>Net income</b>		<b>(344)</b>	<b>(410)</b>
Other comprehensive net expenditure			
Items which will not be reclassified to net operating costs:			
Actuarial loss on pension scheme liabilities	13.3	126	124
<b>Comprehensive net income</b>		<b>(218)</b>	<b>(286)</b>

The notes on pages 114 to 132 form part of these accounts.

## Statement of Financial Position

As at 31 March 2021

	Note	31 March 2021 £000		31 March 2020 £000	
<b>Non-current assets:</b>					
Property, plant and equipment	5	448		622	
Intangible assets	6	156		168	
<b>Total non-current assets</b>			604		790
<b>Current assets:</b>					
Trade & other receivables	10	1,517		1,613	
Cash and cash equivalents	9	3,320		2,460	
<b>Total current assets</b>			4,837		4,073
<b>Total assets</b>			5,441		4,863
<b>Current liabilities:</b>					
Trade and other payables	11	(6,994)		(7,750)	
Provisions	12	(109)		-	
<b>Total current liabilities</b>			(7,103)		(7,750)
<b>Total assets less current liabilities</b>			(1,662)		(2,887)
<b>Non-current liabilities:</b>					
Provisions	12	(310)		-	
Pension liabilities	13	(2,523)		(2,549)	
<b>Total non-current liabilities</b>			(2,833)		(2,549)
<b>Total assets less total liabilities</b>			<b>(4,495)</b>		<b>(5,436)</b>
<b>Taxpayers' equity and other reserves:</b>					
General Fund			(4,495)		(5,436)
<b>Total equity</b>			<b>(4,495)</b>		<b>(5,436)</b>



**David Black**  
Accounting Officer

**25 June 2021**

The notes on pages 114 to 132 form part of these accounts.

## Statement of Cash Flow

For the 12 months ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
Cash flows from operating activities			
Net operating income		344	410
Adjustments for non-cash transactions	4	812	363
(Increase)/decrease in trade and other receivables	10	96	(1,123)
Increase/(decrease) in trade payables	11	(756)	3,056
Less movements in payables relating to items not passing through the Comprehensive Statement of Net Expenditure		(692)	(1,385)
Use of provisions	12-13	(196)	(1,093)
<b>Net cash inflow from operating activities</b>		<b>(392)</b>	<b>228</b>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(53)	(15)
Purchase of intangible assets	6	(67)	(168)
Net movement in capital receivables (payables)		(168)	115
<b>Net cash outflow from investing activities</b>		<b>(288)</b>	<b>(68)</b>
Cash flows from financing activities			
From the consolidated fund (Supply) - current year		4,000	2,300
Advances from the contingencies fund		6,000	6,000
Payments to the contingencies fund		(6,000)	(6,000)
<b>Net cash inflow from financing activities</b>		<b>4,000</b>	<b>2,300</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>3,320</b>	<b>2,460</b>
Payment of amounts due to the consolidated fund		(2,460)	(1,191)
<b>Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the consolidated fund</b>		<b>860</b>	<b>1,269</b>
Cash and cash equivalents at the beginning of the period	9	2,460	1,191
Cash and cash equivalents at the end of the period	9	3,320	2,460

The notes on pages 114 to 132 form part of these accounts.

## Statement of changes in taxpayers' equity

### For the 12 months ended 31 March 2021

	Note	General Fund £000	Total Reserves £000
Balance at 1 April 2019		(5,602)	(5,602)
Changes in taxpayers' equity for 2019-20			
Net Parliamentary Funding		2,300	2,300
Comprehensive Net Expenditure for the year		286	286
Notional Auditors' Remuneration	4	40	40
Amounts issued from consolidated fund but not spent at year end	9	(2,460)	(2,460)
Balance at 31 March 2020		<b>(5,436)</b>	<b>(5,436)</b>
Changes in taxpayers' equity for 2020-21			
Net Parliamentary Funding		4,000	4,000
Comprehensive Net Income for the year		218	218
Notional Auditors' Remuneration	4	43	43
Amounts issued from consolidated fund but not spent at year end	9	(3,320)	(3,320)
Balance at 31 March 2021		<b>(4,495)</b>	<b>(4,495)</b>

\*A 1k rounding correction has been made to the balance as at 1 April 2019

The notes on pages 114 to 132 form part of these accounts.

## 1. Notes to the departmental accounts

### 1.1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2020-21 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.

### 1.2 Accounting convention

These accounts have been prepared under the historical cost convention.

### 1.3 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

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

### 1.4 Intangible assets

Intangible assets include separable software licences, such as those for the finance system. They are separable, in that the 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.

### 1.5 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.

#### 1.5.1 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 CCW's operating costs. This income is then transferred to the Department for Environment, Food and Rural Affairs (see note 15). We also collect contributions from appointed companies and transfer these to the Innovation Fund partner for the delivery of the innovation competitions.

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 0.29% per annum to (0.95)% real per annum from 31 March 2021.

## 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 2021 shows negative taxpayers' equity of £4.5 million (2019-20: £5.4 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 2021-22 was agreed via our Main Estimate, presented to the House of Commons on 12th May 2021.

## 1.15 Staff costs

Under 'IAS 19: 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

The most material accounting estimate we make with significant judgement relates to pensions. Each year we commission an actuarial valuation 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 13.2 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 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. This was to be adopted by Government for annual periods beginning 1 April 2021. However, in November 2020 HM Treasury deferred the implementation of IFRS 16 for FReM bodies to 2022-23.

Had this standard been adopted in the 2020-21 annual accounts, we estimate, subject to the completion of transition work, that the gross assets and gross liabilities would be £1.4m higher respectively, and net expenditure for the year £0.6 million lower. In addition to this lease liability, we have made a provision in the accounts for repair and restoration of our occupied office space (dilapidations), and therefore this increases the overall liabilities by £0.3m.

## 2. Statement of operating costs by Cluster

For the 12 months ended 31 March 2021

Cluster	2020-21 £000
Corporate Enablers	7,328
Future Assets & Resources	1,910
Insight & Impact	1,527
Performance & Outcomes	6,230
PR24 & Beyond	4,582
RAPID	2,008
Regulatory Enablers	5,442
Thames Tideway Project Regulation	373
<b>Total expenditure</b>	<b>29,400</b>
<b>Total income</b>	<b>(29,744)</b>
<b>Net income</b>	<b>(344)</b>

\*At the start of the year, Ofwat moved away from a rigid programme structure to encourage a greater focus on outcomes, collaboration and agility across closely interconnected areas of work. A cluster structure was created and there is no comparative data available in this format for 2019-20. However, illustrated below is the statement of operating costs for 2019-20 which was analysed on a different basis.

Programme	2019-20 £000
Business Improvement	7,457
Market Outcomes and Enforcement	3,721
PR19	15,805
Communications Hub	1,014
Finance and Governance	2,085
Strategy Hub	1,321
RAPID	714
Thames Tideway Project Regulation	354
<b>Total expenditure</b>	<b>32,471</b>
<b>Total income</b>	<b>(32,881)</b>
<b>Net income</b>	<b>(410)</b>

\*A 1k rounding has been made to the programme operating expenditure for 2019-20

### 3. Staff costs

For the 12 months ended 31 March 2021

	2020-21 £000	2019-20 £000
Wages and salaries	14,712	14,851
Social security costs	1,607	1,558
Other pension costs	3,632	3,612
<b>Total</b>	<b>19,951</b>	<b>20,021</b>

Further details related to staff costs are in the remuneration report.

## 4. Expenditure

For the 12 months ended 31 March 2021

	2020-21 £000	2019-20 £000
<b>Purchase of goods and services:</b>		
Consultancy services	4,879	6,782
Contingent labour	988	2,073
Training	269	258
Travel and subsistence	18	424
Taxation charges	(10)	90
Rates	240	240
Information Technology	661	482
Other hire and maintenance	32	35
Seminars, meetings and conferences	20	52
Publications, books and periodicals	81	80
Telecommunications	200	226
Recruitment costs	138	103
Office consumables	109	54
Accommodation expenses	54	96
Internal Audit fees	27	36
Records management	16	39
Other	57	111
	<b>7,779</b>	<b>11,181</b>
<b>Rentals under operating leases:</b>		
Accommodation	831	892
Office equipment	27	14
	<b>858</b>	<b>906</b>
<b>Non cash items:</b>		
Depreciation	227	247
Amortisation	79	2
Loss on disposal of assets	-	3
Addition/(release) of provision	419	-
Other finance costs	44	71
External Auditors' remuneration	43	40
	<b>812</b>	<b>363</b>
<b>Total</b>	<b>9,449</b>	<b>12,450</b>

Spend on contingent labour costs decreased during 2020-21 as the 2019 price review concluded, and as a result a number of contracts concluded in 2019-20.

We saw substantially lower costs on travel and subsistence during the year as a direct impact of the Covid-19 pandemic and the restrictions that were in place during this time.

Expenditure on Information Technology was higher in 2020-21 due to the renewal of our MS Teams contract and the move to Cloud storage.

There were fewer face to face seminars and conferences during the year as a result of the pandemic. Costs in relation to office consumables were higher in 2020-21 than the previous year due to increases in cleaning supplies and hand sanitiser stations. In addition office furniture for the London office was purchased during the year to prepare for our future ways of working.

A provision has been made for the performance-related element of the delivery partner contract for work on the CMA appeals which is due to be paid in 2021-22. A further provision has been made to recognise the costs of restoring the condition of both offices back to their original condition upon lease end dates.

## 5. Property, plant and equipment

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

2020-21	Assets under construction	Furniture & Fittings	Office machinery & Telecoms	Leasehold Improvements	Information Technology	Total
	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>						
At 1 April 2020	-	131	13	1,010	844	1,998
Additions	-	-	-	-	53	53
<b>At 31 March 2021</b>	-	<b>131</b>	<b>13</b>	<b>1,010</b>	<b>897</b>	<b>2,051</b>
<b>Depreciation</b>						
At 1 April 2020	-	90	13	613	660	1,376
Charged in year	-	15	-	144	68	227
<b>At 31 March 2021</b>	-	<b>105</b>	<b>13</b>	<b>757</b>	<b>728</b>	<b>1,603</b>
<b>Carrying amount at 31 March 2021</b>	-	<b>26</b>	-	<b>253</b>	<b>169</b>	<b>448</b>
<b>Carrying amount at 31 March 2020</b>	-	<b>41</b>	-	<b>397</b>	<b>184</b>	<b>622</b>
<b>Asset Financing:</b>						
Owned	-	26	-	253	169	448
<b>Carrying amount at 31 March 2021</b>	-	<b>26</b>	-	<b>253</b>	<b>169</b>	<b>448</b>

2019-20	Assets under construction	Furniture & Fittings	Office machinery & Telecoms	Leasehold Improvements	Information Technology	Total
	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>						
At 1 April 2019	53	131	13	968	842	2,007
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>1,998</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>-</b>	<b>397</b>	<b>184</b>	<b>622</b>
<b>Carrying amount at 31 March 2019</b>	<b>53</b>	<b>60</b>	<b>-</b>	<b>500</b>	<b>244</b>	<b>857</b>
<b>Asset Financing:</b>						
Owned	-	41	-	397	184	622
<b>Carrying amount at 31 March 2020</b>	<b>-</b>	<b>41</b>	<b>-</b>	<b>397</b>	<b>184</b>	<b>622</b>

\*A 1k rounding correction has been made to the balance as at 1 April 2019

## 6. Intangible assets

Intangible assets consist of purchased software licences.

2020-21	Purchased software licences	Assets under development	Total
	£000	£000	£000
<b>Cost or valuation</b>			
At 1 April 2020	360	168	528
Additions	67	-	67
Reclassifications	168	(168)	-
<b>At 31 March 2021</b>	<b>595</b>	<b>-</b>	<b>595</b>
<b>Amortisation</b>			
At 1 April 2020	360	-	360
Charged in year	79	-	79
<b>At 31 March 2021</b>	<b>439</b>	<b>-</b>	<b>439</b>
<b>Carrying amount at 31 March 2021</b>	<b>156</b>	<b>-</b>	<b>156</b>
<b>Carrying amount at 31 March 2020</b>	<b>168</b>	<b>-</b>	<b>168</b>

2019-20	Purchased software licences	Assets under development	Total
	£000	£000	£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>-</b>	<b>168</b>	<b>168</b>
<b>Carrying amount at 31 March 2019</b>	<b>2</b>	<b>-</b>	<b>2</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.

	2020-21 £000	2019-20 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings</b>		
Not later than one year	874	874
Later than one year and not later than five years	471	1,345
<b>Total</b>	<b>1,345</b>	<b>2,219</b>
<b>Other:</b>		
Not later than one year	27	27
Later than one year and not later than five years	22	49
<b>Total</b>	<b>49</b>	<b>76</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 2021.

# 9. Cash and cash equivalents

Any cash held at 31 March 2021 by Ofwat must be surrendered to the Consolidated Fund per note 1.6.

	2020-21 £000	2019-20 £000
Balance at 1 April 2020	2,460	1,191
Net change in cash and cash equivalent balances	860	1,269
<b>Balance at 31 March 2021</b>	<b>3,320</b>	<b>2,460</b>
The following balances at 31 March 2020 were held at:		
Government Banking Services (GBS)	3,320	2,460
<b>Total</b>	<b>3,320</b>	<b>2,460</b>

## 10. Trade receivables and other current assets

	2020-21 £000	2019-20 £000
Amounts falling due within one year		
Trade receivables	968	1,066
Deposits and advances	11	50
HM Revenue and Customs (VAT)	117	149
Prepayments and accrued income	421	348
<b>Total</b>	<b>1,517</b>	<b>1,613</b>

## 11. Trade payables and other current liabilities

	2020-21 £000	2019-20 £000
Amounts falling due within one year		
Trade payables	326	1,871
Other payables	447	372
Other taxation and social security	455	437
Accruals	2,405	2,546
Deferred income	41	64
Amounts issued from the consolidated fund for supply but not spent at year end	3,320	2,460
<b>Total</b>	<b>6,994</b>	<b>7,750</b>

\*A 1k rounding has been made to the balance for 2019-20

## 12. Provisions for liabilities and charges

Provisions	2020-21 £000				2019-20 £000
	Incentive payment Costs	Dilapida- tions Provision	Other	Total	Total
Balance at 1 April 2020	-	-	-	-	900
Provided in the year	109	310	-	419	-
Provisions utilised in the year	-	-	-	-	(900)
Provisions not required written back	-	-	-	-	-
Balance at 31 March 2021	109	310	-	419	-

Analysis by type	2020-21 £000				2019-20 £000
	Incentive payment Costs	Dilapid- ations Provision	Other	Total	Total
Amounts falling due within one year	109	-	-	109	-
Amounts falling due after more than one year	-	310	-	310	-
Total	109	310	-	419	-

Analysis of expected timing of discounted flows	2020-21 £000				2019-20 £000
	Incentive payment Costs	Dilapid- ations Provision	Other	Total	Total
Not later than one year	109	-	-	109	-
Later than one year and not later than five years	-	310	-	310	-
Later than five years	-	-	-	-	-
Balance at 31 March 2021	109	310	-	419	-

The incentive payment is based on a monthly performance review, and measured against the quality and consistency of work completed through the contract.

## 13. Pensions Liabilities

### 13.1 Pensions Liabilities

Pension liabilities	2020-21 £000	2019-20 £000
Balance at 1 April 2020	2,549	2,547
<b>Analysis of the amount charged to the Statement of Comprehensive Net Expenditure</b>		
Interest costs	44	71
Benefits paid	(196)	(193)
<b>Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity</b>		
Experience loss	26	40
Actuarial loss/(gain)	100	84
<b>Balance at 31 March 2021</b>	<b>2,523</b>	<b>2,549</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 2021.

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 2021 are as follows:

- The gross discount rate is assumed to be 1.25% a year (31 March 2020: 1.8%).
- The consumer price index (CPI) is assumed to be 2.22% (31 March 2020: 2.35%).
- Net (of CPI) discount rate is assumed to be -0.95% (31 March 2020: -0.5%).

## 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 £109,000.
- Increasing the CPI inflation assumption by 0.5% would result in a corresponding decrease in liabilities of approximately 4.0%, or £111,000.
- Increasing assumed life expectancies in retirement to equal those of people one year younger would result in a corresponding decrease in liabilities of approximately 3.0%, or £85,000.

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	2020-21 £000	2019-20 £000	2018-19 £000
Experience losses arising on the scheme liabilities	26	40	55
Changes in assumptions underlying the present value of scheme liabilities	100	84	(48)
Per Statement of Changes in Taxpayers' Equity	126	124	7

## 13.4 History of experience losses

History of experience losses	2020-21 £000	2019-20 £000	2018-19 £000	2017-18 £000	2016-17 £000
Experience (gains)/losses arising on the scheme liabilities					
Amount	26	40	55	40	13

Percentage of the present value of the scheme liabilities	1.0%	1.6%	2.2%	1.5%	0.4%
Total amount recognised in Statement of Taxpayers' Equity					
Amount	126	124	7	(151)	335
Percentage of the present value of the scheme liabilities	5.0%	4.9%	0.3%	(5.7)%	11.5%

## 14. Contingent liabilities disclosed under IAS 37

In accordance with IAS 37 there are no contingent liabilities to be disclosed for 2020-21.

## 15. Related party transactions

### 15.1 Defra/CCW

We are mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCW'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 £5.9 million to Defra in respect of CCW's operating costs in 2020-2021 (2019-20: £5.8 million).

### 15.2 Innovation Fund

As part of PR19, Ofwat has allowed appointed companies to collect from their customers a combined total of £200 million which will be used to facilitate and deliver innovation in the water sector during the current price review period (2020-25). Ofwat does not hold this £200m, rather it is maintained by appointed companies. Part of the money collected from customers will be used to pay for the Innovation Fund partner Ofwat has procured to help deliver the innovation competitions. We are mandated to collect contributions from appointed companies and transfer these to the Innovation Fund partner for the delivery of the competitions. In 2020-21 we transferred £0.3 million (2019-20: £0 million) to the Innovation Fund partner.

### **15.3 CMA**

We are mandated to recover a licence fee from four appointed companies in respect of the CMA's costs incurred in the previous twelve months in relation to references under the Water Industry Act 1991. This income is then transferred directly to the CMA. We invoiced the appointed companies £3.1 million.

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

### **15.4 Other**

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

Senior managers' remuneration is disclosed in the Senior Managers' Remuneration section (page 79). 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.

# Part 4

## Appendices



## Appendices

The appendices are not subject to audit.

### A1 Progress on projects described in Ofwat’s forward programme 2020-21

Below we highlight our progress against the work we outlined in [Ofwat's forward programme 2020-21](#). The status shown reflects progress against the commitments in the forward programme during the year as a whole. Our teams have continued to deliver the majority of our forward programme milestones, whilst also tackling the challenges of Covid-19 and remote working. However, we took the decision to reprioritise a small number of milestones during the year. This was partly due to the above factors and also due to the extended CMA redetermination process which impacted on the resources scheduled to deliver certain of the forward programme milestones.

Cluster	What we said	Status
<b>April to June 2020</b>		
	We will consult on our proposed Regulatory Accounting Guidelines for the 2020-21 reporting period to ensure that the annual performance report is prepared consistently and in line with our overall regulatory reporting framework	Met
	We will establish a permanent presence in Wales, to strengthen our engagement with Welsh Government, NRW and other stakeholders	Met
	We will consult on outstanding policy issues for the innovation competition in the spring ahead of appointing an agency to help us run the innovation competition in the summer. In the meantime, we have asked the water and wastewater companies to develop a joint innovation strategy, to help identify gaps and opportunities for innovation across the sector and find better ways of working with each other, the supply chain and other stakeholders. This is an opportunity for the sector to consider how its architecture might change to effectively deliver innovation in the longer term.	Met
	We will publish the findings from our review of incumbent company support for effective markets and also explain our next steps.	Met
	We will publish and lay our annual accounts 2020-21 before the UK Parliament and Senedd to account for our work and expenditure during the year. This will also explain how we have contributed to delivering the strategic priorities and objectives set for us by the UK and Welsh Governments.	Met
<b>July to September 2020</b>		

	Publish the final 2019 price review reconciliation rulebook	Met
	We will publish key lessons learnt from delivering the 2019 price review. We will engage with companies and other stakeholders to inform this analysis and publication	Met
	We will consult on options for improving our new connection charging rules from April 2022 onwards for companies operating wholly or mainly in England. This is to help ensure charges for developer services support competition, promote environmental protection and that they are fair and transparent	Met
	We will build on stakeholder feedback from our 2019 call for information to consult with stakeholders on our policy approach for water resource bilateral markets	On hold This work was put on hold in summer last year as part of the reprioritisation exercise.
	Annual state of the market assessment – we will publish the results of our assessment of competition in the third year of the business retail market. This is to understand how well the market is delivering benefits for customers	Met
<b>October to December 2020</b>		
	We will publish final Regulatory Accounting Guidelines 2020-21 to ensure that the annual performance report is prepared consistently and in line with our overall regulatory reporting framework.	Met
	We will publish key findings on the policy impact and benefit realisation of PR14.	Delayed This was not delivered in full this financial year due principally to the resource requirements of the CMA redeterminations process. We published a PR14 review call for input in December 2020 to gather external views.
	We will publish monitoring and performance reports, covering financial monitoring, board governance and service delivery.	Met
	We will consult on initial proposals for key PR24 areas and building blocks, with possible additional specific consultations on key areas if appropriate.	Delayed in part We took a slightly different approach to this due to the resource constraints arising from the CMA redeterminations process and the pandemic. We published three key documents which launched our PR24 process in December 2020 (see page 24 in the Performance Report). We published our initial views on PR24 and beyond in May 2021.
	To facilitate the timely and co-ordinated development of large-scale water resources infrastructure schemes, we will make our decision about further funding for the development of strategic solutions that address the water supply deficit in Hampshire, by assessing the initial concept design stage for the proposed solutions.	Met

	We will prepare for and participate in the Comprehensive Spending Review, which we intend to conclude by autumn, subject to the Government timetable.	Met
<b>January to March 2021</b>		
	We will publish an annual information notice on performance reporting to set out the way in which we expect all companies to report their performance for 2020-21.	Met
	We will carry out a review and publish the lessons learnt from the assessment of the initial concept design stage of the strategic solutions that address the water supply deficit in Hampshire.	Met
	We will aim to run the first round of the innovation competition by at the latest winter 2020-21. We will also be considering how we can further enable innovation, for example by trialing a one-stop-shop for innovation, which could provide advice to those seeking to get innovative ideas off the ground in the sector.	Met
	We will consult on new connection charging rules for Welsh companies.	Met
	We will consult on our draft forward programme of work for 2021-22 to get feedback from our stakeholders on our plans, and publish the final version ahead of the new financial year.	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 (CCW) 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 statutory role to investigate and decide on particular types of customer dispute, and to make 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 about how we have handled a complaint or case, they can ask us to review what we did in line with our [complaints process](#). In 2020-21 we did not receive any requests for internal reviews.

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 timescales within which we aim to complete our customer-facing work. Below we set out how we performed against them during 2020-21. Where we have fallen materially short of our targets we have identified actions to improve our performance in 2021-22.

Like for many organisations the Covid-19 pandemic and resulting lockdowns have posed challenges for our work, reducing the staff resource we had available for our frontline customer services. In parallel we saw growth in both the number of customers contacting us (up 40% on last year) and the number of licence applications being submitted to us for decision (up 78% on last year). These areas are managed by the same team at Ofwat. When we needed to, this resulted in us prioritising our customer enquiries work (particularly for vulnerable customers), over work to process licence applications. This has impacted on our 2020-21 performance against some of our standards of service timescales, particularly in terms of licence applications and complex customer complaints.

Metric	Details of what is being measured	Total number	Target	2020-21 Actual
<b>Information requests</b>				
<b>FOI/EIR requests</b>	Enquiries responded to within the 20 day deadline	117	100%	98% ((0) outstanding)
<b>SARs</b>	Enquiries responded to within the deadline	8	100%	100%
<b>General enquiries</b>				
<b>General enquiries</b>	Enquiries responded to within ten working days of receipt	1,086	95%	98% (1,064)
<b>Disputes and complaints about water and wastewater services</b>				
<b>General complaints - Ofwat has no legal role<sup>9</sup></b>	Complaints where Ofwat has no legal role, responded to within ten working days of receipt	2,292	95%	97% (2,214)
<b>Complex complaints - Ofwat has no role</b>	Complaints acknowledged within ten working days of receipt	88	95%	95%
	Complaints responded to within 20 working days from day of receipt	88	95%	63% <sup>10</sup> (33)
<b>Complaints - Ofwat may/does have a role - Preliminary Assessment<sup>11</sup></b>	Complaints acknowledged within ten working days of receipt	15	95%	100%
	Complaints responded to within 20/40 working days from day of receipt	15	95%	87% (13)
<b>Internal Reviews</b>	Reviews conducted within the deadline	0	100%	N/A
<b>Investigations we carry out</b>				
<b>Customer disputes cases<sup>12</sup></b>	Formal cases closed within our service standard timeframes (including those cases closed prior to final	2	100%	100%

<sup>9</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 CCW can provide assistance, including by trying to mediate a resolution for the customer.

<sup>10</sup> Some complex complaint issues require more internal or external subject matter expert advice and so can take longer to respond to. In 2020-21 we saw a 300% increase in complex complaints where Ofwat does not have a formal legal role to intervene.

<sup>11</sup> We have a legal duty to investigate some types of dispute a customer may have with their water company. For other types, 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>12</sup> Further information on what we can investigate and our target 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>

Metric	Details of what is being measured	Total number	Target	2020-21 Actual
	decision/determination due to informal resolution or withdrawal by the customer)			
<b>Licensing</b>				
<b>NAV applications<sup>13</sup></b>	NAV applications for which we completed our initial checks within five working days of receipt	162	100%	94% (152)
	NAV application decisions made within 85 working days of receipt	94	100%	70% (66)
<b>WSSL applications<sup>14</sup></b>	WSSL applications (including self-supply) for which we completed our initial checks within five working days of receipt	5	100%	80% (4)
	WSSL application decisions made within 45/60 working days of receipt	7	100%	29% <sup>15</sup> (2)
<b>WSSL Revocations</b>	Number of WSSL revocations completed <sup>16</sup>	3	N/A	3

<sup>13</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>14</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/>

<sup>15</sup> The applications we considered in 2020-21 were more complex in nature, compared to previous years and required significant follow-up information and assessment. In the 2020-21 period we refused two applications for a WSSL – one application was not eligible for the type of licence applied for; one did not meet the competencies we assess against.

<sup>16</sup> We revoked three WSSL licences in 2020-21, all at the request of the licensees. Details of the revoked licences are set out at <https://www.ofwat.gov.uk/regulated-companies/markets/business-retail-market/water-supply-sewerage-licences/licence-revocation/>

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

See Appendix A9 on the application of our Public Sector Equality Duty. Otherwise 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

Area of work	Reducing regulatory burdens
<b>Development of strategic resources and Ofwat oversight</b>	<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 co-ordination 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, enabling projects to be split into stages with review and assessment at the end of each stage. Working alongside the industry we have co-designed templates that meet our requirements 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> <p>Throughout this activity, we are considering how we can adapt the regulatory regime to make it operate more effectively, and also exploring how regulatory burdens might be reduced.</p>
<b>PR24 and beyond</b>	<p>This financial year, we started to develop our approach to PR24 and beyond. This has been influenced by, amongst other inputs, the PR19 lessons learnt activity. One theme from stakeholders was the complexity of PR19, and how simplification of the price review could reduce the burden on Ofwat and stakeholders and enhance the ability of stakeholders to engage. We have been considering where simplification may be possible and beneficial. We have also commenced a review of PR14 to consider the effectiveness of our regulation with a view to informing future policy direction in PR24 and other contexts.</p>



<b>Insight and impact</b>	Our focus in Insight and Impact is to improve Ofwat’s insights into both the sector and our understanding of Ofwat’s effectiveness as a regulator. Therefore, our work directly supports our regulatory policy decision-making and seeks to harness the better use of data to make us more efficient and effective. By increasing our understanding of the sector and our impact, we can better help Ofwat to manage and reduce regulatory burdens on the sector.
<b>Regulatory reporting</b>	In June 2020 we consulted on companies’ regulatory reporting obligations for the 2020–21 reporting year, which highlighted proposed changes to the reporting requirements for the Annual Performance Report (APR). The information in the APRs expanded due to the data required to implement PR19. The consultation process considered ways to focus this information on the key requirements and avoid any unnecessary burdens while protecting the interests of customers. Going forward, we will continue to focus on striking the right balance between limiting burdens on companies and making sure we have the right information to hold companies to account.
<b>Markets</b>	<p>In February 2021 we consulted on options for setting new charging rules for developer services that would apply to water companies operating wholly or mainly in Wales. When these charging rules are brought into effect, they will replace the current prescriptive charging rules set out in legislation with more flexible rules which can be readily amended where needed, without the need to change primary legislation. The options we consulted on included an option to set high-level principle-based rules which would remove most of the regulatory restrictions that currently determine how Welsh water companies set their charges.</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 submitted draft water and sewerage sector documents for our approval. We have since approved these documents with the sewerage sector documents coming into force on 1 April 2020 and the water sector documents coming into force on 1 January 2021. 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>As part of refining our guidance on bulk charges for new appointees in January 2021, we set out our approach and expectations with the aim of reducing the likelihood of lengthy disputes between water companies, facilitating new entry into the sector, and reducing the level of prescription for some aspects of the guidance, for example on the approaches incumbent companies could use to estimate an allowed return.</p>
<b>Innovation</b>	Consultations on innovation also highlighted that regulatory barriers may prevent greater innovation in the water sector. To help companies navigate the regulatory landscape and address any perceived regulatory barriers, we launched our One Stop Shop, a direct portal for innovation related regulatory questions or queries, in March 2021. In future we hope to build a collaborative innovation portal in partnership with other relevant regulators.
<b>Licensing and enforcement</b>	Our casework and enforcement team introduced a new case management system in 2019-20 to help manage our customer enquiries and licensing work. This has helped us deliver these services to customers more efficiently and consistently, and better enabled us to absorb increased volumes of activity in both areas during the year. The system and linked

	customer portal also made the process of submitting complaints and regulatory information to us smoother.
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## **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**

None

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

No new matters were referred.

The four references made by Ofwat on 19 March 2020 to the CMA for a redetermination of the PR19 final determinations issued to Anglian Water, Bristol Water, Northumbrian Water and Yorkshire Water under section 12 of the Water Industry Act 1991 were concluded in March 2021. The full final report was published on 9 April 2021.

## A8 Staff composition 2020–21

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

Level and salary range	2020-21			2019-20			2018-19			2017-18		
	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	0	0	0	6	33	0	0	0	0	0	0	0
Band 2 £24,493 to £33,850	8	75	25	13	77	15	13	62	8	14	57	7
Band 3 £33,851 to £50,615	8	38	0	13	62	9	22	68	23	31	58	13
Band 4 £50,616 to £77,422	15.41	56	0	9	44	13	17	47	6	18	33	22
Band 5 £77,423 to £116,134	2	0	50	1	100	0	3	67	0	6	67	33
<b>Total</b>	<b>33.41</b>	<b>53</b>	<b>9</b>	<b>42</b>	<b>60</b>	<b>10</b>	<b>55</b>	<b>61</b>	<b>13</b>	<b>69</b>	<b>52</b>	<b>19</b>

All figures rounded to the nearest whole number.

## Staff in post

Type	31 March 2021	31 March 2020	31 March 2019	31 March 2018
Employed staff headcount	243	240	248	233
Agency staff and consultancy headcount	10	8	17	4

## Employed staff information

Area	31 March 2021	31 March 2020	31 March 2019	31 March 2018
*Full-time equivalent staff	234	232	240	201
Proportion of women (%)	52	50	50	50
Proportion from ethnic minorities (%)	16	15	15	15
Proportion disabled (%)	3	3	4	3
Members of the Senior Civil Service	10	10	10	7
Number of fixed-term and casual contracts	19	32	50	47
Number of staff working part-time	33	28	39	37
Staff turnover (%)	9	16	16	13

\*FTE figure rounded up to nearest whole number



## Staff training attendance (by ethnic group)

Ethnic group	2020-21		2019-20		2018-19 <sup>1</sup>		2017-18	
	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					2,125	100	1,972	100
<b>Total number of training days</b>					2,125	100	1,972	100

1. We did not collect information on training days by ethnic group in 2017-18 or 2018-19
2. Rounded up to the nearest whole number
3. No information on training days was captured by Ofwat in 2019-20 or 2020-21 (the previous Civil Service Learning site has been decommissioned and we are not able to access old records)

## Staff by gender

Area	31 March 2021	31 March 2020	31 March 2019	31 March 2018
Employed staff headcount	243	240	248	233
Number of women	126	123	124	117
Number of men	117	116	124	116
Number unspecified		1		

## Senior Directors by gender\*

Area	31 March 2021	31 March 2020	31 March 2019	31 March 2018
Employed headcount	9	10	10	9
Number of women	6	6	7	6
Number of men	3	4	3	3

\* These figures exclude the role of the Chief Executive

## Members of Senior Civil Service by gender

Area	31 March 2021	31 March 2020	31 March 2019	31 March 2018
Employed headcount	10	10	10	7
Number of women	7	7	7	5
Number of men	3	3	3	2

## 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.

In 2020, we set ourselves three key Equality, Diversity and Inclusion (EDI) objectives for 2020-21. Our three-year EDI objectives will then flow from our new EDI strategy and from the intelligence we are able to gain from improved data collection and analysis.

### Equality objectives for 2020-21

Objectives	Measured by
<b>Develop an EDI strategy and plan in order to deliver the EDI aims identified in the People Strategy</b>	EDI strategy complete and due to be launched in June 2021
<b>Improve the information we hold on our workforce to better support delivery of our EDI strategy</b>	EDI information compliance improves across all protected characteristics with regular reporting and publishing of information
<b>Contribute to delivery of the London Infrastructure EDI Pledges</b>	Inclusion in EDI strategy and plan, and reported via SLT and Board

We set out below how we have complied with this duty in 2020-21 in our external and internal activities, including the progress we have made against three EDI objectives for 2020- 21.

### External

Our corporate strategy, [Time to Act, together](#), guides our day-to-day work. It sets out our clear expectations that the water sector must act to ensure that customers' diverse needs, and particularly those in vulnerable circumstances, are properly met. We expect companies to deepen their understanding of and relationships with their local communities and to improve their ability to meet the needs of the communities they serve. We have reiterated

the importance of prioritising customers' interests, particularly of those in vulnerable situations, in the changed circumstances brought about by Covid-19.

Customer engagement has formed a major cornerstone of our regulatory framework over recent price reviews: our PR19 approach built on the customer engagement policy developed for PR14. We are now considering how it should evolve further for PR24 and later price reviews, with the expectation that companies will further embed best practice and appropriate, proportionate engagement and research approaches to inform business decisions on a day-to-day basis and in the development of longer term plans.

We want companies to get closer still to customers to understand how views and experiences may differ across socio-demographics and protected characteristics to ensure that no groups of customers and/or communities are being disadvantaged. To this end, we are starting to understand customers' needs better directly and through working in partnership with CCW. As part of this agenda, we have recently commissioned small pieces of research on customers struggling financially because of the impacts of Covid-19. We continue to support collaboration between the energy and water sectors on Priority Services Register data sharing.

In the area of board leadership, transparency and governance, we continue to encourage companies to consider the balance of skills, experience, independence and knowledge of their boards to ensure diversity and how stakeholder needs are addressed. We monitor how well companies are doing this and report our findings. In our report for 2020-21, published in February 2021, we noted that while all companies acknowledged the issue of diversity at board level, the degree of its recognition varied across companies, with some lacking specificity or limiting their consideration to gender diversity. We noted that we would like to see companies demonstrate that they have considered diversity in its broadest sense when making decisions relating to the membership of their boards and committees, ensuring they are well equipped to make decisions that meet the needs of their wide range of employees, customers and other stakeholders. We have also expressed our commitment to see company boards develop and improve their approaches to diversity going forwards, as the standards of corporate governance in this area continue to evolve.

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.

In October 2020 we revised our voice and visual identity, following the launch of our new strategy and new government accessibility guidelines. This included an updated corporate colour palette, chosen to be accessible to people with different visual impairments. We also introduced new fonts and ensured they worked well across a range of formats, from reports to web pages. We designed our new identity to be accessible to the widest audience possible

and take into account the needs of people with disabilities such as dyslexia and colour vision deficiency ('colour blindness').

These changes are reflected in our website, where we have implemented technical fixes to improve accessibility. We are educating our people to abide by accessibility principles when creating material. We are continuing to improve the accessibility of all our digital communications, including providing alt text for images and transcripts for video.

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

We 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.

## Internal

Our People Strategy identifies the activities we need to take to move Ofwat from a good to a 'Great Place to Be'. Equality, Diversity and Inclusion (EDI) is one of the five specific themes in our People Strategy. EDI has continued to be one of our key people-related priorities.

We continue to make steady progress by proactively developing programmes and specific actions in 2020/2021 to improve diversity and develop our EDI maturity.

We prioritised the EDI agenda within Ofwat in 2020-21 and delivered the following:

- Published our Gender Pay Gap (GPG) report for 2018-19 in June 2020. Our most recent report, which covers the period 2019-20, which we are due to publish later this year, shows the gap has widened compared to the previous period. However our mean gender pay gap (7.9%) is below the figure for central government. This is being monitored and we are also making progress by commissioning work to publish our Ethnicity Pay Gap (EPG) report alongside our GPG report (expected in quarter two of 2021-22).
- Created a new EDI steering group consisting of 16 members from across Ofwat with a rotating chair. The group has focussed on collaborating with existing groups within Ofwat to enhance the EDI agenda, namely to support Ofwat to promote, champion and encourage equality, diversity and inclusion across the organisation.
- We have changed how we categorise EDI data in line with best practice and engaged with our people to update their EDI information in our database. We have seen improvements in our data collection rates with ongoing work to improve our EDI data collection. This was one of the three EDI objectives set in 2020.
- Established staff networks around protected characteristics (BAME, Black staff network and LGBTQ+) and developed guidance for anyone wanting to set up additional networks. We have also connected with networks in the wider Civil Service and within other regulators.

- Delivered Unconscious Bias training for our staff including members of our senior leadership team (SLT) and our Board.
- Provided reverse mentoring for the Chair of our Board and SLT members.
- We continue to contribute to the delivery of the London Infrastructure EDI pledges.
- We commenced work on our new EDI strategy which was an objective set in 2020. The new strategy will enable us to deliver one of the commitments in our People Strategy which is to create an environment in which we can all be our true self at work. The new strategy launches in June 2021 with a 3-year action plan.
- We created an EDI people analytics dashboard to inform decision making by SLT in the pay and reward process. We have been reviewing our recruitment process and this has resulted in us for the first time ever employing ‘blind sifting’ for our 2021 Graduate recruitment exercise. We considered EDI as part of our branding for this recruitment campaign and involved colleagues from diverse backgrounds to develop the campaign. We impressed upon our graduate provider, Cohesion Recruitment, to expand the reach of the campaign by targeting EDI groups and societies in universities. Our provider also advertised with Target Connect who have access to over 12,000 candidates in economics related degrees (amongst others) so that we could improve the talent and diversity of potential candidates. Conducting recruitment this way is a positive and significant step in our EDI journey, as it will help us to reduce the risk of unconscious bias. Blind sifting is now being rolled out for all Ofwat recruitment. We expect that this will improve the diversity of our staff in the future.
- We have recruited a talent partner within our resourcing team to focus on our ‘Grow our Own’ campaign to ensure a pipeline of talent focusing on apprenticeships, graduate recruitment, internships and work placements with the aim of further improving our diversity.

We are also particularly encouraged by the results of our 2020 People Survey in relation to the views of our people on questions regarding inclusion and fair treatment.

- 78% of our people said they felt valued for the work they did which is an increase of 11% compared to 2019;
- 90% of our people said they were treated with respect by the people they worked with;
- 87% of our people said they thought that their organisation respects individual differences (for example cultures, working styles, backgrounds, ideas) which is an increase of 7% compared with 2019; and
- 87% of our people believed that Ofwat is committed to creating a diverse and inclusive work place, which is an increase of 11% compared with 2019.

This indicates that we are on a progressive trajectory towards achieving a more inclusive and fairer working environment for all of our people.

Finally, we completed an equality impact assessment as we reopened our offices over the summer of 2020 and due to the prolonged home working arrangements.

## 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	4.3 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%	1
1-50%	4
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	£3.2k
Total pay bill	£19,851k
Percentage of the total pay bill spent on facility time	0.02%

## Paid trade union activities

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

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



## 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 2020 to 31 March 2021 in delivering public services in accordance with our Welsh Language Scheme. It also identifies areas for 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. We did not receive any enquiries written in Welsh during 2020-21.

#### Telephone communications

During 2020-21, we did not receive any telephone enquiries in Welsh.

#### Public meetings

We held no public meetings in Wales or in England during 2020-21.

#### Meetings with the public in Wales

We did not meet with members of the public in Wales.

#### Other dealings with the public in Wales

We have not carried out any public surveys wholly or mainly in Wales during 2020-21. We will consider producing bilingual surveys in the next reporting period, if appropriate, in cases where we undertake survey activity.

## Our public face

### Publicity campaigns and advertising

We did not carry out any publicity campaigns wholly or mainly in Wales during 2020-21. 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 2020-21, 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:

- Request for stakeholder views on charging for developer services in Wales (consultation), 10 August 2020
- Water Services Regulation Authority annual report and accounts 2019-20, 24 August 2020
- PR24 and beyond: reflecting customer preferences in price reviews, 9 December 2020
- PR24 and beyond: Our reflections on lessons learnt from PR19 – Executive summary, 9 December 2020
- PR24 and beyond: future challenges and opportunities for the water sector, 11 December 2020
- RAPID forward programme 2021-22, 25 March 2021
- Ofwat forward programme 2021-22, 30 March 2021

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.

We also publish social media posts in Welsh to highlight relevant publications.

## Ofwat Welsh language social media statistics 2020-21

Announcements	Social media platform	Impressions	Engagement
Developer services	<a href="#">Twitter</a>	1,820 impressions	23 engagements
	<a href="#">LinkedIn</a>	1,520 impressions	21 engagements
Announcement of our Head of Wales	<a href="#">Twitter</a>	1,288 impressions	7 engagements
	<a href="#">LinkedIn</a>	1,892 impressions	21 engagements
Ofwat Forward Programme	<a href="#">Twitter</a>	912 impressions	28 engagements
	<a href="#">LinkedIn</a>	853 impressions	6 engagements

## Website

We have continued to maintain the ‘Cymraeg’ section of the Ofwat website, which is accessible to Welsh-speaking users from the home page.

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 2020-21 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 2020-21, 2019-20 and 2018-19

Pages	2020-21		2019-20		2018-19	
	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>	57	23 seconds	54 times	45 seconds	16 times	17 seconds
<a href="#">Cysylltu â ni</a>	61	9 seconds	40 times	30 seconds	9 times	17 seconds
<a href="#">Cyhoeddiadau</a>	78	30 seconds	116 times	45 seconds	14 times	31 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 2020-21, we published no official notices relating to issues that relate wholly or mainly to Wales.

## Press releases and contact with the media

During 2020-21 we issued one press release with a particular focus on Welsh issues.

- [PN 10/20: Ofwat announces appointment of first Head of Wales](#), 30 July 2020

In accordance with the scheme, we also translated one further press release that we issued to the Welsh language press and broadcast media.

- [PN 17/20: New Ofwat Board Appointments](#), 18 November 2020

## Implementing the scheme

### Staffing and recruitment

We do not generally ask job applicants to provide information about their Welsh language skills. In recruiting new staff we consider whether fluency in Welsh would be a desirable or essential skill.

In 2020 we appointed the Head of our new Welsh Office who is fluent in the Welsh language.

### Information and communications technology

We have had no need to provide information and services in Welsh in 2020-21 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 2020-21, 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 will be seeking approval of a revised scheme from the Welsh Language Commissioner during 2021-22.

**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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