

July 2022

Water Services Regulation Authority (Ofwat)

# Annual report and accounts 2021-22

For the period 1 April 2021 to  
31 March 2022

HC 196

Ofwat



Water Services Regulation Authority (Ofwat)

# Annual report and accounts 2021–22

For the period 1 April 2021 to 31 March 2022

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

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HC 196



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# Part 1

Our performance report

## Overview

Our performance report summarises the outcomes we aim for, the work we have achieved, and the water sector's performance in delivering for customers.

### Purpose and activities

We want the water sector to improve life through water for today's customers, and customers of the future. That means driving the best outcomes for customers and the environment while keeping bills affordable, acting to ensure companies meet their responsibilities with long term resilience, protecting the environment for future generations with a sector that remains attractive to investors. Our strategy, [Time to act, together](#), explains how we drive progress in these areas.

We regulate the industry through a variety of tools, including our price reviews that take place every five years. We carry out our functions to fulfil the duties set out in legislation and in accordance with the priorities set by the UK and Welsh Governments.

### Performance against the forward programme 2021-2022

We have seen positive progress against our strategy, achieving all the milestones set out in our [Forward programme 2021-22](#) (see Appendix A1). Almost all other deliverables have been delivered or are on track.

Following consultation earlier this year, we published our [Forward programme 2022-23](#), which sets out our plans for the next financial year.

### Key issues and risks

We have a strategy for managing and responding to risks and opportunities consistent with 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 58 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 111.

## Chair's foreword

Over the past year the water and wastewater sector has faced rapidly changing priorities and challenges. With the gradual return to a situation where Covid is managed, other challenges for the sector have come to the fore. I want to take this opportunity to commend the work the sector, and my colleagues at Ofwat, have done to manage this transition.

Last year I was pleased to report that we had finalised the majority of the work around PR19. One of our core themes has been improving the sector's focus on operating the business well for customers. We can see some effect of this in the service delivered last year, with leading companies powering ahead.

After a sustained period of poor performance, there is encouraging progress reducing leakage, with 13 companies achieving their 2020-21 targets. More broadly, some companies have already achieved their 2024-25 targets across a small number of performance targets set in the 2019 price review (PR19). The incentives earned by leading companies for service improvement recognise strong performers and enable us to set more stretching performance benchmarks for the next review.

But environmental performance has not shown the same positive trends. In the last year, new evidence emerged that suggested widespread shortcomings in how water companies were running sewage treatment works. We launched an investigation and have open enforcement cases against a number of companies, while continuing to keep the performance of the whole sector under scrutiny.

Another strong focus for us has been financial resilience. Our annual Monitoring Financial Resilience report showed varying levels of resilience across the sector, and some companies have started to improve their resilience during the year. But over leveraged capital structures, which some companies have entered into, remain too widespread.

During 2021-22, our active engagement in holding Southern Water and its investors to account for the company's low performance and financial resilience, resulted in securing a new £1 billion investment into the Southern Water group of companies. The existing investors saw a significant dilution in their shareholding, reflecting that persistent poor performance will not just dampen returns but lead to a loss of equity value. The new investment includes at least £530 million as new equity into Southern Water. Macquarie, the new owner, accepted that profound changes are required to improve the company's performance and strengthen its financial position. In December we issued a discussion paper on financial resilience in the sector, again emphasising that returns need to be earned and justified by improving operating performance. I will be interested to see how that develops in the coming years.





Over my decade as Chair of Ofwat, we have made great strides forward in some areas. We now look at customer service relative to performance in other competitive sectors, we have helped get the industry's financing on a more sustainable footing, and we have reformed Ofwat to better face into the sector's current and future challenges.

I am immensely proud too of our work ensuring effective leadership and governance within the sector. Among regulators, our work on board leadership in regulated companies has been ground-breaking in improving the ability to hold management to account in the name of all their stakeholders.

I want to thank David Black for his work over the past year as Interim Chief Executive. Following a competitive recruitment process, I am delighted that we have now appointed him permanent Chief Executive. I have seen first-hand his leadership qualities. I believe he has the experience, knowledge, and vision to take Ofwat into the next price review (PR24) and beyond.

I hand over at the end of June to my successor, Iain Coucher, after nearly ten years in the role. I welcome Iain to Ofwat. I believe Ofwat and its board to be in good shape to support Iain and David as they take Ofwat forward.

Finally, I want to thank all those I have worked with over last decade – my colleagues in Ofwat, both current and former, and those I have worked with constructively in the sector. You have made the past ten years go by very quickly indeed. I am immensely grateful to have known and worked with everyone so closely.



**Jonson Cox**  
**Chair**

## Chief Executive's introduction

Water and wastewater companies provide an essential service for people and nature across England and Wales. This last year has clearly shown the importance people place on protecting the environment and keeping bills affordable as customers face a sharp increase in the cost of living. It is important that the industry stays focused on getting the basics right, even as we all continue to challenge ourselves to go above and beyond.

The announcement of enforcement action in relation to five companies on their sewage treatment works illustrates the scale of the challenge on the environment and water quality in rivers, and there



are early signs that the sector is starting to respond to the challenge. However, companies will need to go further than just complying with current obligations. In March 2022 I asked companies to urgently publish plans for how they will cut the harm they cause to rivers in England, and I was pleased that a significant number published their responses by the end of April 2022. Companies now need to act immediately to implement their plans. Ofwat will work closely with Governments and other regulators on longer term actions to address the issue. I am encouraged by the results of Ofwat's involvement in the Storm Overflows Taskforce in England, and through the wider work of the Better River Water Quality Taskforce in Wales.

The resilience of water and wastewater services to the impacts of droughts and storms, including the effects of climate change and urbanisation, is important to current and future customers. Water companies successfully faced the challenges of dealing with three named storms within a month over the past year. I

am pleased to see the progress of a range of major new water resources schemes including major transfers, reservoirs and water recycling led by the Regulators' Alliance for Progressing Infrastructure Development (RAPID). However, I remain concerned at the lack of concerted action by the sector to improve water efficiency, and it will be important for the sector to make progress across both fronts of demand and supply to meet future challenges.

I am also acutely conscious of the impact of rising inflation and the growing cost of living pressures facing customers. Water is an essential service and must be affordable for all. I welcome expansion of companies' social tariffs to a greater number of customers to help address these pressures. Ofwat is committed to working with Governments and the Consumer Council for Water (CCW) on the development of a national social tariff for PR24. It is also vital that the sector strives to improve efficiency and productivity, to deliver better service at lower costs, as this will underpin affordability for customers for the long-term.

Innovation is key to enable the sector to address future challenges and provide affordable essential services. At the 2019 price review, Ofwat challenged companies to innovate to improve productivity and efficiency, and we welcome evidence that leading companies in the sector are rising to the challenge. The £200 million Innovation Fund Ofwat facilitated is off to a great start; with 20 projects sharing £38 million of funding in our first two competitions in 2021. In early 2022-23 we also announced a further 20 winners sharing over £25 million in our third and fourth competitions.

As we look ahead to the 2024 price review (PR24), companies will need to put themselves on a sound footing to drive further improvements in performance and have resilient finances.

I welcome the UK Government's new Strategic Policy Statement, published in February, and I look forward to seeing the Welsh Government's revised Strategic Policy Statement later this year. We will set out how Ofwat will reflect both governments' priorities in our work in the draft methodology for PR24 and we will invite views on that shortly.

Finally, I would like to thank my colleagues at Ofwat. Over the last year we have demonstrated our passion and diligence for making a difference to the sector, for customers, all in ways we can be proud of. I welcome the results of our Civil Service people survey which show our overall engagement score was 72%; 6% higher than the Civil Service benchmark. We have much more to do to ensure the sector continues to deliver for customers and the environment, and I look forward to working with colleagues as we strive to deliver this.



**David Black**  
**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.

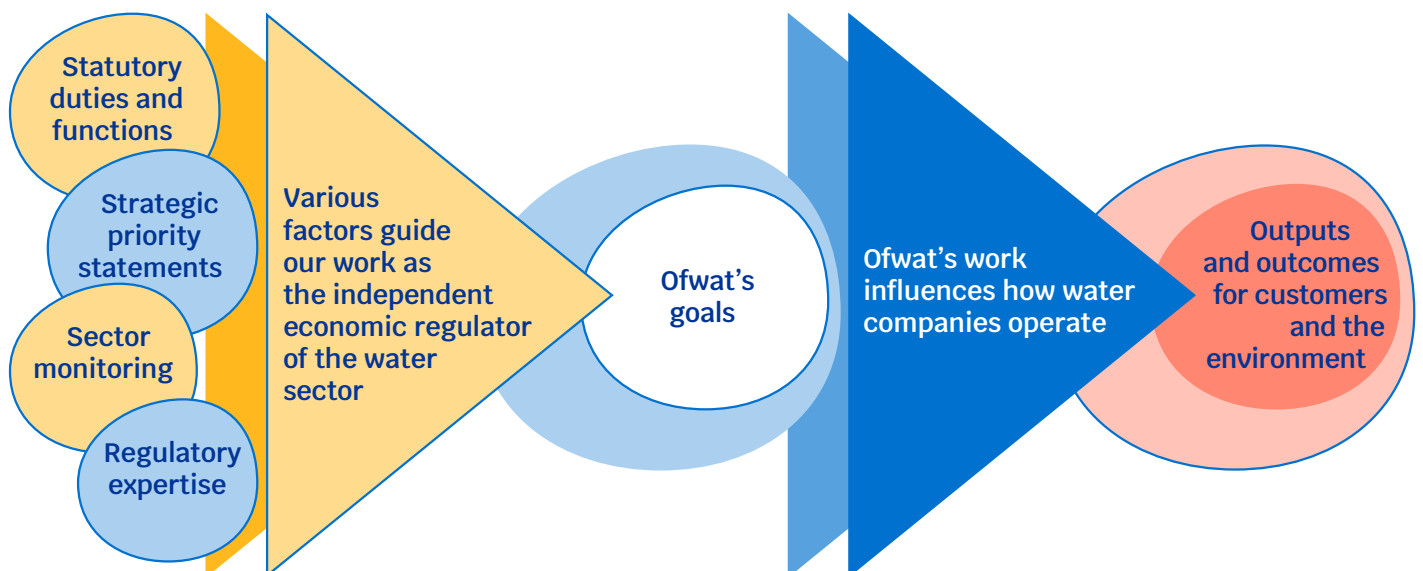
We want to make the greatest contribution possible to improving life through water. Our success is related to how we are driving and shaping the outcomes delivered by companies.

Through our price reviews, we set clear expectations of what companies should achieve over a five-year period, funding them to meet their responsibilities. We also influence company behaviour through other formal and informal methods of regulation, to ensure that the sector meets the standards required and adapts to new challenges.

Where companies fall short of the high standards Ofwat, and customers, expect of them, we intervene.

### Guide to our performance report

Ofwat is an independent economic regulator, but we do not work in isolation. Our performance report explains the relationship between the priorities that guide our work, such as the UK Government and Welsh Government Strategic Policy Statements (SPSs), the goals we set for ourselves, and the customer and environmental outcomes delivered by water companies. For more information on Strategic Policy Statements see 14.



We detail our performance over the past year against our three goals. These are:



**To transform water companies' performance  
(see page 16)**

**To drive water companies to meet long-term challenges through increased collaboration and partnerships  
(see page 19)**

**For water companies to provide greater public value, delivering more for customers, society and the environment  
(see page 23)**

At the 2019 price review, we set stretching but achievable targets for company performance during 2020-25. While we have yet to see updated company performance for 2021-22, performance data from 2020-21 reveals some progress and areas where more work is needed. We believe 2020-21 performance data provides a good indicator of the industry's direction of travel. The outcomes we want to achieve are:

- Reliable, resilient, safe and good quality water and wastewater services (page 27).
- Value for money for customers, keeping bills affordable (page 28).
- Leaving the environment in a better condition for future generations (page 29).
- Companies acting in the long-term interests of society and the environment (page 30).

## The strategic guidance – shared by Governments

Our performance during 2021-22 has helped to further many of the priorities and objectives set by the UK and Welsh Governments in their Strategic Policy Statements. These are statements setting out strategic priorities and objectives for Ofwat in carrying out relevant functions relating wholly or mainly to England and Wales respectively under section 2A and section 2B Water Industry Act 1991.

The table below shows how Ofwat's customer outcomes relate to the SPSs that were in force during the financial year. In delivering against each of these customer outcomes we have helped to further the relevant SPS objectives.

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

## Ofwat's work

Our work holds companies to account and supports them to deliver outcomes that benefits customers, the environment and the long-term resilience of the water sector.

### Goal 1: To transform water companies' performance

page  
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**Delivering for  
current and future  
customers – our  
next price review**

**Investigation  
into sewage  
treatment  
works**

**Investing for  
the future and  
ensuring bills  
are manageable**

Additional support  
for water company  
customers through  
Covid-19

Equipping water  
and wastewater  
companies for  
climate resilience

Facilitating a more  
effective business  
retail market

Driving forward  
the case for open  
data

Securing long-  
term investment  
for Southern Water

19

### Goal 2: To drive water companies to meet long-term challenges through increased collaboration and partnership

Supporting comp-  
anies to increase  
focus on improving  
the environment

Collaborating  
through RAPID

Progressed  
work in the  
Storm Overflows  
Taskforce

Partnered with  
CCW to deliver  
insight on long-  
term challenges

Led innovation-  
first approach in  
the industry

Worked with groups  
across Wales to improve  
river water quality

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

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Set out our  
expectations  
on public value

Encouraged transparency  
for issues of significant  
public interest

Guidelines for  
water companies  
in supporting  
households  
struggling to pay

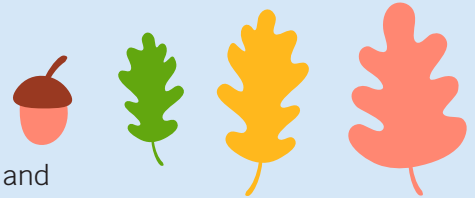
Enhanced the  
resilience of the  
sector

## Goal 1: To transform water companies' performance

### Delivering for current and future customers – our next price review

We continued with work on our next price review (PR24) and in May 2021 we shared our ideas and ambitions in [PR24 and beyond: Creating tomorrow, together](#). We set out four goals that reflect the outcomes we want PR24 to achieve for customers and the environment:

- an increasing focus on the long term;
- delivering greater environmental and social value;
- reflecting a clearer understanding of customers and communities; and
- driving improvements through efficiency and innovation.



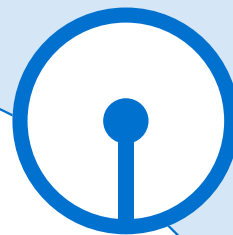
We undertook a series of consultations on policy positions to inform PR24 and we began regularly updating stakeholders on progress through our PR24 newsletter. We will publish the PR24 draft methodology in July 2022.

### Investigation into sewage treatment works

Where company performance is not to the standard we and customers expect, we are committed to taking action. On 18 November 2021 we announced investigations into all water and wastewater companies in England and Wales, alongside the Environment Agency in England. This followed new information that suggested water and wastewater companies may have released sewage into rivers and waterways when they were not legally allowed to do so.

Having gathered further information from all companies, in March 2022 we opened enforcement cases into five: Anglian Water, Northumbrian Water, Thames Water, Wessex Water and Yorkshire Water. However, all water and wastewater companies in England and Wales remain subject to our ongoing investigation.

Water companies need to take responsibility for their impact on the environment. The information gathered through our enforcement cases will help us further understand how these companies are managing compliance with their environmental obligations and inform our next steps.





## Investing for the future and ensuring bills are manageable

We have continued to encourage companies to invest for the future throughout 2021-22. We have enabled over £160 billion since privatisation, including £30 billion for environmental improvements. In 2020-21 the industry spent £9.4 billion in total.

Against the pressure to invest for the future, companies also need to optimise efficiency to keep bills as affordable as possible. The average combined customer bill in 2020-21 was £410, down by £4 compared to the previous year.

### Dŵr Cymru – Rhymney Valley project

Dŵr Cymru has progressed with its Rhymney Valley project in 2021-22. The £10 million investment will see almost 40,000 homes in South Wales benefit from better water quality and service reliability.

### Additional support for water company customers through Covid-19

While the final Covid-19 restrictions ended in the UK in April 2022, we know some will have continued to struggle financially due the impact of the virus. In 2021 we published a new [#ListenCareShare report](#) outlining eight ways water companies can provide support to customers. We also [shared examples](#) of targeted and tailored schemes providing support to those who need it most.

CO<sub>2</sub>

## Equipping water and wastewater companies for climate resilience

We are committed to strengthening the sector's approach to climate change mitigation and adaptation, and we are challenging companies to build on previous commitments to achieving operational net zero emissions by 2030.

In January 2022 we published our [Net Zero Principles position paper](#). The paper sets out:

- expectations for action in relation to net zero target setting;
- scope of action on net zero; and
- prioritising the reduction of greenhouse gas (GHG) emissions.

The paper also sets out how we expect water companies to tackle and comprehensively report on their carbon emissions if they are to make the changes needed to sustain and improve the environment.

January 2022 also saw the publication of our third Climate Change Adaptation report. This report sets out our understanding of the current and future risks presented by climate change, as well as detailing how we are enabling the sector to respond to the associated challenges and opportunities.

## Facilitating a more effective business retail market

In December 2021, we published our fourth report on developments in the business retail market. The report highlighted the differing outcomes for business customers in the market dependent on their size, with larger customers more likely to experience the benefits of the market. Smaller customers continue to have lower levels of awareness and engagement in the market compared to their larger counterparts.

In the same month, we published our proposed approach to reviewing the retail price caps that apply to smaller, unengaged business customers. We plan to make decisions on revisions to these price caps in December 2022, with revisions implemented from April 2023.

Also in December 2021, we closed our investigation into whether Thames Water was contravening its licence obligations and the wholesale retail code. During our investigation, Thames Water offered undertakings to refund customers that it had overcharged, remedy the harm it had caused to water retailers and address our outstanding compliance concerns. In March 2022 we closed our Competition Act 1998 investigation into Thames Water, accepting commitments made by the company without finding that competition law was broken. The commitments will see Thames Water amend its smart metering policy and improve the water usage data available to retailers and their customers in the business retail market.

## Driving forward the case for open data

Open data means making data widely available to everyone to access, use and share. Data is a valuable asset, and the use of open data could transform water and wastewater service delivery by increasing transparency and efficiency, enhancing customer experience, and stimulating innovation.

In October 2021 we published a [discussion paper](#) about open data in the water industry, setting out how open data can enable water companies to create value for water customers, communities and the environment. We want to ensure that the industry harnesses the full potential of open data. We look forward to seeing the progress the industry makes and we will evaluate this progress in autumn 2022.

## Securing long-term investment for Southern Water

In August 2021, Macquarie Asset Management acquired a majority stake in Southern Water. We engaged with Macquarie to ensure the investment would secure the appropriate outcomes for customers, the environment, and the long-term future of Southern Water and we will continue to monitor the company's progress closely.



## Goal 2: To drive water companies to meet long-term challenges through increased collaboration and partnerships

### Supporting companies to increase focus on improving the environment

In July 2021 we announced that the water sector will invest £2.7 billion to deliver lasting environmental improvements for current and future generations. In collaboration with Defra, the Environment Agency, the Drinking Water Inspectorate, and CCW, we approved a broad range of proposals to offer a more resilient, greener, and healthier future. The tangible deliverables of this funding include:



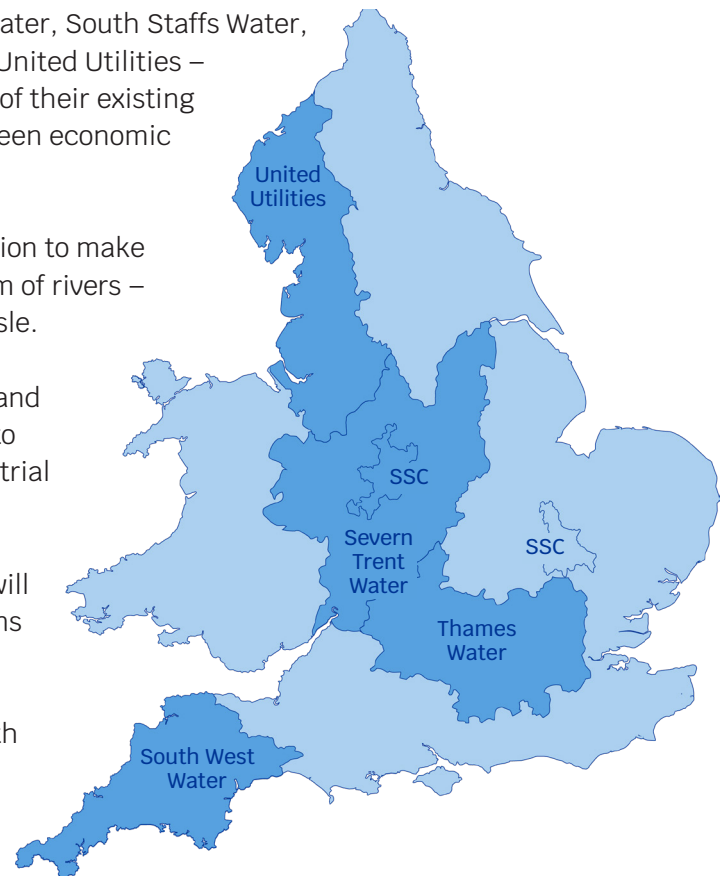
Five water companies – Severn Trent Water, South Staffs Water, South West Water, Thames Water, and United Utilities – will invest an extra £793 million, on top of their existing five-year PR19 packages, to help the green economic recovery.

Severn Trent Water will invest £169 million to make improvements to water quality in 500km of rivers – the distance between London and Carlisle.

Severn Trent Water, South West Water and United Utilities will invest £158 million to reduce harm from storm overflows and trial the creation of two new bathing rivers.

United Utilities and South West Water will deliver a range of nature-based solutions in partnership with local stakeholders.

Severn Trent Water will work closely with local authorities to develop natural flood management and green urban landscape solutions to prevent rainwater entering the system.



We also worked closely with the UK and Welsh Governments in 2021-22 on their plans for refreshed Strategic Policy Statements (SPSs). The new UK SPS includes an expectation that Ofwat and water companies will prioritise action to protect and enhance the environment and deliver a resilient and sustainable water supply. Specific areas of focus for the new UK SPS include asset resilience, abstraction and chalk streams, storm overflows, and financial vulnerability. We expect to see an update to the Welsh Government's SPS in the 2022-23 financial year.

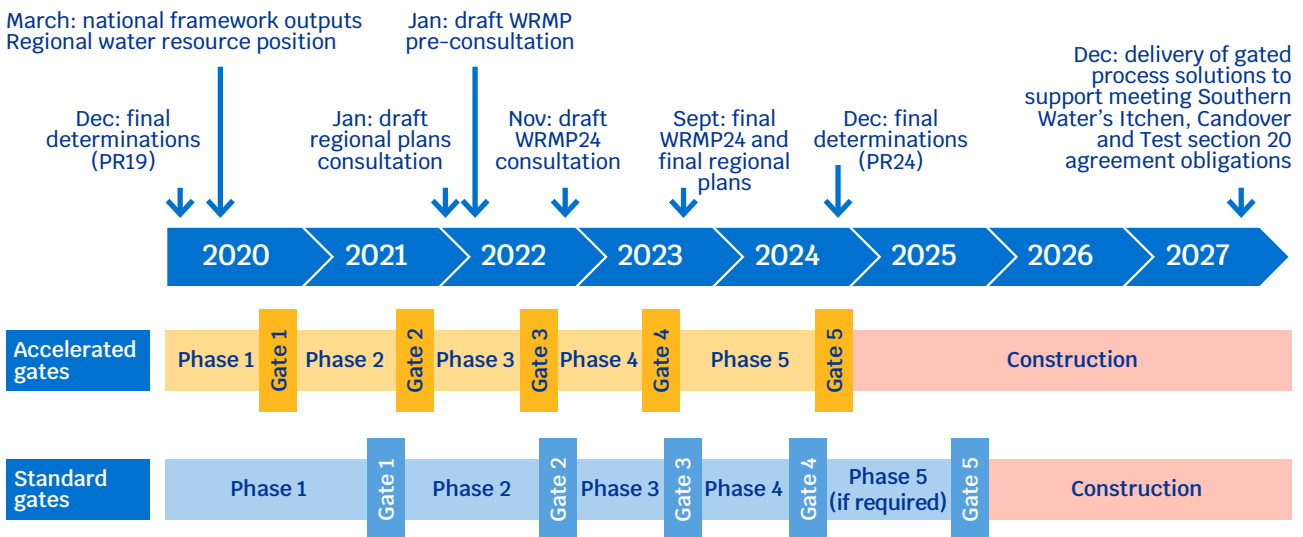
Following the joint development (Environment Agency, Defra and Ofwat) of the Water Industry National Environment Programme (WINEP), the final WINEP methodology and associated guidance documents were released to companies in December 2021 and the [WINEP methodology](#) was published in May 2022. This WINEP will be more outcomes-focused and company-led, with the expectation that it delivers more benefits for the environment. Ofwat and the Environment Agency are engaging with companies on their WINEP plans ahead of draft WINEP submissions in November 2022.

## Collaborating through RAPID

The [Regulators' Alliance for Progressing Infrastructure Development](#) (RAPID) was set up in 2019. It is a partnership made up of three water regulators – Ofwat, the Environment Agency and the Drinking Water Inspectorate.

We made substantial progress in our scrutiny of companies' plans, completing our first layer of review for all plans in January 2022 with the exception of two new strategic schemes, completed in May 2022. For those strategic schemes on the accelerated track, we made our decisions on their progression to the next stage in May 2022 following more detailed scrutiny of their progress (the gate two review). We expect the full gate two review for all schemes to be concluded in the 2022-23 financial year.

## Gated process for potential strategic regional water resource solutions



## Partnered with CCW to deliver insight on long-term challenges

We have worked with CCW on an ambitious research partnership to deliver insights into customer needs and preferences. This partnership helps us to target our regulatory policy, while informing stakeholders of customers' knowledge, experience and priorities in relation to water.



In April 2022, we published our first joint research with CCW, [Customer spotlight](#), which showed that even though two-thirds of people are satisfied with the water services they receive, only around one third of customers would trust their water company to fix a problem quickly and just over a quarter think companies act in the interests of customers and the environment.

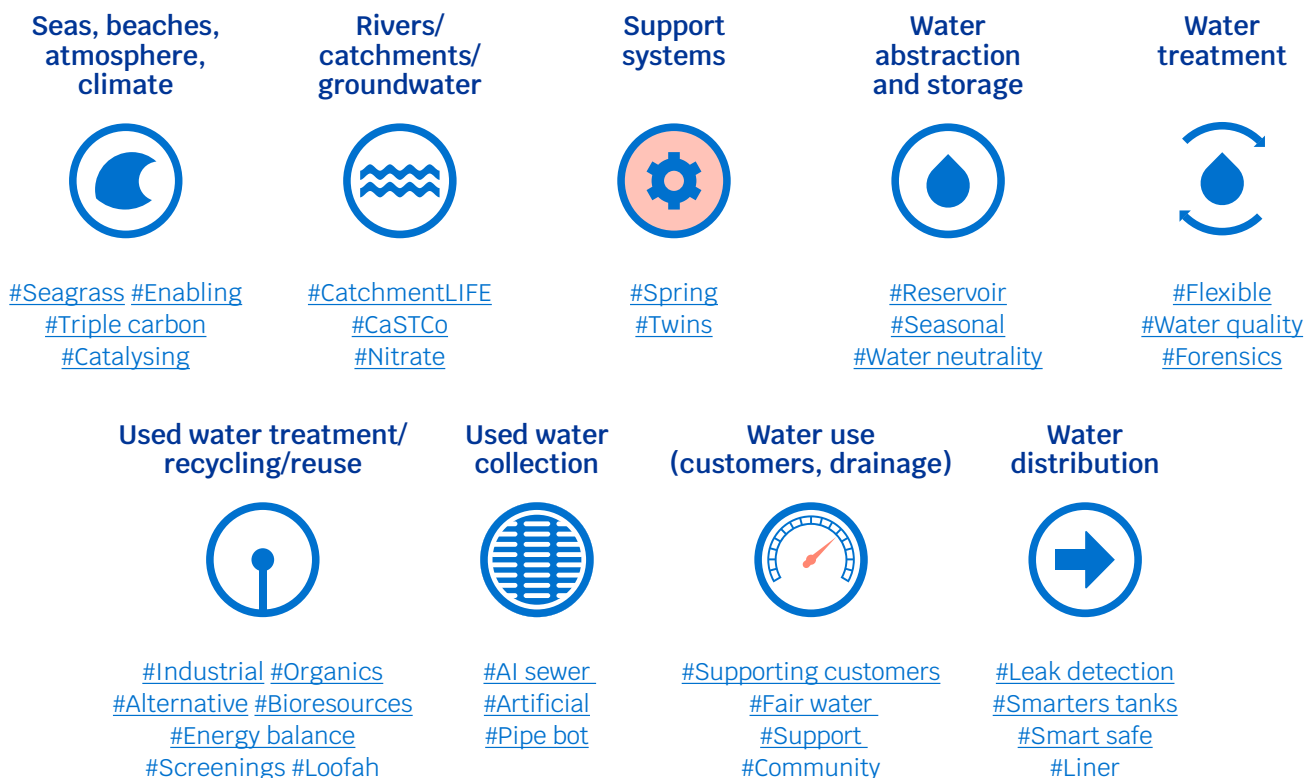
## Led innovation–first approach in the industry

We have facilitated a £200 million innovation fund to grow the water sector’s capacity to innovate, enabling it to better meet the evolving needs of customers, society and the environment.

During the year we ran a number of innovation competitions and announced:

- 11 winners of our Innovation in Water Challenge (IWC) who received up to £250,000 each for initiatives such as [converting waste into green energy and using artificial intelligence and CCTV to spot leaks](#);
- nine winners of our Water Breakthrough Challenge 1 who received a share of £36 million for projects including [hydrogen power from sewage and clean river technology](#); and
- 13 winners of our Water Breakthrough Challenge 2 Catalyst stream who won a share of £5.2 million for projects that include [accelerating technology solutions to leaks, pollution and water quality](#).

We announced seven winners sharing £20 million of our Water Breakthrough Challenge 2 Transform stream in April 2022 and we will be opening our Water Breakthrough Challenge 3 competition in October 2022.



In April 2022 we opened a [consultation on the future of our competitions](#), including proposals to open direct access to the fund to innovators, in order to continue the momentum created by our fund.

We also jointly won funding with the Drinking Water Inspectorate and the Environment Agency from the [Department for Business, Energy & Industrial Strategy’s Regulators’ pioneer fund](#) and launched a joint advice service for innovators and businesses called ‘StreamLine’.

## Progressed work in the Storm Overflows Taskforce

The Storm Overflows Taskforce is made up of representatives from Defra, the Environment Agency, Ofwat, CCW, Blueprint for Water and Water UK. In 2021 the taskforce commissioned research from Stantec, the first assessment of its kind, to provide important evidence to support the development of Defra's storm overflow discharge reduction plan. Following consultation, the final plan is expected to be published by September 2022.

As a result of the taskforce, water companies in England committed to accelerate work to install monitoring devices on all storm overflows by the end of 2023, publish annual monitoring data on their websites about their use of storm overflows and make real-time data on sewage discharges available at bathing sites all year round.

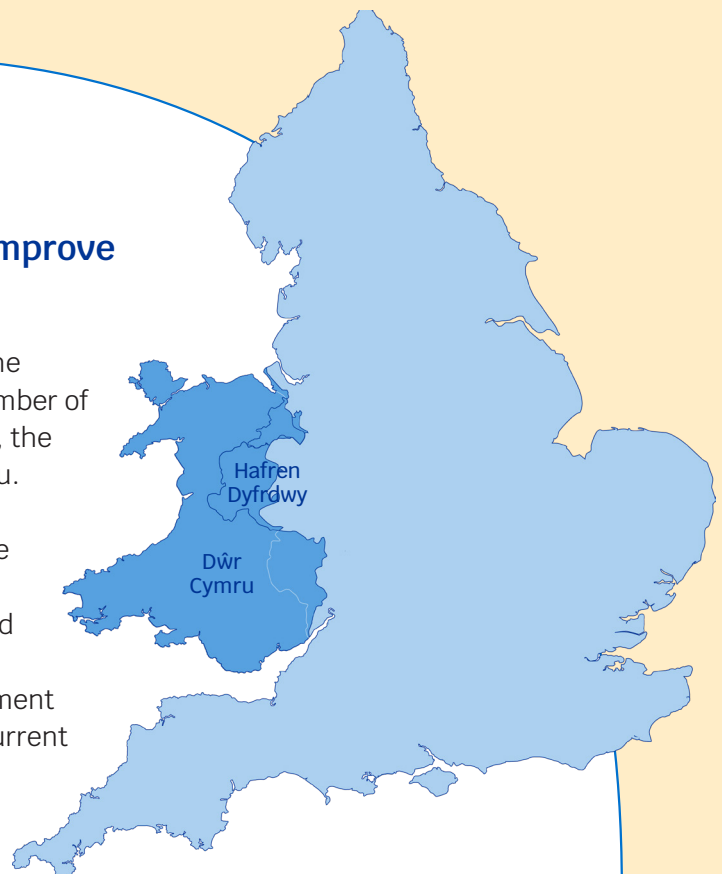
Companies in England and the Environment Agency now have new duties under the Environment Act 2021 to publish data from storm overflow operation on an annual basis, with data from 2020 and 2021 already being available. Once further sections of the Environment Act 2021 are in force, companies in England will have statutory duties to progressively reduce the adverse impacts of storm overflow discharges, publish near real time information on the operation of all storm overflows, and continuously monitor water quality up and downstream of storm overflows and wastewater treatment works.



## Worked with groups across Wales to improve river water quality

In June 2021 the Welsh Government established the Better River Water Quality Taskforce. We are a member of this taskforce, alongside Natural Resources Wales, the Welsh Government, Hafren Dyfrdwy and Dŵr Cymru.

The partner organisations involved in the taskforce are working to improve the quality of rivers in Wales by addressing direct impacts from water and wastewater companies, and the impacts caused by actors outside of the sector. The Welsh Government intend to commission an evidence paper on the current situation in the coming months.



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



### Set out our expectations on public value

Following the publication of a draft supporting set of principles in July 2021, to guide delivery of social and environmental value in the sector, we published our final [public value principles](#) in March 2022. These six principles are intended to support and guide the sector in the delivery of public value, and ensure we are focusing on areas that can deliver tangible, additional value to customers and the environment.

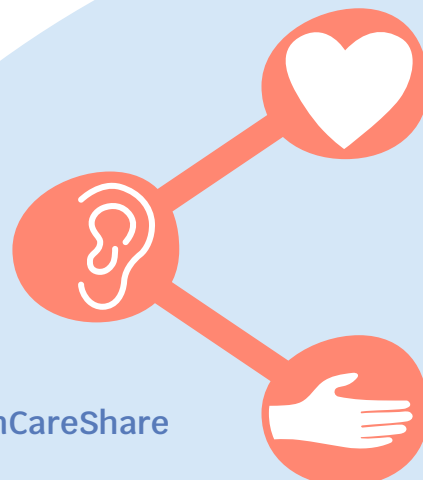
### Guidelines for water companies in supporting households struggling to pay

In parallel with our [#ListenCareShare research and report](#), in June 2021, we consulted on [revised guidelines](#) for water companies to help household customers across England and Wales pay bills, get help and repay debts.

Our proposals included principles and minimum service expectations for water companies in supporting:

- customers in debt, and those facing debt recovery action;
- all residential customers in England and Wales to pay their water bills;
- customers in vulnerable circumstances; and
- customers who have their accounts managed by agents such as local authorities and housing associations.

We will publish our [final guidelines and next steps](#) in 2022–23.



#ListenCareShare

## Enhanced the resilience of the sector

In December 2021 we published our [Monitoring financial resilience report](#) for the year ended 31 March 2021. The report found that overall, companies managed the disruption to their businesses from Covid-19 well and the sector remained attractive to investors. The report also included a dashboard for the first time, to indicate relative risks to financial resilience. The dashboard highlights where there is variation in the levels of financial resilience across the sector. We are actively engaging with all companies on this, and we continue to encourage companies to consider the impact of their financing decisions on their long-term financial resilience. We continue to see examples of companies acting on this through equity injections, repayment of intercompany loans and the restriction of dividends. There remain several companies who need to do more.

We also noted that, at a sector level, dividends paid in 2020-21 were lower than in previous years, but our assessment found that most companies could do more to explain clearly how their decisions on the levels of dividends paid reflect the levels of service delivered. We explicitly said it was extremely disappointing that few companies met our expectations in this respect. The report also noted that at the end of the reported period, nine companies had a pension scheme(s) that was in deficit and the importance of managing this.

In addition to the Monitoring financial resilience report, in December 2021 we published a [discussion paper on financial resilience](#) in the water industry. We welcome the responses to the paper and are considering them closely.



## Encouraged transparency for issues of significant public interest

We continued to encourage the sector to be proactive and transparent on the issues that customers care passionately about. In March 2022 our then interim Chief Executive, David Black, [wrote to company Chief Executives](#) asking them to spell out plans for how they will cut the harm they cause to water quality in England as a result of their activities.

In the same month, David Black also [wrote to water company remuneration committee Chairs](#) to reiterate that performance for customers and on the environment, should be considered when deciding on performance-related executive pay.



## The outcomes – delivered by water companies

Our forward programme 2021-22 sets out four customer outcomes that companies need to deliver against:



**Reliable, resilient, safe and good quality water and wastewater services.**



**Value for money for customers, keeping bills affordable.**



**Leaving the environment in a better condition for future generations.**



**Companies acting in the long-term interests of society and the environment.**



Overall, we have seen some progress on key performance metrics, but we know there is more work to do to continue driving progress for customers. There is also a growing consensus that more should be done to deliver great service and social and environmental value within companies' cost envelope. In some cases, there is progress that hasn't been visible and we, and the industry, must become more active and transparent with regards to work already underway.

## There has been good performance in some areas...

After a sustained period of poor performance, the sector is making encouraging progress reducing **leakage**. 13 companies achieved their 2020-21 targets.

Some companies have already achieved their 2024-25 targets across a small number of performance targets set in PR19. For the **priority services register, water supply interruptions, internal sewer flooding and pollution incidents**, at least one company across each measure exceeds their 2024-25 target.



### ...and poorer performance in others:

Just over half of companies achieved their **pollution incidents** target. The performance of those that are not achieving their pollution incidents targets appears to have stalled.



On **customer measure of experience** (C-Mex<sup>1</sup>) in 2020-21, no company achieved higher performance payments, demonstrating that the water sector has further to go to deliver the highest standards of customer service. We were pleased that the four lowest performing companies (Thames Water, Southern Water, Affinity Water and SES Water) reported that they are putting plans in place to improve their C-MeX performance.



There continues to be very disappointing performance on wastewater. In addition to our research findings on page 16, only three companies achieved their 2020-21 **internal sewer flooding** target.



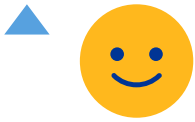
Nine companies did not achieve the target for **supply interruptions**, and while some of this is due to circumstances outside of water company control, these results are some of the poorest supply interruption figures since 2017-18.



Despite reported **treatment works compliance** being at its highest since 2016, our investigation into sewage treatment works suggests that there are deeper issues with company performance and measurement to resolve. Page 16 gives more detail on our investigation.

1. C-MeX comprises two surveys. Customers are asked how satisfied they are with the service provided and how likely they would be likely to recommend the water company to family or friends. This net promoter score result is measured and reported separately to the C-MeX score which is used to calculate financial incentives.

## Service improvements



Consumer satisfaction with water and sewerage services has increased from last year, but is still down from the start of AMP 6 in 2015.

▲ **7%**

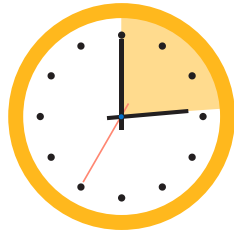
Average customer satisfaction was up by 7% on last year, as measured by the customer measure of experience (C-MeX).



▲ **34%**

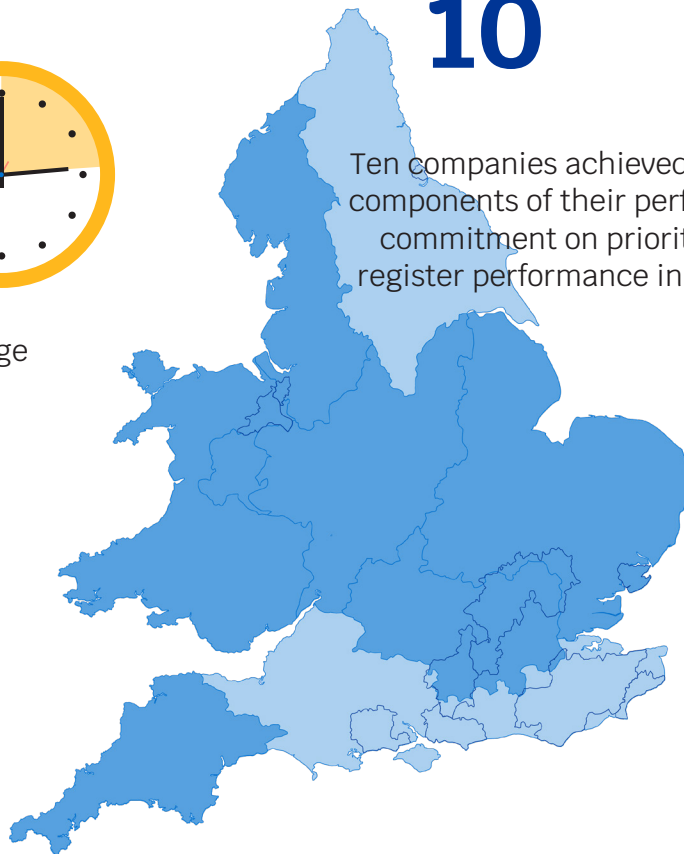
34% increase in total interruption minutes 2019-20, with an average of 13 minutes and 35 seconds per household.

This is less than the 2012-13 average of 18 minutes and 24 seconds per household.



**10**

Ten companies achieved all three components of their performance commitment on priority service register performance in 2020-21.



▲ **+54**

More incidents of internal sewer flooding in 2020-21 (6,079) than in 2019-20 (6,025), reversing performance on last year.

▼ **73%**

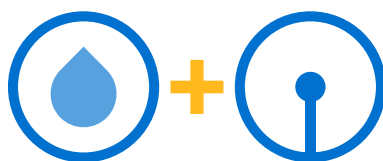


Business customer satisfaction remains high with 73% satisfied with their current retailer; however this is down from 80% in 2018-19.

## Value for money and affordability

▼ **£4**

The average combined customer bill in 2020-21 fell by £4 – it was £410, compared to £414 in 2019-20.



= **76%**

Value for money remains the same in 2020-21, with 76% thinking water companies are providing value for money.

▲ **34%**

34% increase in number of households supported by social tariff schemes, up to 970,000. Including customers on WaterSure, 1.2 million people received reduced water bills.



▲ **1%**

There has been a 1% increase in 2020-21 in the number of households in England and Wales with a water meter.



## Leaving the environment in a better condition for future generations

▲ **3.4** ★ ★ ★ ★ ★

In 2020 the average EPA score for wastewater companies was 3.4 stars out of 5. This is the highest average score achieved to date, but further improvements are needed.

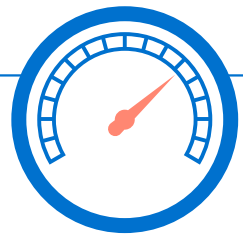


▲ Increase in leakage in 2020-21, with industry leakage at 3,113 Ml/d (reported as a three-year average).



▼ There was a decrease in pollution incidents per 10,000 km in 2020-21 compared to 2019-20. Total industry pollution incidents per 10,000 km of main have fallen by 51% since 2012 but our investigation into sewage treatment works suggests that there are deeper issues with company performance and measurement to resolve.

▲ **9.4%**



Every company underperformed against target on consumption, largely because of changes in behaviour due to Covid-19 restrictions and unseasonably hot weather in spring 2020. During 2020-21, per capita consumption increased by 9% on average.

▲ **94.7%**



For the 2021 bathing season 94.7% of beaches and inland waters gained an 'Excellent' or 'Good' rating compared to 93.3% in 2019<sup>2</sup>.

2. Bathing waters were not classified in 2020 due to the Coronavirus pandemic.

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

**£9.4 billion**

In 2020-21 the industry spent £9.4 billion in total.



Companies continue to focus on their long-term asset health with mixed results. All companies met their target for unplanned outages but only seven out of 17 met their mains repairs target.

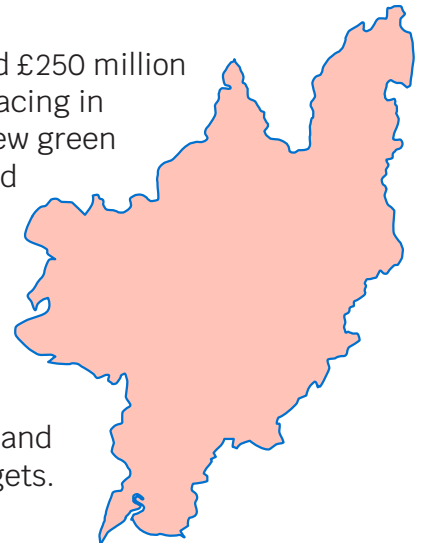
Several water companies have raised long-term sustainable finance over the past year.



Tideway announced it has funding for completion of the project up to 2025 after issuing £300 million in green bonds.

**£250 m**

Severn Trent raised £250 million through a share placing in order to fund six new green projects, and issued a £400 million bond under its sustainable finance framework, linking its financing to social and environmental targets.



## 2. Financial commentary

Our financial highlights are summarised below.

### Operating costs summary

#### Operating costs 2021-22

	2021-22			2020-21
	Core Regulation	Thames Tideway Project	Total	Total
	£000	£000	£000	£000
<b>Income</b>				
Licence fees received	29,058	425	29,483	29,666
Other income	80	-	80	105
Credit note issued at end of year	-	(130)	(130)	(27)
	<b>29,138</b>	<b>295</b>	<b>29,433</b>	<b>29,744</b>
<b>Expenditure</b>				
Administration costs	(28,238)	(295)	(28,533)	(29,400)
<b>Net operating surplus</b>	<b>900</b>	<b>-</b>	<b>900</b>	<b>344</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 £31.8m. 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, investments and anticipated financial risks which did not materialise during the year. At the end of the year we underspent by 3% against our revised budget.

The Board confirmed our core budget for 2022-23 at £32.3m.

## Thames Tideway project

The regulation of the Thames Tideway project is funded under a separate licence and is paid for by Thames Water Utilities Limited and Bazalgette Tunnel Limited (Tideway), the infrastructure provider. The budget for 2021-22 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 £0.1m of excess licence fees recovered to Tideway by credit note. The budget for 2022-23 has been confirmed as £0.5m.

## Capital expenditure

Capital expenditure is funded by budget cover agreed with HM Treasury, which is recorded in our budget estimates. Our core budget for 2021-22 was agreed at £0.6m. We underspent against our capital budget by £0.1m, part of which we held as contingency.

Our core capital budget for 2022-23 has been confirmed as £0.58m. The capital programme for 2022-23 includes upgrading of IT equipment including a hardware refresh, for example of our Surface Pros, and delivery of our data strategy.



**David Black**  
Accounting Officer

**5 July 2022**



### 3. Sustainability report

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.

Ofwat does not have any Scope 1 emissions, nor do we hold any natural capital or landholdings or any car fleet, hence these are not reported on. No construction or refurbishment projects have been undertaken during the period 2021-2022.

We report our performance against the Greening Government Commitments and have reflected this in this sustainability report.

Our carbon emissions for the period were 241.14 tonnes of carbon dioxide equivalent (CO<sub>2</sub>e). The largest source of emissions was home working and commuting, which accounted for 170.82 tonnes of CO<sub>2</sub>e, or 70.8% of the total. Electricity consumption comprised 17.7% of the total emissions, or 42.70 tonnes of CO<sub>2</sub>e.

Total emissions have increased by 28 tonnes of CO<sub>2</sub>e (13.1%) compared to 2020-2021. This is mainly due to an increase in FTEs leading to more home working and commuting emissions, higher upstream emissions factors for electricity and finally, increased business travel emissions (see figure 1). This business travel increase is a result of more rail travel in 2021-22 following gradual recovery from the pandemic. Flights taken remained at zero for the second year running. Furthermore, 2021-22 sees the first inclusion of emissions related to paper usage and hotel stays. Figure 2 compares emissions for the last ten years.

#### Breakdown of annual greenhouse gas emissions by activity type for 2021-22

Table 1. Ofwat's annual GHG emissions by activity type (2021-2022)

Type of Emissions	Activity	Units	(tCO <sub>2</sub> e)	% of total
Indirect Energy (Scope 2)	Purchased Electricity (kWh)	201,115.26	42.70	17.7%
	Subtotal	201,115.26	42.70	17.7%
Other Indirect Emissions (Scope 3)	<b>Business Travel (miles)</b>		<b>8.94</b>	<b>3.7%</b>
	Flights (miles)	-	-	
	Rail (passenger km)	168,295.64	5.97	2.5%
	Taxi (km)	251.34	0.05	<0.1%
	Motor Mileage (miles)	4,884.00	1.35	0.6%

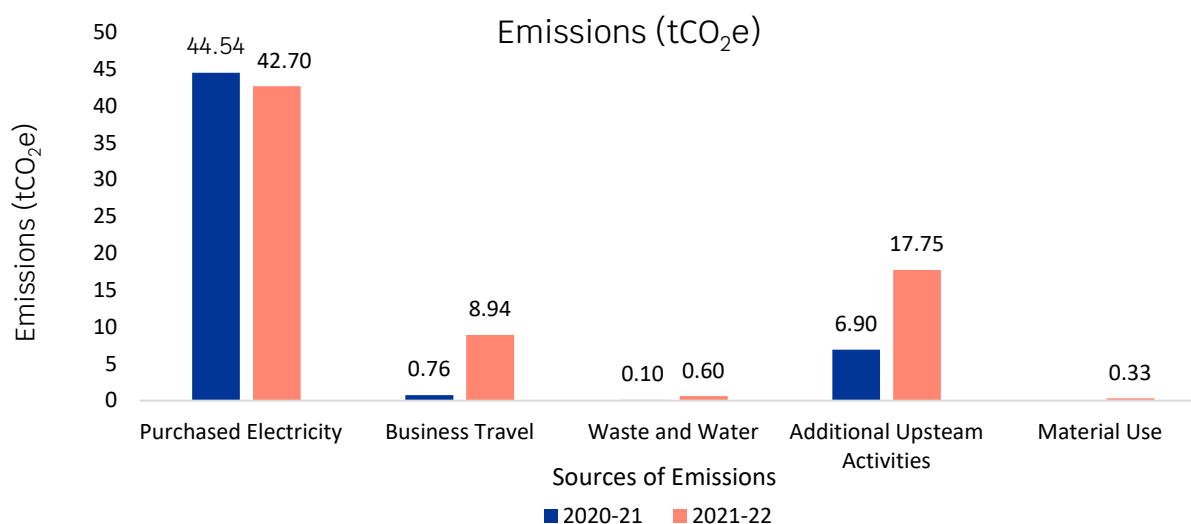
Car Hire (miles)	-	-	
Hotels (number of nights)	113.00	1.57	0.6%
<b>Waste and Water</b>	-	<b>0.60</b>	<b>0.2%</b>
Emissions from Water consumption (m3)	27.50	0.01	<0.1%
Waste (tonnes)	3.78	0.59	0.2%
<b>Material Use</b>	<b>0.36</b>	<b>0.33</b>	<b>0.1%</b>
Paper (tonnes)	0.36	0.33	0.1%
<b>Electricity T&amp;D (kWh)*</b>	<b>201,115.26</b>	<b>15.88</b>	<b>6.6%</b>
<b>WTT**</b>		<b>1.87</b>	<b>0.8%</b>
<b>Home Working Model (Inc. Commuting)</b>	-	<b>170.82</b>	<b>70.8%</b>
Subtotal	-	198.44	82.3%
<b>TOTAL EMISSIONS (tCO<sub>2</sub>e)</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).

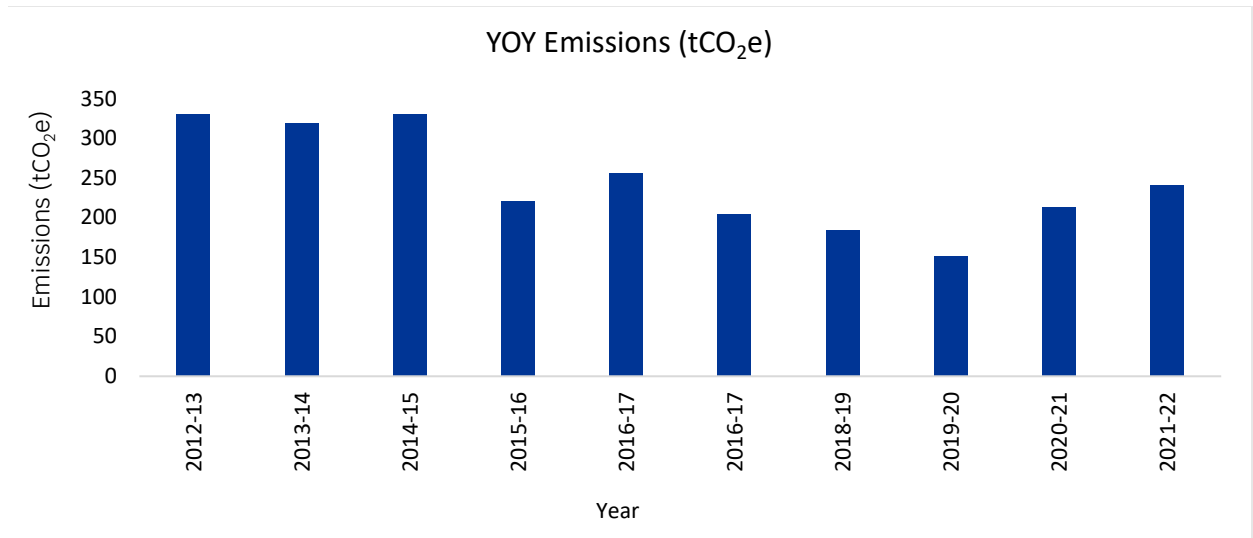
\*\* Well-to-tank (WTT) emissions are those emissions associated with the upstream processes of extracting, refining, and transporting raw fuel to the vehicles, asset, or process under scrutiny.

## Ofwat's greenhouse gas emissions

Figure 1. Ofwat's greenhouse gas emissions by source (excl. home working)



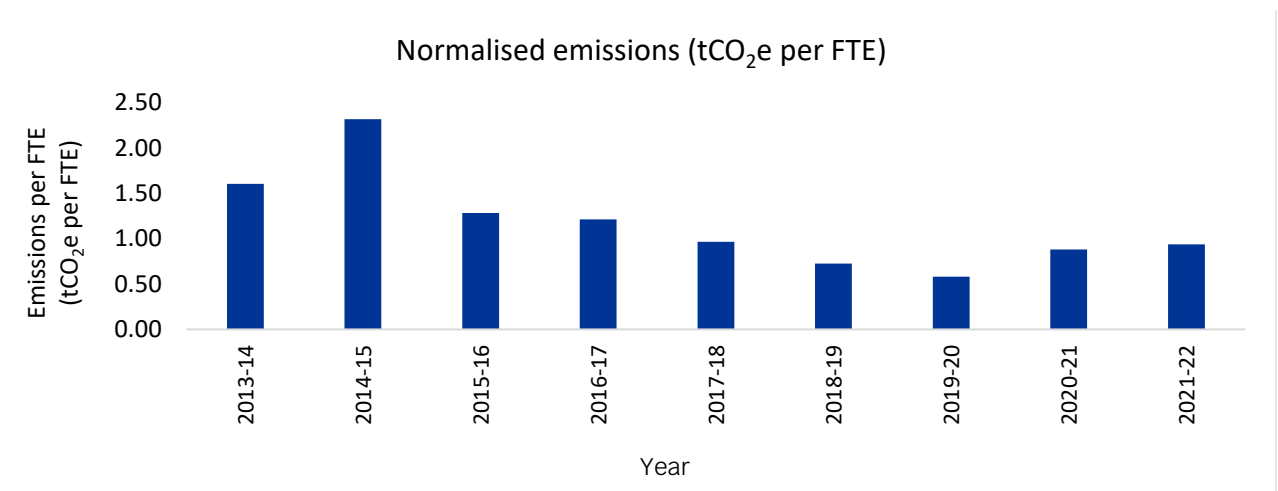
**Figure 2. Ofwat’s greenhouse raw gas emissions (scopes 1,2 and 3)**



Ofwat has chosen staff numbers (FTE) against which to benchmark emissions. FTE numbers have increased from an annual average of 242 to 257 over the 2020-21 to 2021-22 period. Normalised emissions (tonnes of CO<sub>2</sub>e per FTE) have also increased by 6.5%, from 0.88 tCO<sub>2</sub>e to 0.94 tCO<sub>2</sub>e as seen in figure 3.

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

**Figure 3. Ofwat’s normalised greenhouse gas emissions (scopes 1,2 and 3)**



## Year on year analysis of greenhouse gas emissions

**Table 2. A year on year comparison of Ofwat’s total emissions**

Type of Emissions	Activity	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	
		(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	42.70	
	<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>	<b>42.70</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	8.94	
	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	5.97	
	Taxi (km)	1.00	1.43	0.74	0.68	0.40	0.31	0.19	0.21	0.02	0.05	
	Motor Mileage (miles)	3.17	4.66	4.23	4.99	5.58	3.92	1.91	0.29	0.48	1.35	
	Car Hire (miles)	1.69	0.66	0.27	0.25	0.25	0.18	-	-	-	-	
	Hotels										1.57	
	<b>Waste and Water</b>	<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>	<b>0.60</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	0.00	0.01	
	Waste (tonnes)	4.39	2.71	7.04	4.96	5.84	3.90	3.65	3.87	0.09	0.59	
	<b>Material Use</b>										<b>0.33</b>	
	Paper (tonnes)										0.33	
	Electricity T&D (kWh)*	32.12	28.81	32.92	20.82	20.49	27.93	22.88	19.24	6.68	15.88	
	WTT**	27.24	26.95	28.53	19.42	24.57	11.32	10.45	8.23	0.22	1.87	
	Home Working Model (incl. commuting)										160.84	170.82
	<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>168.60</b>	<b>198.44</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>	<b>241.14</b>		
Normalised emissions	Average FTE across reporting period		199.00	142.84	172.00	211.00	211.00	254.00	260.00	242.00	257.00	
	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	0.94	

\*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.

## Electricity

	Electricity tCO <sub>2</sub> e	Electricity emission factor	Year on year % of change in emission factor (grid decarbonisation impact)
2016-17	125	0.41205	
2017-18	104	0.35156	-17.2%
2018-19	93	0.28307	-24.2%
2019-20	81	0.25560	-10.7%
2020-21	45	0.23314	-9.6%
2021-22	43	0.21233	-9.8%

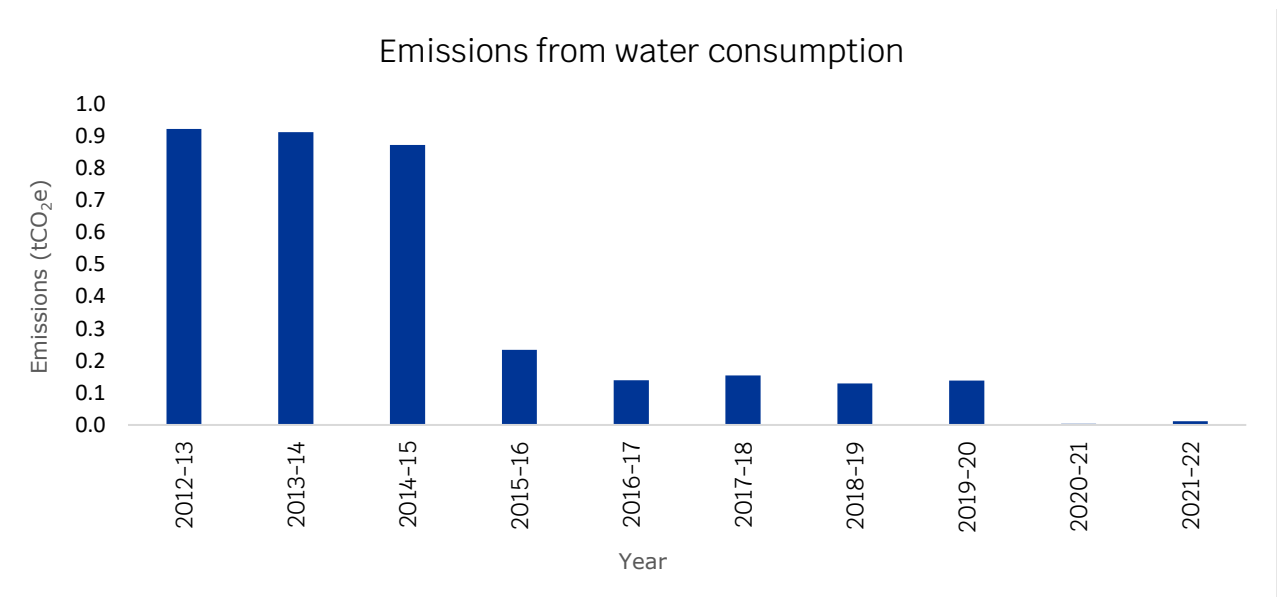
Grid decarbonisation does have a key role in the year on year emissions reduction. However, as shown in the table below, Ofwat's electricity consumption has also decreased when compared to 3 (or more) years ago.

	Electricity kWh	Year on year % electricity kWh consumption
2016-17	303,708	
2017-18	296,634	-2%
2018-19	328,280	10%
2019-20	318,658	-3%
2020-21	191,051	-67%
2021-22	201,115	5%

## Water

Water consumption was 27.5 m<sup>3</sup>, resulting in 0.012 tonnes of CO<sub>2</sub>e in 2021-22, as shown in figure 4. This is a 193% increase from the previous year as people began to use our offices more regularly following the pandemic. Water consumption is only used for kitchen facilities. The washroom/toilets are a shared facility with other occupants of the premises we share so fall under the landlord's remit. Water consumption at the London site was estimated based on consumption per FTE in the Birmingham office.

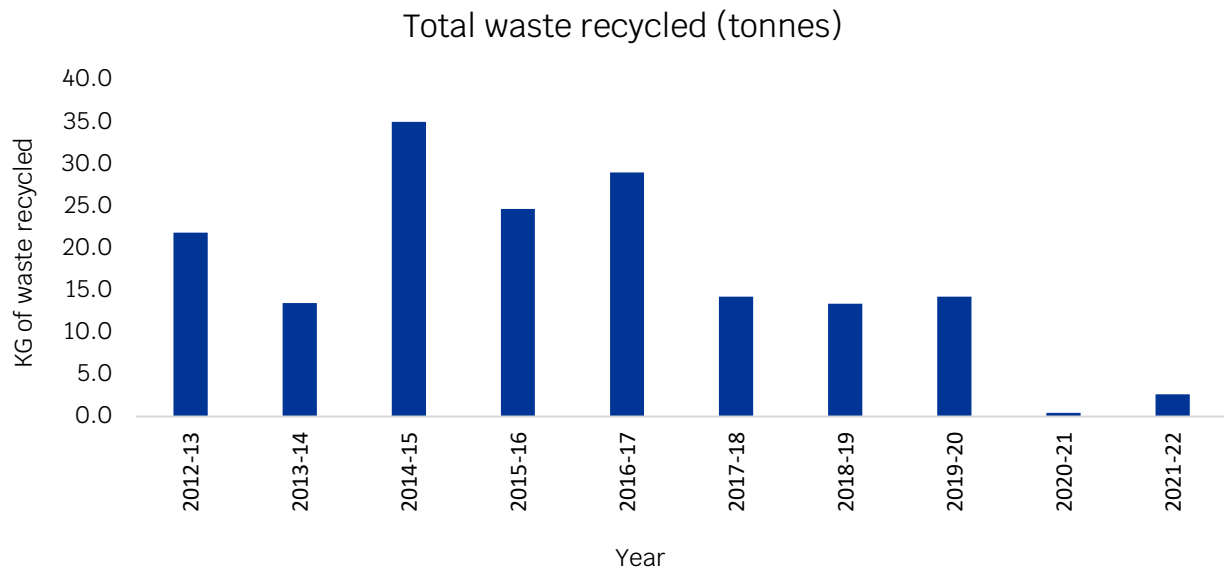
**Figure 4. Ofwat’s emissions from water consumption**



## Waste

All general waste is segregated for recycling or landfill disposal. Ofwat is unable to measure the latter as it is disposed of via a central collection point in our multi-tenanted buildings. It has been assumed that 70% of total waste is recycled.

2.64 tonnes of waste were recycled in 2021-22, resulting in 0.06 tonnes of CO<sub>2</sub>e. Landfill waste has been estimated at 1.13 tonnes, resulting in 0.53 tonnes of CO<sub>2</sub>e. Figure 5 shows the year-on-year comparison for recycled waste. Waste figures at Ofwat’s London site were estimated based on FTEs.

**Figure 5. Ofwat’s recycling (kgs)**

We have started our journey to define an Environmental Sustainability Strategy and to set out how we will meet our commitment to the Greening Government Commitments. We are working with an external partner to develop our net zero strategy and implementation plan during 2022-23. The strategy is being developed with the following aims in mind:

- To reduce Ofwat’s GHG emissions in line with the principles of the 'GHG Management Hierarchy', within all emissions scopes.
- To identify approaches to help Ofwat reduce our emissions that push beyond simply cutting travel and focus on other areas, e.g. emissions from working from home, that have increased during the pandemic.
- To identify how Ofwat can align to targets set out in the Government's net zero strategy commitments, working closely with Defra.
- To develop our disclosures for annual reporting purposes in future.

In the meantime, our 2022 Climate Adaptation Report<sup>3</sup> discusses the risk to the organisation through climate change that could affect or hamper our ability to carry out our functions, for example through disruption to office facilities or transport that could prevent systems or staff operating effectively; and impact the way we work. We have taken action to ensure we effectively manage the risks from climate change to our day-to-day operations.

<sup>3</sup> [Ofwat's 3rd Climate Change Adaptation Report - Ofwat](#)

In ICT and Digital Services we have recently completed our cloud migration programme which has resulted in the decommissioning of on-site server infrastructure, moving to fully utilising cloud services and reducing the environmental impacts from our internal IT Services.

We are also working to the principle that any new contracts are with suppliers who are committed to carbon reduction plans to achieve net zero emissions by 2050 regardless of the size of procurement. As part of our work to establish our net zero strategy this will include the principles set out in the Greening Government: ICT and digital services strategy<sup>4</sup>.

A minimum of 10% of the scoring criteria for all our applicable contracts reflect sustainability themes, and wherever possible we go above this. Our ICT procurement activity is predominantly through the Crown Commercial Services frameworks which align to the Government Buying Standards<sup>5</sup>. During 2022 we will define our Sustainable Procurement Strategy developing our current procurement practices to further embed the Government Buying Standards in all our procurement activity.

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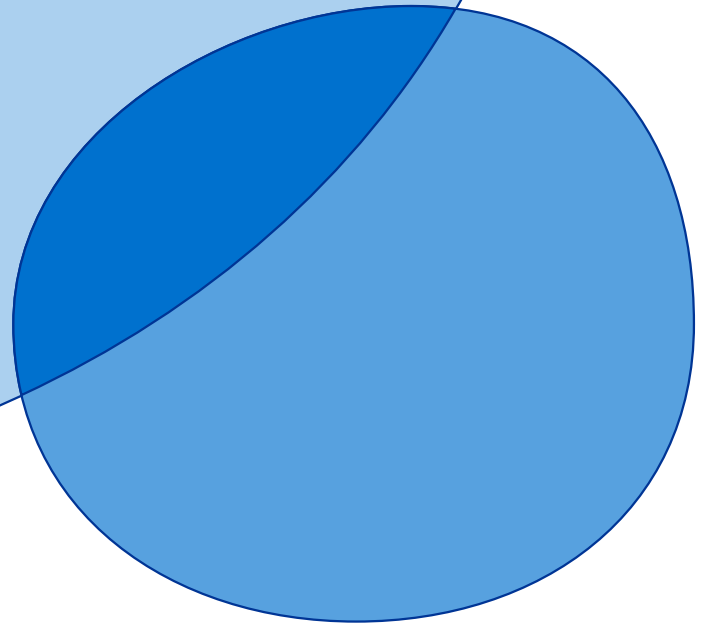
<sup>4</sup> [Greening government: ICT and digital services strategy 2020-2025](https://www.gov.uk/government/consultations/greening-government-ict-and-digital-services-strategy-2020-2025) – GOV.UK ([www.gov.uk](https://www.gov.uk))

<sup>5</sup> [Sustainable procurement: the Government Buying Standards \(GBS\)](https://www.gov.uk/government/consultations/sustainable-procurement-the-government-buying-standards-gbs) – GOV.UK ([www.gov.uk](https://www.gov.uk))



# Part 2

Our accountability report



## Corporate governance report

### Directors' report

#### Leadership

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 current Chair<sup>6</sup>. The composition of Ofwat's Board is set out below and of the Senior Leadership Team in the Staff and Remuneration report on p 70.

#### 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 £60k (2020-21: £43k). 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 was 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 2021-22 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

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<sup>6</sup> Iain Coucher is due to take over as Chair from 1 July 2022.

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 reported one personal data incident to the Information Commissioner during 2021-22, on a precautionary basis consistent with legislation and ICO guidance. Ofwat put in place a plan to address the issue and there was no harm to the rights and freedoms of individuals. The ICO was satisfied with the steps that we took.

## Supplier payment performance

As at 31 March 2022 we are achieving an average of 95% against our target for paying 100% of agreed invoices within 30 days of receipt. The corresponding full year figure for 2020-21 was 81%.

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

**5 July 2022**

## 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.

## Governance Statement – Summary

This Governance Statement sets out our governance, risk management and internal control arrangements. It applies to the financial year 1 April 2021 to 31 March 2022 and, where appropriate, up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

### Governance framework

Ofwat adheres to the principles of the [Corporate Governance in central government departments: code of good practice](https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-code-of-good-practice).<sup>7</sup>

The governance statement sets out:

- a summary of the key elements of our governance framework;
- a review of our effectiveness in 2021-22; 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. In addition to the usual checks undertaken during the year, I have received assurance that we comply with almost all of the mandatory requirements under the relevant Government Functional standards and where there are gaps, we are addressing these in a structured way and expect to be fully compliant early in the 2022-23 financial year. On the basis of the evidence received from the Executive Directors, the Non-Executive Chair of the Board and the Non-Executive

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<sup>7</sup> <https://www.gov.uk/government/publications/corporate-governance-code-for-central-government-departments-code-of-good-practice>

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, aligned with the UK and Welsh governments' strategic policy and objectives statements, 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 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 both at formal meetings and outside meetings if the timing did not align and to ensure prompt communication.

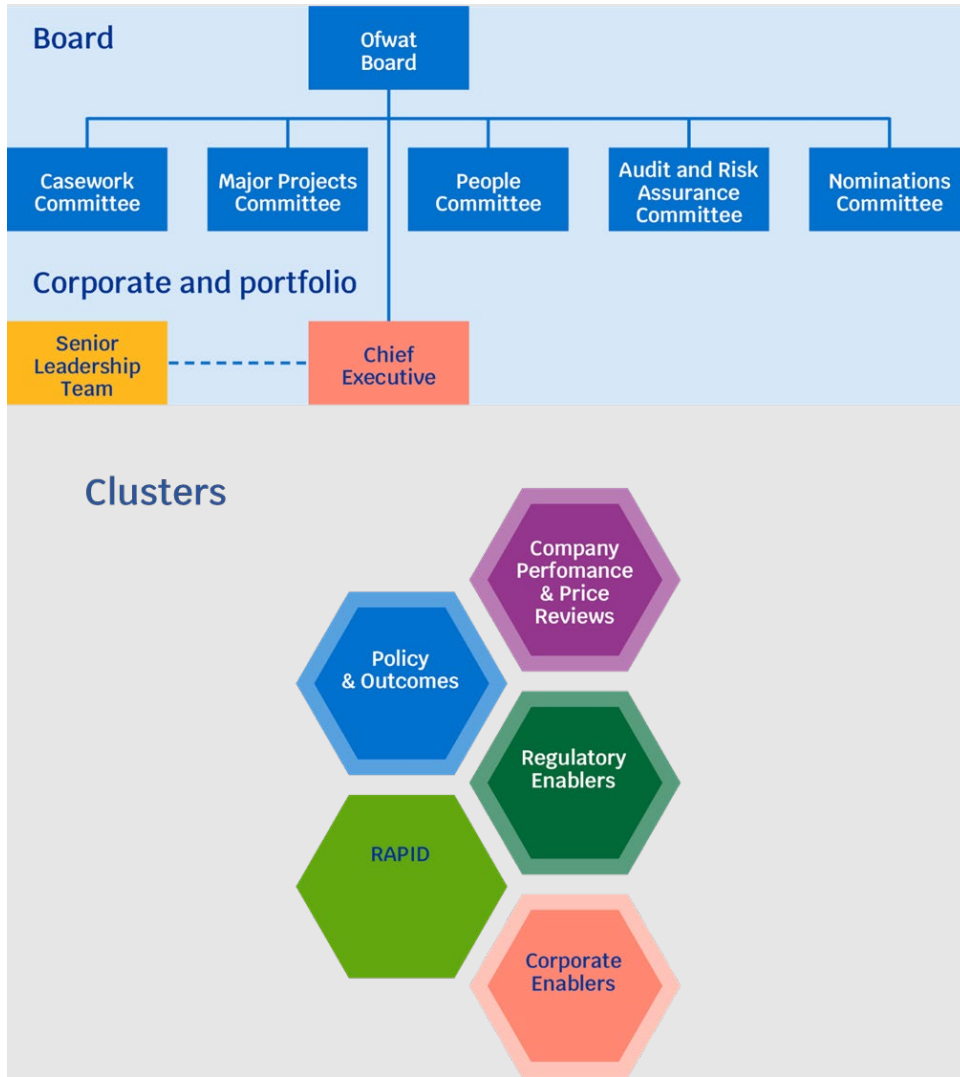
In terms of our risks and opportunities environment, this is monitored closely through regular reviews of our strategic risk register by the Senior Leadership Team and through active management of risk registers in project teams, and action required is taken accordingly. The strategic risks are incorporated into our quarterly portfolio reports to the Board as well as submitted for discussion to ARAC. Security (including information risks) and cyber risks are escalated where necessary by the Senior Information Risk Owner (SIRO) and the Data Protection Officer. Throughout the year ARAC gained assurance on security (including information risks) and cyber risks. We have taken steps to confirm our risk environment and compliance with relevant sanctions legislation and to work with those we regulate to ensure they have appropriate governance and controls in place.

In addition, ARAC receives deep dive risk review presentations on key risk areas from the accountable team, covering strategic and project risks. In addition to its regular oversight of effective risk management and assurance, the reviews by ARAC this year have included: our finance transformation project and project to replace our regulatory data platform, our IT strategy and roadmap, and risk management in the context of the RAPID programme. During the year ARAC also considered our medium term financial planning, progress in delivering our evaluation strategy, and the operation of our governance framework.

Our resource requirements are assessed regularly in the context of our rolling operational plan, 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 2021-22**

Ofwat is organised in a series of clusters or divisions and teams, focused 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.



The two core policy Clusters are Company Performance & Price Reviews and Policy & Outcomes. Company performance and price reviews embraces our work on the price review for 2025-30, company performance and insights, as well as implementation of our data strategy. The Policy & Outcomes Cluster embraces our work on the environment, customer service and engagement, financial resilience, board leadership and governance and public value, innovation, markets and charging, government engagement, and our Ofwat-led work on strategic resources (Direct Procurement for Customers and Tideway). The RAPID team has interfaces with both these Clusters in policy terms.

Our Regulatory Enablers encompass licensing, enforcement and complaints, legal and governance, communications and customer research, and the Chief Economists' team and the investor liaison function. Our Corporate Enablers functions cover People, IT/Digital, Facilities/Business Support, and Finance and Procurement.



## Our governance structure

Ofwat has a three layered system of governance:

- our Board and Board committees;
- 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 2021-22, the Board comprised between six and seven Non-Executive Directors (taking account of one retirement during the year) in addition to the Chair and four Executive Directors, including the Interim Chief Executive<sup>8</sup>.

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

## Experience, skills and training

The Board's membership provides the necessary balance of experience and expertise, covering our functions, duties and strategy.

During the year, the induction and training programme for new members of the Board continued, covering all of Ofwat's areas of work. This took the form of dedicated teach in sessions, workshops, and individual meetings on areas of particular interest. Members of the Board also attended site visits when these could be arranged having regard to Covid restrictions. In addition the Board received training on the effective

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8. David Black was appointed on an interim basis for the 2021-22 financial year. He was appointed as permanent Chief Executive in April 2022.

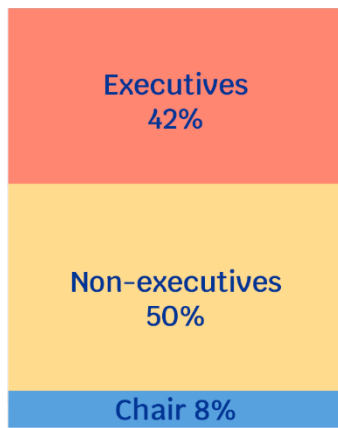
management of cyber risks, and the adoption and implementation of our Equality, Diversity and Inclusion strategy.

### Board diversity

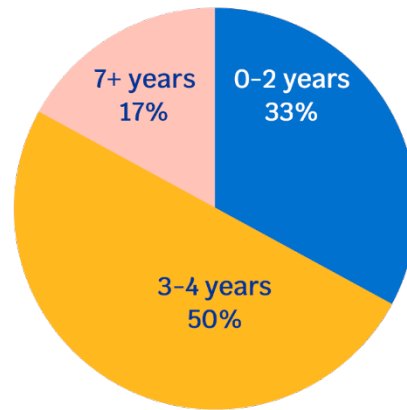
We set out below data on Board diversity reflecting Board composition at the end of the financial year. A key focus of the recruitment campaign for the Non-Executives who joined the Board in December 2020 was diversity in its broadest sense.

To strengthen the knowledge and skills mix of committee membership, we have an independent member on our Audit and Risk Assurance Committee. In addition, as part of the UKRN Next Generation NEDs initiative, which seeks to promote greater diversity in appointments as Non-Executives over the long-term, we have an observer on this Committee who joined for a year from December 2021.

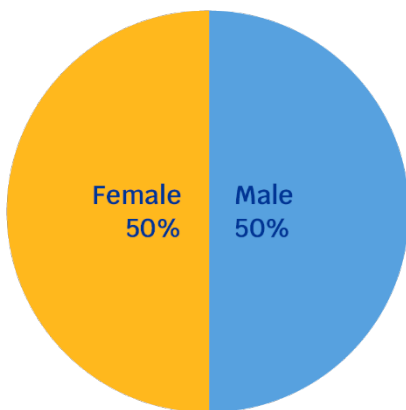
**Board composition**



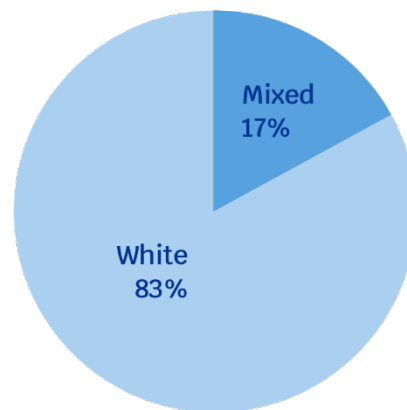
**Board length of service**



**Board – gender breakdown**



**Board – ethnicity breakdown**



Graphs are a snapshot as at 31 March 2022.

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.
- **Expertise:** providing wider public and private sector expertise to help shape the development and delivery of Ofwat's strategy and to improve our performance.
- **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 July 2021. The General Counsel attends Board meetings and is accountable to the Board for providing legal advice.

The Board met formally 13 times in 2021-22 in a mix of fully virtual and hybrid formats. Minutes of the Board's meetings are published on the Ofwat website. At each meeting (and during August when the Board does not meet), the Board receives an update from the Chief Executive covering: developments in implementation of our strategy; project oversight; operational (finance, people, IT and procurement) and governance matters; ways of working; and communications. This report highlights material developments and any key risks to delivery.

Throughout the year, the Board considered the full range of issues relevant to Ofwat's strategy, including company performance (both generally and addressing particular company issues), companies' environmental performance and new initiatives to better protect the environment, strategic water resource options and regional planning, innovation and digital transformation (including open data), consumer policy particularly in relation to vulnerable customers, our approach to public value, financial resilience and developments in the business retail market. The Board monitored progress in delivery of our strategy, including internal enabling activities such as the launch of our EDI strategy and progress in delivering our finance transformation programme.

## 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. The advice of the Advisory Committee on Business Appointments (ACOBA) in relation to Rachel Fletcher's role on leaving Ofwat was 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>9</sup>
- Nominations Committee

Committee	Roles and responsibilities	Issues considered
<b>Audit and Risk Assurance Committee</b> <b>Chair: Alison Munro</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. The	The Committee met five times in 2020-21. In addition to its review of the annual accounts, the Committee considered: <ul style="list-style-type: none"> <li>• regular deep dive reviews focusing on key strategic risks and assurance, and cluster risks and Ofwat's risk appetite;</li> </ul>

<sup>9</sup> Previously called the Thames Tideway Tunnel Committee

	<p>Committee acts only in an advisory capacity to the Board and has no executive powers.</p>	<ul style="list-style-type: none"> <li>• deep dive reviews on the IT Strategy and Roadmap; Medium Term Financial Plan; Partnership working; Finance Transformation; the development of a new regulatory data platform for Ofwat;</li> <li>• business continuity arrangements, including to manage cyber risk;</li> <li>• progress in implementation of Ofwat's 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> </ul> <p>All of the scheduled internal audit reviews were completed, as agreed by the Committee, with findings providing either substantial, moderate 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). Overall for the 2021-22 financial year, Mazars' internal audit opinion on the framework of governance, risk management and control is that it is Moderate in its overall adequacy and effectiveness, reflecting both the particular audits undertaken during the year and the introduction of a new intermediate category of opinion between 'Substantial' and 'Adequate'. No 'Limited' assurances were given. Mazars noted that all of their recommendations had been, or were in the process of being, addressed.</p>
<p><b>People Committee</b> Chair: Seema Kennedy</p>	<p>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.</p>	<p>Matters discussed during 2021-22 included:</p> <ul style="list-style-type: none"> <li>• progress in implementing the People Strategy, including managing talent and creating a high performing Ofwat;</li> <li>• implementation of our EDI and health and wellbeing strategies and the results of the Ofwat employee survey; and</li> <li>• Ofwat's path forward: future ways of working;</li> <li>• pay and reward for non-SCS staff and the SCS pay remit.</li> </ul>
<p><b>Casework Committee</b> Chair: Nicola Bruce</p>	<p>The Casework Committee is responsible for making certain final decisions in strategic enforcement cases Ofwat pursues.</p>	<p>During the period of this report, the Committee has not had reason to meet or to make any final decisions regarding enforcement activities. It did convene to complete an introductory meeting for its new members to familiarise themselves with the work and role of the Committee.</p>
<p><b>Major Projects Committee</b> Chair: Jonson Cox</p>	<p>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.</p>	<p>During the year the Committee met nine times where they received updates on the Thames Tideway Tunnel (TTT) Project and DPC (Direct Procurement for Customers) projects including HARP, Middlegate and Cwm Taf.</p> <p>Decisions that were made included:</p> <ul style="list-style-type: none"> <li>• Amending Tideway's licence to apply alternative customer sharing rates for Covid-19 related expenditure on the Thames Tideway Tunnel and to</li> </ul>

		change the TTT Financial Cost Adjustment Mechanism, freezing it at March 2021 levels; <ul style="list-style-type: none"> <li>• Designation of HARP and Middlegate as DPC projects; and</li> <li>• An interim determination on the Middlegate project</li> </ul>
<b>Nominations Committee</b> <b>Chair: Jonson Cox<sup>10</sup></b>	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 Board members, the Senior Leadership Team and other senior roles; and be engaged in the appointment of any member of the Senior Leadership Team.	During 2021-22, the Committee met four times in relation to the recruitment of a permanent Chief Executive and to provide input requested by Defra and receive updates in relation to the appointment of a new Chair.

## Board members' terms of appointment and attendance

The Chair and Non-Executive Directors have played a full part in Board business by attending and contributing to Board and Board committee meetings.

### April 2021 to March 2022<sup>Ω</sup>

Board member	Board Meetings (13)	Audit and Risk Assurance Committee Meetings (5)	People Committee Meetings (5)	Casework Committee Meetings (1)	Nominations Committee Meetings (4)	Major Projects Committee Meetings (9)
<b>Jonson Cox</b> <b>Chair</b>	13/13	-	5/5	-	4/4	9/9
<b>Term started</b> 01/11/2012						
<b>Catherine Waddams</b> <b>Non-Executive Director</b>	1/1	-	-	-	-	-
<b>Term started</b> 01/05/2013						
<b>Mark Bayley</b> <b>Non-Executive Director</b>	13/13	5/5	-	-	-	9/9
<b>Term started</b> 28/04/2016						
<b>Alison Munro</b> <b>Non-Executive Director</b>	13/13	5/5	-	-	4/4	-

<sup>10</sup> Other than when dealing with matters relating to chairing the Board

Term started 28/04/2016	Term ends 31/10/2025						
<b>Nicola Bruce Non-Executive Director</b>		12/13	-	-	1/1	-	-
Term started 01/12/2020	Term ends 30/11/2025						
<b>David Jones Non-Executive Director</b>		13/13	5/5	-	1/1	-	-
Term started 01/12/2020	Term ends 30/11/2024						
<b>Seema Kennedy Non-Executive Director</b>		13/13	-	5/5	-	4/4	-
Term started 01/12/2020	Term ends 30/11/2024						
<b>Jonathan Kini Non-Executive Director</b>		13/13	-	5/5	-	-	8/9
Term started 01/12/2020	Term ends 30/11/2023						
<b>David Black Interim Chief Executive</b>		13/13	5/5	4/5	1/1-	2/4*	9/9
Term started 29/05/2017	Term ends 27/05/2027						
<b>Aileen Armstrong Senior Director</b>		13/13	-	-	-	-	-
Term started 16/05/2016	Term ends 14/05/2026						
<b>John Russell Senior Director</b>		12/13	-	-	-	-	8/9
Term started 25/07/2016	Term ends 23/07/2026						
<b>Lisa Commane Senior Director</b>		13/13	5/5	4/5	-	2/4*	-
Term started 01/04/2021	Term ends 31/03/2026						

<b>Vanessa Howlison Independent Member<sup>β</sup></b>		1/1	5/5	-	-	-	-
Term started 01/01/2015	Term ends 30/06/2023						

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

\* David Black and Lisa Commane were only invited to two meetings of the Nominations Committee.

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.

We conducted a board evaluation in the course of the year to supplement these meetings, undertaking surveys for the Board and the two key committees that meet regularly, the Audit and Risk Assurance Committee and the People Committee. Overall, there was consistent positive feedback on the operation and effectiveness of the Board and these Committees. Board members considered we had successfully worked through the onboarding of new Directors against the backdrop of the pandemic and a challenging external stakeholder environment.

In addition to the ongoing induction and training programme focused on key issues of strategy, policy and governance, 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 through individual engagement by Board members, for example with respect to digital change projects, our EDI strategy, and with our Office Committee.

## Senior Leadership Team

The Senior Leadership Team (SLT) comprises the executive members of the Board, other Senior Directors responsible for licensing and enforcement, major projects/DPC, Communications and RAPID, the General Counsel, and for most of the year until her departure in October, the Chief Economist. 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 the following key areas:



- Business improvement and planning
- People
- Data strategy

## Ways of working to deliver our strategy

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

Our People 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. Our work on Equality, Diversity and Inclusion is set out in Appendix 9.

With the easing of restrictions and following the government's roadmap for recovery from the pandemic, we have now moved to hybrid working enabling our people to successfully combine a balance between home / office-based working. Taking a people-centric approach, we have empowered our people to bring our hybrid working principles to life within their teams through experimentation and creating Team Charters defining how they will work. We have maintained a focus on communications, visible leadership and Health and Wellbeing.

Ofwat has been at the forefront of smarter working within government, recognising that our ways of working will be what help us attract, retain and develop our organisation. Our work has been recognised externally with Ofwat winning the 2021 Smarter Working Award in the Improving Spaces category at the Government Awards in 2021. In addition, Ofwat was given a special recognition award by the Government Awards in Smarter Working to reflect the dedication demonstrated by everyone at Ofwat.

In IT we have focused on our four 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 efficiency ideas and exploring digital tools.

In year we have secured a 3 year comprehensive spending review settlement based on our medium term financial plan. We are in the process of implementing a new finance system so that we can replace legacy IT infrastructure and improve our financial forecasting, business partnering capabilities and management information.

## 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, and responsibility is assigned for each of the mitigating actions. In addition, individual risks within our projects are escalated from delivery directors to the SLT and reflected in the strategic risk register 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.

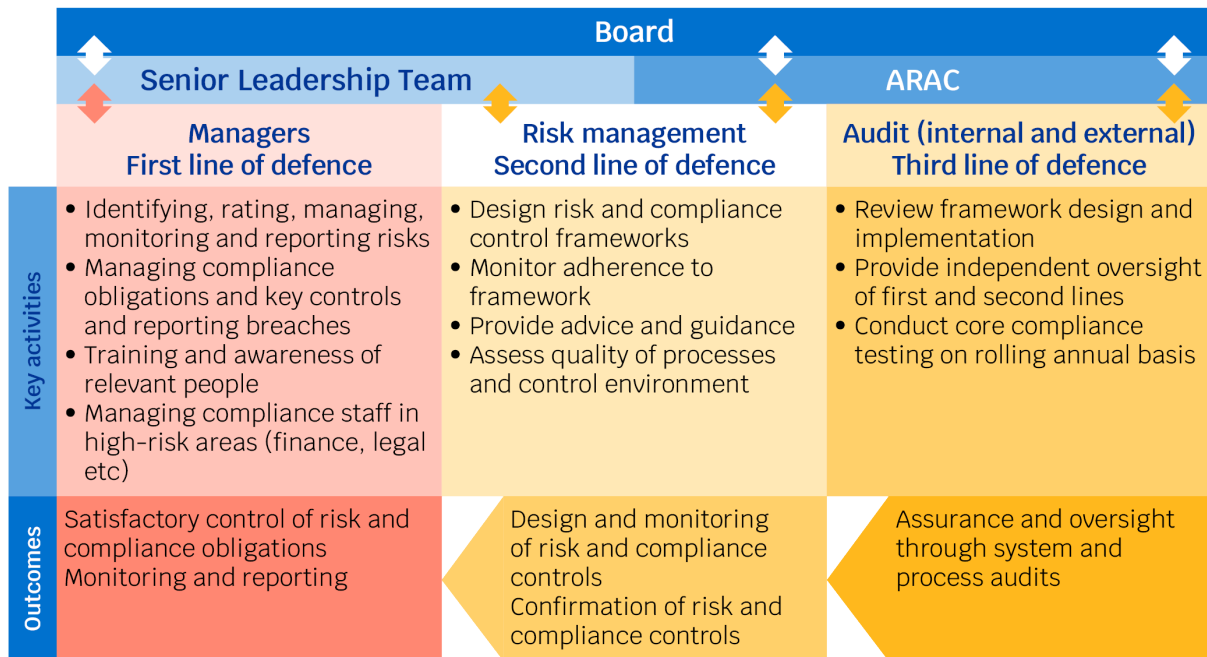
### **Assurance controls for risk management**

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. We continue to build on what we have in place, working with Clusters and teams to take our approach to a greater level of maturity. The Audit and Risk Assurance Committee has oversight of our approach and risk management as set out elsewhere and risk and opportunity management is integrated into our Clusters and their component projects.

Our work on risks and assurance throughout the past year continues to highlight that the scenarios we face are generally complicated and ambiguous, with no simple, definitive solutions, and the risk environment continues to evolve rapidly. 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. The framework 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 reflected in the Board’s consideration of the effectiveness of risks and opportunities management. It is taken into account in assessing and managing risks and taking decisions but we feel there is more to do to fully embed this into all our decision-making.



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 and the environment 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 recognise that in a complex environment, risk appetite needs to be considered on a case by case basis. For example, we have a minimalist appetite for risks that could cause significant damage to good customer and environmental 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 and the environment. We also take a more cautious 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 the environment 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
<p>Whether our regulatory approach, framework and tools are effective, relevant and adaptive to long term challenges important to customers, society and the environment, including having regard to the impact on long term investment</p> <p>Effective management of this risk is vital to maintain trust in Ofwat and our ability to be effective. We need to have a relentless focus on the outcomes we are seeking to achieve and on what we expect companies and their investors to achieve.</p>	<p>Whether we are proactively anticipating and analysing information, data and trends, and responding effectively to external events that may have a significant impact on company performance and our ability to deliver, even events not in our direct control.</p> <p>Our ability to advance our strategy is dependent on our ability to work collaboratively and in partnership with a range of stakeholders, in particular both governments, but also including the industry itself, other regulators and stakeholders.</p>	<p>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.</p> <p>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.</p>

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 throughout the year is described in our Performance Report.

## Our regulatory approach

Risk	Mitigating actions
<b>Short term: failing to keep pace with changes in what matters to consumers, society and the environment</b>	<p>Consulting on key areas of new approach for PR24, including customer engagement and collaborative working with the Welsh Government</p> <p>Developing customer strategy, including considering additional licence protections for customers, particularly vulnerable customers</p> <p>Developing approach to assurance with respect to companies' asset management</p> <p>Evolving approach to dealing with environmental concerns through policy and investigations work</p> <p>Focus where necessary on poorly performing companies</p>
<b>Long term: failing to enable and encourage the sector to address longer term challenges, to motivate the right culture and behaviours within the sector and to provide the right environment for sustainable investment in the long term interests of customers</b>	<p>Working with Defra, the EA, NRW and Natural England on major programmes to improve the long-term planning process for environmental improvements, including companies' and regional Water Resources Management Plans (WRMPs) and Drainage and Wastewater Management Plans, and reform of WINEP process</p> <p>Continued engagement with investor community on our work, including risk and return at PR24; and encouraging new forms of finance into sector through new competitive models</p> <p>Continued work with companies and sector groups to focus on driving company ownership and accountability for customer/ environmental outcomes</p>
<b>Data, information and insights: lacking sufficient insights to understand sector performance, and to evaluate and evolve our regulatory methodology / interventions</b>	<p>Ongoing engagement with sector on implementation of open data approach</p> <p>Monitoring company performance through range of mechanisms and ongoing monitoring of business retail market</p> <p>Making improvements to the ways that we store, analyse and visualise data</p> <p>Implementation of evaluation strategy to assess the impact of Ofwat's work</p>

## External factors

Risk	Mitigating actions
<b>Relationships: not having the right relationships and insight from wider stakeholders to support delivery of our strategy</b>	<p>Continued to build collaborative stakeholder relationships, e.g. within RAPID; and membership of a number of cross-government working groups and taskforces</p> <p>Working with new Welsh Government / key stakeholders in Wales to reflect Welsh considerations where appropriate in our policy development and decision-making</p> <p>Ongoing collaborative work within UKRN on a range of issues, and with CCW, e.g. on collaborative customer research</p> <p>Implementation of stakeholder strategy covering companies and their boards, customers, environmental interest groups and investors</p>
<b>Communications and legitimacy: not shaping or influencing the wider external agenda effectively</b>	<p>Presenting clear narrative to different audiences, providing clarity and insight</p> <p>Effective communication of our policy agenda, including key customer / environmental outcomes and impacts</p>

<b>through our strategic communications tools</b>	Continuing to ‘pre-engage’ with stakeholders proactively as policy is under development in order to ensure transparency, buy-in and sector ownership
<b>Unexpected events: not being able to deal quickly and effectively with unexpected events or those outside our direct control</b>	<p>Horizon scanning external environment and ongoing monitoring of company performance to anticipate issues and ensure agility in response</p> <p>Encouraging sector to improve ability to cope with external events, such as extreme weather or impacts of supply chain issues, alongside Covid-19 challenges</p>

## The way we work

<b>Risk</b>	<b>Mitigating actions</b>
<b>Culture, behaviours and values: not being able to develop and embed our new ways of working across Ofwat to enable the culture and transformation needed to be a high performing organisation</b>	<p>Development of our Framework for Success and SLT leadership development programme</p> <p>Embedding hybrid working across Ofwat</p> <p>Continued delivery of holistic health &amp; wellbeing offer</p>
<b>Resources: not having the resources to support our ambitions or utilise these to full effect</b>	Developing longer term resourcing and delivery plans through to 2025
<b>Resilience and controls: infrastructure, controls and assurance might be inadequate, insufficiently robust or insufficiently resilient, including to manage unexpected events</b>	<p>IT and data strategies provide a clear roadmap for future development, both subject to independent review and assurance</p> <p>Continued to monitor and test our business continuity arrangements</p> <p>Continuing to build resilience into underlying systems / cyber security</p> <p>Routine checks on compliance and controls across our supporting functions, including governance</p>

## 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. During the 2021-22 financial year, there were two additional departures at SCS level, and guidance provided where necessary to supplement the general principles applicable under the Business Appointment Rules. We are working to improve the transparency of guidance given to senior members of staff.

We have also provided additional advice to a number of individuals below SCS level leaving the Civil Service to work for consultancies and water companies. We have tailored our approach to ensure proportionality, by reference to the seniority of the individuals concerned, their particular roles within Ofwat and the scope of their new employment. We have also reaffirmed the need for our staff to consider the application of these Rules prior to accepting any offer of employment. We will report to the Audit and Risk Assurance Committee on an annual basis on the application of these rules to departing members of staff.

### 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 2021-22.

## Training and security

Ofwat continues to engage with the Transforming Government Security Programme (TGSP) and utilises the resources available through the Government Security Group Centres of Excellence, 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 recently subscribed to an e-learning security platform which will complement the 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. This has included security training at Board and Senior Director level.

## 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.

During the next financial year, we will progress our work to develop our analytical models and processes for PR24. This will consider any improvements to processes and assurance that we might be able to 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 and environmental outcomes we seek efficiently and effectively.

## 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>11</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

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<sup>11</sup> The Public Interest Disclosure (Prescribed Persons) Order 2014

- 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 2021-22 reporting year.

The table below shows the number of qualifying disclosures made to Ofwat in 2021-22 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.

## Whistleblower contacts 2021-22

Metric	Details of what is being measured	Total Number
Whistleblower contacts	Number of qualifying disclosures of information made by water sector workers to Ofwat	9
	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).	5 <sup>12</sup>
	Number of qualifying disclosures where Ofwat contacted the company concerned to seek further information and assurances regarding the matter.	1
	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

## Complaints to the Parliamentary Ombudsman

We are aware of two reported complaints received by the Parliamentary Ombudsman in 2021-22, and the investigation in one case has concluded. Further information is provided at Appendix A2.

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<sup>12</sup> Three of the whistleblower contacts made during 2021-22 were made anonymously, limiting our ability to gather further information or details about the concern raised. At the end of 2021-22, four disclosures were still being considered by Ofwat to establish if there are sufficient grounds and evidence for Ofwat to take further action.

## 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.

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.

During 2021-22, 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.

Based on the above and my review of the evidence provided, 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.



**David Black**  
Accounting Officer

**5 July 2022**

## 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	Grade
Rachel Fletcher (until 9 April 2021)	Chief Executive	SCS 3
David Black <sup>μ</sup> *	Interim Chief Executive	SCS 3
Aileen Armstrong <sup>μ</sup> *	Senior Director	SCS 2
Jenny Block <sup>μ</sup>	General Counsel and Board Secretary	SCS 2
Lisa Commane <sup>μ</sup> *	Senior Director	SCS 2
Claire Forbes <sup>μ</sup>	Senior Director	SCS 1
Emma Kelso <sup>μ</sup>	Senior Director	SCS 2
Keith Mason <sup>μ</sup>	Senior Director	SCS 2
John Russell <sup>μ</sup> *	Senior Director	SCS 2
Alena Kozakova <sup>μ</sup> (until October 2021)	Chief Economist	SCS 2

<sup>μ</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 members of staff 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 SSRB's recommendations. The bonus is paid based on the individual's performance. Bonus payments are non-consolidated and non-pensionable.

For the 2021-22 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 put forward for decision to the Pay Review Group (PRG). The PRG consists of a sub-set of members of the SLT and Director 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 2021-22

The following information is subject to audit.

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.

	Salary £000		Bonus payments £000		Benefits in kind (to nearest £100)		Pensions benefits (to nearest £1000)		Total £000	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
<b>Rachel Fletcher Chief Executive (until 9 April 2021)</b>	0-5 (full year equivalent 165-170)	170-175	-	5-10	-	2,100	10,000	80,000	10-15	260-265
<b>David Black*</b> Interim Chief Executive	150-155	135-140	5-10	5-10	-	-	59,000	54,000	220-225	200-205
<b>Aileen Armstrong**</b> Senior Director	125-130	115-120	10-15	-	1,600	200	34,000	48,000	170-175	160-165
<b>Jenny Block</b> General Counsel and Board Secretary	125-130	125-130	5-10	-	1,600	200	49,000	49,000	180-185	170-175
<b>Lisa Commane</b> Senior Director	130-135	130-135	0-5	5-10	-	-	52,000	51,000	190-195	185-190
<b>Claire Forbes***</b> Senior Director (0.9 FTE)	105-110	100-105	10-15	5-10	-	-	41,000	41,000	155-160	150-155
<b>Emma Kelso***</b> Senior Director (0.9 FTE)	85-90	95-100	5-10	-	-	-	23,000	36,000	115-120	130-135
<b>Keith Mason</b> Senior Director	120-125	120-125	-	-	-	-	-	31,000	120-125	150-155



<b>John Russell Senior Director</b>	125-130	125-130	0-5	5-10	-	-	30,000	53,000	160-165	185-190
<b>Alena Kozakova<sup>∞</sup> Chief Economist</b>	70-75 (full year equivalent 125-130)	120-125	5-10	5-10	-	-	26,000	49,000	100-105	175-180

\* David Black was Interim Chief Executive during 2021-22 and appointed as Ofwat's Chief Executive in April 2022. He was formerly Chief Regulation Officer.

\*\*Aileen Armstrong became full time in September 2020.

\*\*\*Claire Forbes and Emma Kelso are employed on part-time contracted hours.

∞Alena Kozakova left employment on 15 October 2021.

### Third party payments\* 2021-22

The following information is subject to audit.

	<b>2021-22 Payment £000</b>	<b>2020-21 Payment £000</b>
<b>Environment Agency *Paul Hickey, Managing Director, RAPID (From 20 January 2020)</b>	125-130	115-120

\* Paul Hickey is on secondment from the Environment Agency from 20 January 2020 to 19 January 2024. The costs shown in this table represent total costs including pension, National Insurance and Tax.

## Non-Executive Directors' remuneration

The following information is subject to audit.

	Salary £000		Benefits in kind** (to nearest £100)		Total £000	
	2021-22	2020-21	2021-22	2020-21	2021-22	2020-21
<b>Jonson Cox Chair</b>	125-130	125-130	4,200	2,700	130-135	125-130
<b>Alison Munro Non-Executive Director</b>	15-20	15-20	200	-	15-20	15-20
<b>Mark Bayley Non-Executive Director</b>	15-20	15-20	300	-	15-20	15-20
<b>Nicola Bruce<sup>^</sup> Non-Executive Director</b>	15-20	5-10 (full year equivalent 15-20)	200	-	15-20	5-10
<b>David Jones<sup>^</sup> Non-Executive Director</b>	15-20	5-10 (full year equivalent 15-20)	1,500	-	20-25	5-10
<b>Seema Kennedy<sup>^</sup> Non-Executive Director</b>	15-20	5-10 (full year equivalent 15-20)	600	-	15-20	5-10
<b>Jonathan Kini<sup>^</sup> Non-Executive Director</b>	15-20	5-10 (full year equivalent 15-20)	-	-	15-20	5-10
<b>Catherine Waddams* Non- Executive Director</b>	0-5 (full year equivalent 15-20)	15-20	-	500	0-5 (full year equivalent 15-20)	15-20
<b>Martin Lawrence* Non-Executive Director</b>	-	10-15 (full year equivalent 15-20)	-	-	-	10-15
<b>Christine Farnish* Non-Executive Director</b>	-	10-15 (full year equivalent 15-20)	-	100	-	10-15
<b>Tim Waggott* Non- Executive Director</b>	-	0-5 (full year equivalent 15-20)	-	-	-	0-5

\* Non-executive director term end date: Tim Waggott – 27 April 2020, Martin Lawrence – 30 November 2020, Christine Farnish – 30 November 2020, Catherine Waddams – 30 April 2021.

\*\* Non-executive director travel, subsistence and accommodation expenses are deemed Benefits in Kind as these are reimbursed by Ofwat.

<sup>^</sup> Nicola Bruce, David Jones, Seema Kennedy and Jonathan Kini started their term on 1 December 2020.

## Independent Members' remuneration

The following information was subject to audit.

### Independent Committee Members' remuneration 2021-22

	Salary £000		Benefits in kind (to nearest £100)	
	2021-22	2020-21	2021-22	2020-21
<b>Vanessa Howlison</b> Independent Member, ARAC	5-10	5-10	-	-

### 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.

## Fair Pay Disclosures

The following information is subject to audit.

2021/22	25th Percentile Pay	Median Pay	75th Percentile
<b>Ratio (against highest paid director)</b>	4.6	3.4	2.4
<b>Total pay and benefits (£)</b>	35,296	48,201	68,670
<b>Salary component (£)</b>	35,000	48,201	67,954

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the lower quartile, median and upper quartile remuneration of the organisation's workforce.

The banded remuneration of the highest paid director in Ofwat in the financial year 2021-22 was £160,000 to £165,000 (2020-21: £180,000 to £185,000). This was 3.4 times (2020-21: 3.6 times) the median remuneration of the workforce, which was £48,201 (2020-21: £51,219). Following a new appointment and change in remuneration this ratio has decreased.

The median remuneration of the workforce fell by 7% which was likely due to the pay freeze; increase in graduate roles during the year; and rebalancing of Ofwat with a greater use of more junior roles. In addition Ofwat grew by 6% compared to 2020-21. The average percentage change from the previous financial year in respect of the employees of Ofwat as a whole increased by 3%.

In 2021-22 and 2020-21, there were no employees that received remuneration in excess of the highest paid Senior Director.

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.

We are developing our approach to pay and reward further during 2022-23 as part of the continued implementation of our People Strategy.

## Senior managers' pension benefits

The following information is subject to audit.

### Senior management remuneration 2021-22

	Accrued pension at pension age as at 31 March 2022 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2022	CETV at 31 March 2021	Real increase in CETV
	£000	£000	£000	£000	£000
<b>Rachel Fletcher Chief Executive (Until 9 April 2021)</b>	45-50	0-2.5	878	870	9
<b>David Black Interim Chief Executive</b>	25-30	2.5-5	357	306	31
<b>Aileen Armstrong Senior Director</b>	40-45 Lump sum: 70-75	0-2.5 Lump sum: 0-2.5	650	600	12
<b>Jenny Block General Counsel and Board Secretary</b>	15-20	2.5-5	216	174	29
<b>Lisa Commene Senior Director</b>	10-15	2.5-5	144	109	22
<b>Claire Forbes Senior Director</b>	20-25	0-2.5	251	215	22
<b>Emma Kelso* Senior Director</b>	35-40	0-2.5	506	471	9
<b>Keith Mason Senior Director</b>	40-45 Lump sum: 130-135	0-2.5 Lump sum: 0-2.5	952	938	-1
<b>John Russell Senior Director</b>	45-50 Lump sum: 90-95	0-2.5 Lump sum: 0-2.5	812	756	9
<b>Alena Kozakova Chief Economist</b>	15-20	0-2.5	158	143	11

\*2020 pensions increase was not included in alpha pension for 2021.

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

Pension arrangements for our staff are provided through the Civil Service pension arrangements. Pension liabilities arising from our employees' membership of the Civil Service pension arrangements 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 Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and 13 years and five months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. Because the Government plans to remove discrimination identified by the courts in the way that the 2015 pension reforms were introduced for some members, it is expected that, in due course, eligible members with relevant service between 1 April 2015 and 31 March 2022 may be entitled to different pension benefits in relation to that period (and this may affect the Cash Equivalent Transfer Values shown in this report – see below). 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

members of staff show pension earned in PCSPS or alpha – as appropriate. Where the member of staff 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 an occupational defined contribution pension arrangement which is part of the Legal & General Mastertrust. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member). 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 members of staff show pension earned in PCSPS or alpha – as appropriate. Where the member of staff 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 2021-22

The following information is subject to audit.

	2021-22 £000				2020-21 £000
	Permanent and Fixed Term employed staff	Other staff	Non-Executive Directors	Total	Total
Wages and salaries	13,372	869	249	14,490	14,712
Social security costs	1,552	-	26	1,578	1,607
Other pension costs	3,603	-	-	3,603	3,632
<b>Sub total</b>	<b>18,527</b>	<b>869</b>	<b>275</b>	<b>19,671</b>	<b>19,951</b>
Less recoveries in respect of outward secondments	(76)	-	-	(76)	(100)
<b>Total net costs</b>	<b>18,451</b>	<b>869</b>	<b>275</b>	<b>19,595</b>	<b>19,851</b>

Other staff costs include 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 2021-22, employers’ contributions of £3.6m were payable to the CSOPS and PCSPS (2020-21 £3.6m) at one of four rates in the range 26.6% to 30.3% of pensionable earnings, based on salary bands.

The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits

accruing during 2021-22 to be paid when the member retires and not the benefits paid this period to existing pensioners.

Employees can opt to open a partnership pension account, or a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 8% to 14.75%.

Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £3,620, 0.5% of pensionable pay (2020-21: £4,030), 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\*

The following information is subject to audit.

Cluster	2021-22			
	Permanent & FTC employed staff	Others	Non-Executive Directors	Total
Corporate Enablers	43.64	-	0.20	43.84
Future Assets & Resources	12.13		0.20	12.33
Company Performance & Price Reviews*	64.64		0.20	64.84
Policy & Outcomes	44.39	1.00	0.20	45.59
Regulatory Enablers	62.22	1.00	0.20	63.42
RAPID	17.71	1.00	0.20	18.91
<b>Total</b>	<b>244.73</b>	<b>3.00</b>	<b>1.20</b>	<b>248.93</b>

\*During the year the Insights and Impact cluster, and the company performance segment of the Performance & Outcomes cluster (renamed Policy & Outcomes) merged with PR24 to form a new cluster: Company Performance and Price Reviews (formerly PR24 and Beyond)

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

<b>PR24 &amp; Beyond</b>	22.74		0.20	22.94
<b>Regulatory Enablers</b>	63.72		0.20	63.92
<b>RAPID</b>	11.68	1.16	0.20	13.04
<b>Total</b>	<b>233.26</b>	<b>3.05</b>	<b>1.40</b>	<b>237.71</b>

## Civil Service and other compensation scheme exits

The following information is subject to audit.

There has been one redundancy or other departure cost paid in 2021-22 £9,769 (2020-21 £0). This was not related to a director or senior director.

## 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.

### Highly paid off-payroll worker engagements as at 31 March 2022, earning £245 per day or greater

Of which, number that have existed:	No of existing engagements as at 31 March 2022
Less than 1 year	8
for between 1 and 2 years	2
for between 2 and 3 years	-
for between 3 and 4 years	-
for 4 years or more	-

## All off-payroll engagements, between 1 April 2021 and 31 March 2022 for more than £245 per day

Of which:	No. of temporary off-payroll workers engaged during the year ended 31 March 2022
Not subject to off-payroll legislation	6
Subject to off-payroll legislation and determined as in-scope of IR35	19
Subject to off-payroll legislation and determined as out-of-scope of IR35	4
No. of engagements reassessed for compliance or assurance purposes during the year	-
Of which no. of engagements that saw a change to IR35 status following review	-

## Consultancy expenditure

Our expenditure on other consultancy and professional services in 2021-22 was £4.5m, per note 4 of the accounts (2020-21: £4.9m). We attempt to minimise our reliance on external support by running targeted recruitment campaigns for the skills required to deliver our strategy.

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

Health Assured 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 statistics

	2021-22			2020-21		
	Short term	Long term	Total	Short term	Long term	Total
<b>Days lost</b>	413	543	956	404	658	1,062
<b>Average working days lost per person</b>			3.72			4.39

A long-term absence is any absence running over a consecutive period of 14 calendar days or more. Ofwat's average working days lost of 3.72 days per person is lower than the Civil Service average in 2020-21 of 6.1 days (the 2021-22 figure is not available at the 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 continued with our efforts to proactively address casework to ensure all of our people are supported to attend work on a regular basis. Wellbeing has remained a key focus in 2021-22 and a review of Ofwat's attendance management policy is planned for 2022-23.

## Employee involvement

For the third year running we have 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 overall the scores have generally been maintained from 2020. The results indicate that we continue to move in the right direction to make Ofwat a great place to be and 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.
- Our highest scoring areas were My Team and Organisational Objectives. The only area that has dipped is My Manager which is 1% lower than the Civil Service average.
- We continue to engage well with our people – with our response rate to this survey at 84% and our overall engagement score at 72%.

- Our PERMA Index score remains at 74% which measures how people are flourishing at work and is based around the 5 dimensions: Positive emotion, Engagement, Relationships, Meaning and Accomplishment.
- Our Proxy Stress Index score remains at 23% which is positive and remains 5% above the Civil Service average. For this question a score of 100% indicates operating in a highly stressful environment and a score of 0% the opposite.

## Learning and development

We have continued to embed our learning and development framework and focus on the learning and development of our people. Working with our Learning Partners we have carried out a Performance Needs Analysis (PNA) to identify the core training requirements of our people.

In addition to the learning needs identified via the PNA, our core programme of learning and development has continued to focus on wellbeing and resilience interventions, to ensure appropriate support to our team members through challenging times, supplemented by tailored support to Leaders through our People Leader briefings and management development training opportunities for experienced managers and new manager programmes. To support our embedding of hybrid working, we have also provided our People Leaders with access to training focusing on managing hybrid teams.

We have 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 continue to support and rely on our own internal coaching cohort.

We have supported teams across Ofwat 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.

## 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 54 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 8.



**David Black**  
Accounting Officer

**5 July 2022**

## Parliamentary accountability and audit report

### Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FReM) requires the Water Services Regulation Authority (Ofwat) to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated Fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament has voted on, cash spent (budgets are compiled on an accruals basis and so outturn will not exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by Estimate line, providing a more detailed breakdown (note 1); a reconciliation of outturn to net operating expenditure in the SOCNE, to tie the SOPS to the financial statements (note 2); a reconciliation of outturn to net cash requirement (note 3); and an analysis of income payable to the Consolidated Fund (note 4).

The SOPS and Estimates are compiled against the budgeting framework, which is similar to, but different to, IFRS. Estimates are the mechanism by which Parliament authorises departmental spending, and are presented using the public sector budgeting framework. Through the Estimates process, Parliament is required to vote limits for different categories of budgetary spend. For Ofwat, these are the:

- Net Resource Departmental Expenditure Limit (RDEL) requirement;
- Net Capital Departmental Expenditure Limit (CDEL) requirement; and



- Net Cash Requirement (NCR) for the Estimate as a whole.

Further information on the Public Spending Framework and the reasons why budgeting rules are different to IFRS can also be found in Chapter 1 of the Consolidated Budgeting Guidance, available on gov.uk.

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament.

## Summary tables – mirrors part 1 of the Estimates

### Summary table, 2021-22, all figures presented in £000s

Types of spend	SOPS note	Outturn		Estimate		Voted Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2020-21
		Voted	Total	Voted	Total		
<b>Departmental Expenditure Limit</b>							
Resource	1.1	(900)	(900)	151	151	1,051	(344)
Capital	1.2	485	485	600	600	115	120
<b>Total</b>		<b>(415)</b>	<b>(415)</b>	<b>751</b>	<b>751</b>	<b>1,166</b>	<b>(224)</b>
<b>Annually Managed Expenditure</b>							
Resource	1.1	-	-	-	-	-	-
Capital	1.2	-	-	-	-	-	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Budget</b>							
Resource	1.1	(900)	(900)	151	151	1,051	(344)
Capital	1.2	485	485	600	600	115	120
<b>Total Budget Expenditure</b>		<b>(415)</b>	<b>(415)</b>	<b>751</b>	<b>751</b>	<b>1,166</b>	<b>(224)</b>

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

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 Ofwat's 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 relates 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 31.

### Net cash requirement 2021-22, all figures presented in £000s

Item	SOPS note	Outturn	Estimate	Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2020-21
<b>Net cash requirement</b>	3	(1,083)	5,753	6,836	680

The variance between outturn and estimated net cash requirement is £6.8 million. During the year we drew £3.3 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 includes licence fees collected late in the year. The balance on working capital at year end will be returned to the Consolidated Fund.

### Administration costs 2021-22, all figures presented in £000's

Item	SOPS note	Outturn	Estimate	Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2020-21
<b>Administration costs</b>	1.1	(900)	151	1,051	(344)

Although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

## Notes to the Statement of Outturn against Parliamentary Supply, 2021-22 (£000's)

### SOPS1: Outturn detail, by Estimate line

#### SOPS1.1: Analysis of resource outturn by Estimate line

Type of spend (Resource)	Resource Outturn			Estimate			Voted Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2020-21
	Administration			Total	Virements	Total including virements		
	Gross	Income	Net total					
Spending in Departmental Expenditure Limit (DEL):								
Voted expenditure:								
Ofwat - Water Services Regulation Authority	28,533	(29,433)	(900)	151	-	151	1,051	(344)
<b>Total spending in DEL</b>	<b>28,533</b>	<b>(29,433)</b>	<b>(900)</b>	<b>151</b>	<b>-</b>	<b>151</b>	<b>1,051</b>	<b>(344)</b>

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.

**SOPS1.2: Analysis of capital outturn by Estimate line**

Type of spend (Capital)	Resource Outturn			Estimate			Voted Outturn compared with Estimate: saving/ (excess)	Prior Year Outturn Total 2020-21
	Administration			Total	Virements	Total including virements		
	Gross	Income	Net total					
Spending in Departmental Expenditure Limit (DEL):								
Voted expenditure:								
Ofwat - Water Services Regulation Authority	485	-	485	600	-	600	115	120
<b>Total spending in DEL</b>	<b>485</b>	<b>-</b>	<b>485</b>	<b>600</b>	<b>-</b>	<b>600</b>	<b>115</b>	<b>120</b>

The total Estimate columns include virements. Virements are the reallocation of provision in the Estimates that do not require Parliamentary authority (because Parliament does not vote to that level of detail and delegates to HM Treasury). Further information on virements is provided in the Supply Estimates Manual, available on gov.uk.

The outturn vs estimate column is based on the total including virements. The estimate total before virements have been made is included so that users can tie the estimate back to the Estimates laid before Parliament.

**SOPS2: Reconciliation of outturn to net operating expenditure**

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, which is similar to, but different from, IFRS.

Therefore, this reconciliation bridges the resource outturn to net operating expenditure, linking the SOPS to the financial statements. As the total resource outturn in the SOPS is the same as net operating expenditure in the SoCNE, no reconciliation is required.

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

	SOPS note	Outturn total	Estimate	Outturn compared with Estimate: saving (excess)
Resource Outturn	1.1	(900)	151	1,051
Capital Outturn	1.2	485	600	115
<b>Adjustments to remove non-cash items:</b>				
Depreciation		(297)	(400)	(103)
New provisions and adjustments to previous provisions		65	(150)	(215)
Other non-cash items		(62)	(43)	19
<b>Adjustments to reflect movements in working balances:</b>				
Increase/(decrease) in receivables		(209)	-	209
(Increase)/decrease in payables		(471)	5,442	5,913
Use of provisions		306	153	(153)
<b>Net cash requirement</b>		<b>(1,083)</b>	<b>5,753</b>	<b>6,836</b>

As noted in the introduction to the SOPS above, outturn and the Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

## SOPS4: Amounts of income to the Consolidated Fund

### SOPS4.1: Analysis of income payable to the Consolidated Fund

In addition to income retained by the department, the following income is payable to the Consolidated Fund (cash receipts being shown in italics).

The purpose of this table is to show the amounts payable to the Consolidated Fund. Note 11 to the Accounts shows the £4.4m being the amounts issued from the Consolidated Fund for supply but not spent at year end.

Item	Note	Outturn total		Prior year, 2020-21	
		Accruals	Cash basis	Accruals	Cash basis
Excess cash surrenderable to the Consolidated Fund	11	4,336	4,336	-	-
Total income payable to the Consolidated Fund		4,336	4,336	-	-

## Parliamentary Accountability Disclosures

The following information was subject to audit.

We do not have anything to report for 2021-22 in respect of:

- Losses and special payments;
- Long-term expenditure trends; or
- Remote contingent liabilities.

Details of Ofwat's licence fees are disclosed on page 31.

On occasion, we may be subject to formal legal challenge including by way of judicial review. Following the end of the financial year, we received a pre-action protocol letter as a precursor to a potential judicial review from Wild Justice. We responded to this letter and as yet no proceedings have been launched.



**David Black**  
Accounting Officer

**5 July 2022**

# 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 2022 under the Government Resources and Accounts Act 2000. The financial statements comprise Ofwat's:

- Statement of Financial Position as at 31 March 2022;
- Statement of Comprehensive Net Expenditure, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements in applicable law and UK adopted international accounting standards.

In my opinion, the financial statements:

- give a true and fair view of the state of Ofwat's affairs as at 31 March 2022 and net operating 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 Outturn Against Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2022 and shows that those totals have not been exceeded; and
- the income and expenditure recorded in the financial statements has 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (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 Financial Reporting Manual, which requires 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 financial statements nor my auditor's certificate and report. 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 the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000.

In my opinion, based on the work undertaken in the course of the audit:

- the parts of the Accountability Report subject to audit have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- 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 and is in accordance with the applicable legal requirements.

## 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 Reports.

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

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by Ofwat 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 subject to audit are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by HM Treasury's Government Financial Reporting Manual have not been made or parts of the Remuneration and Staff Report to be audited are not in agreement with the accounting records and returns; 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:

- maintaining proper accounting records;
- the preparation of the financial statements and Annual Report in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statements 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.

### **Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud**

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

### **Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud**

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, I considered the following:

- the nature of the sector, control environment and operational performance including the design of Ofwat’s accounting policies;
- 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 Ofwat's compliance with the Government Resources and Accounts Act 2000 and Managing Public Money.

- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within Ofwat for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override.

I also obtained an understanding of Ofwat's framework of authority as well as other legal and regulatory frameworks within which Ofwat operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in 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 and relevant employment law and tax legislation.

In addition, I considered compliance with HMT controls over the approval of senior remuneration.

### **Audit response to identified risk**

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit and Risk Assurance Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- 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
- obtaining evidence of HMT approval for senior remuneration.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members 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.

### **Other auditor's responsibilities**

I am required to obtain appropriate evidence sufficient to give reasonable assurance that the Statement of Outturn against 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**

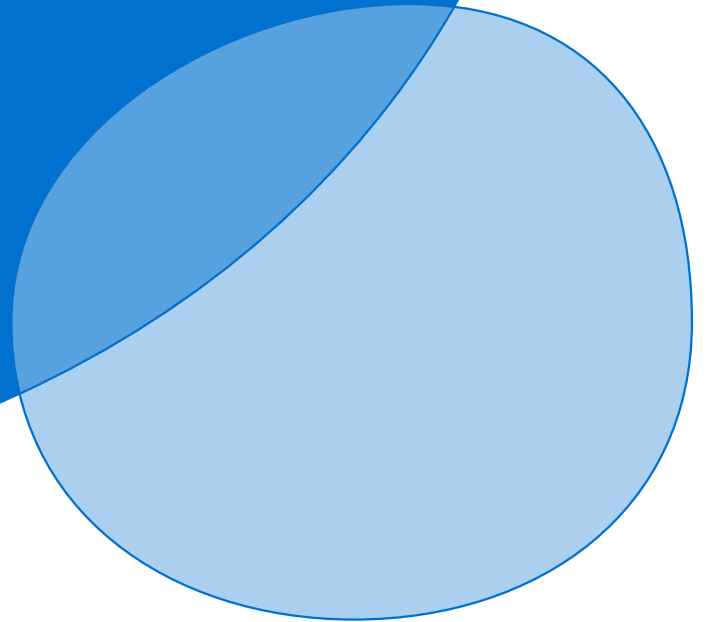
I have no observations to make on these financial statements.

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

**6 July 2022**

# Part 3

Financial statements



## Financial statements

### Statement of Comprehensive Net Expenditure

For the 12 months ended 31 March 2022

	Note	2021-22 £000	2020-21 £000
Licence fees		(29,353)	(29,639)
Miscellaneous		(80)	(105)
<b>Total operating income</b>		<b>(29,433)</b>	<b>(29,744)</b>
Staff costs	3	19,671	19,951
Purchase of goods and services	4	7,706	7,779
Rental costs	4	862	858
Depreciation and impairment charges	4	297	306
Other non-cash	4	(3)	506
<b>Total operating expenditure</b>		<b>28,533</b>	<b>29,400</b>
<b>Net operating income</b>		<b>(900)</b>	<b>(344)</b>
Other comprehensive net expenditure			
Items which will not be reclassified to net operating costs:			
Actuarial loss/(gain) on pension scheme liabilities	13.3	(1,138)	126
<b>Comprehensive net income</b>		<b>(2,038)</b>	<b>(218)</b>

The notes on pages 107 to 125 form part of these accounts.

## Statement of Financial Position

As at 31 March 2022

	Note	31 March 2022		31 March 2021	
		£000		£000	
<b>Non-current assets:</b>					
Property, plant and equipment	5	619		448	
Intangible assets	6	170		156	
Trade & other receivables	10	80		-	
<b>Total non-current assets</b>			869		604
<b>Current assets:</b>					
Trade & other receivables	10	1,228		1,517	
Cash and cash equivalents	9	4,336		3,320	
<b>Total current assets</b>			5,564		4,837
<b>Total assets</b>			6,433		5,441
<b>Current liabilities:</b>					
Trade and other payables	11	(8,480)		(6,994)	
Provisions	12	(215)		(109)	
<b>Total current liabilities</b>			(8,695)		(7,103)
<b>Total assets less current liabilities</b>			(2,262)		(1,662)
<b>Non-current liabilities:</b>					
Provisions	12	-		(310)	
Pension liabilities	13	(1,218)		(2,523)	
<b>Total non-current liabilities</b>			(1,218)		(2,833)
<b>Total assets less total liabilities</b>			<b>(3,480)</b>		<b>(4,495)</b>
<b>Taxpayers' equity and other reserves:</b>					
General Fund			(3,480)		(4,495)
<b>Total equity</b>			<b>(3,480)</b>		<b>(4,495)</b>

The notes on pages 107 to 125 form part of these accounts.



**David Black**  
Accounting Officer

**5 July 2022**



## Statement of Cash Flow

For the 12 months ended 31 March 2022

	Note	2021-22 £000	2020-21 £000
Cash flows from operating activities			
Net operating income		900	344
Adjustments for non-cash transactions	4	294	812
(Increase)/decrease in trade and other receivables	10	209	96
Increase/(decrease) in trade payables	11	1,486	(756)
Less movements in payables relating to items not passing through the Comprehensive Statement of Net Expenditure		(1,137)	(692)
Use of provisions	12-13	(306)	(196)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>1,446</b>	<b>(392)</b>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(393)	(53)
Purchase of intangible assets	6	(92)	(67)
Net movement in capital receivables (payables)		122	(168)
<b>Net cash outflow from investing activities</b>		<b>(363)</b>	<b>(288)</b>
Cash flows from financing activities			
From the consolidated fund (Supply) - current year		3,253	4,000
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>3,253</b>	<b>4,000</b>
<b>Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>		<b>4,336</b>	<b>3,320</b>
Payment of amounts due to the Consolidated Fund		(3,320)	(2,460)
<b>Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund</b>		<b>1,016</b>	<b>860</b>
Cash and cash equivalents at the beginning of the period	9	3,320	2,460
Cash and cash equivalents at the end of the period	9	4,336	3,320

The notes on pages 107 to 125 form part of these accounts.

## Statement of changes in taxpayers' equity

For the 12 months ended 31 March 2022

	Note	General Fund £000	Total Reserves £000
Balance at 1 April 2020		(5,436)	(5,436)
Changes in taxpayers' equity for 2020-21			
Net Parliamentary Funding		4,000	4,000
Comprehensive Net Expenditure 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>
Changes in taxpayers' equity for 2021-22			
Net Parliamentary Funding		3,253	3,253
Comprehensive Net Income for the year		2,038	2,038
Notional Auditors' Remuneration	4	60	60
Amounts issued from Consolidated Fund but not spent at year end	9	(4,336)	(4,336)
Balance at 31 March 2022		<b>(3,480)</b>	<b>(3,480)</b>

The notes on pages 107 to 125 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 2021-22 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 on an accruals basis under the historical cost convention, modified where materially significant to account for the revaluation of property, plant and equipment, intangible assets and certain financial assets and liabilities.

## 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 and transfer to the Innovation Fund partner contributions from appointed companies 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. Our prepayment policy is to prepay invoices £10,000 and over. 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.

In December 2021, we imposed a financial penalty of £1 on Thames Water Utilities Limited (Thames Water) under s22A of the Water Industry Act 1991. The £1 income was 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. These were established to meet the pension requirements of the Directors General and this was first put into place when the Director General was appointed in 1989 by the Secretary of State for the Environment under Section 5 of the Water Act 1989. The 'by-analogy' pension schemes 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 (0.95)% per annum to (1.30)% real per annum from 31 March 2022.

## 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 2022 shows negative taxpayers' equity of £3.5 million (2020-21: £4.5 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 statutory licence fee 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 2022-23 was agreed via our Main Estimate, presented to the House of Commons on 12 May 2022.

## 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 the 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.

The expected 2022-23 impact is that the gross assets and gross liabilities will be £0.4m higher respectively, and net expenditure for the year £0.6 million lower. In addition to this lease liability, we have adjusted the provision in the accounts for repair and restoration of our occupied office space (dilapidations) as it is no longer required, and therefore this decreases the overall liabilities by £0.1m.



## 2. Statement of operating costs by Cluster

At the start of 2020 Ofwat moved away from a rigid programme structure to encourage greater focus on outcomes, collaboration and agility across closely interconnected areas of work. A Cluster structure was created and the tables below illustrate Ofwat's statement of operating costs on that basis.

### For the 12 months ended 31 March 2022

Cluster	2021-22 £000
Corporate Enablers	7,124
Future Assets & Resources	1,883
Company Performance & Price Reviews*	6,909
Policy & Outcomes	4,667
RAPID	2,347
Regulatory Enablers	5,308
Thames Tideway Project Regulation	295
Total expenditure	28,533
Total income	(29,433)
Net income	<b>(900)</b>

\*During the year the Insights and Impact team, and the company performance segment of the Policy & Outcomes team merged with PR24 to form a new cluster: Company Performance and Price Reviews

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
Total expenditure	29,400
Total income	(29,744)
Net income	<b>(344)</b>

### 3. Staff costs

For the 12 months ended 31 March 2022

	2021-22 £000	2020-21 £000
Wages and salaries	14,490	14,712
Social security costs	1,578	1,607
Other pension costs	3,603	3,632
<b>Total</b>	<b>19,671</b>	<b>19,951</b>

Further details related to staff costs are in the Remuneration and staff report.

### 4. Expenditure

For the 12 months ended 31 March 2022

	2021-22 £000	2020-21 £000
<b>Purchase of goods and services:</b>		
Consultancy services	4,543	4,879
Contingent labour	869	988
Training	263	269
Travel and subsistence	79	18
Taxation charges	9	(10)
Rates	227	240
Information Technology	836	661
Other hire and maintenance	15	32
Seminars, meetings and conferences	30	20
Publications, books and periodicals	130	81
Telecommunications	160	200
Recruitment costs	213	138
Office consumables	74	109
Accommodation expenses	77	54
Internal Audit fees	27	27
Records management	16	16
Other	138	57
	<b>7,706</b>	<b>7,779</b>
<b>Rentals under operating leases:</b>		

Accommodation	823	831
Office equipment	28	27
IT equipment	11	-
	<b>862</b>	<b>858</b>
<b>Non cash items:</b>		
Depreciation	221	227
Amortisation	76	79
Loss on disposal of assets	2	-
Addition/(release) of provisions	(95)	419
Other finance costs	30	44
External Auditors' remuneration	60	43
	<b>294</b>	<b>812</b>
<b>Total</b>	<b>8,862</b>	<b>9,449</b>

## 5. Property, plant and equipment

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

2021-22	Furniture & Fittings	Office machinery & Telecoms	Leasehold Improvements	Information Technology	Total
	£000	£000	£000	£000	£000
<b>Cost or valuation</b>					
At 1 April 2021*	131	14	1,012	899	2,056
Additions	-	-	-	393	393
Disposals	-	-	-	(60)	(60)
<b>At 31 March 2022</b>	<b>131</b>	<b>14</b>	<b>1,012</b>	<b>1,232</b>	<b>2,389</b>
<b>Depreciation</b>					
At 1 April 2021*	105	14	758	730	1,607
Charged in year	15	-	143	63	221
Disposals	-	-	-	(58)	(58)
<b>At 31 March 2022</b>	<b>120</b>	<b>14</b>	<b>901</b>	<b>735</b>	<b>1,770</b>
<b>Carrying amount at 31 March 2022</b>	<b>11</b>	<b>-</b>	<b>111</b>	<b>497</b>	<b>619</b>
<b>Carrying amount at 31 March 2021*</b>	<b>26</b>	<b>-</b>	<b>254</b>	<b>169</b>	<b>449</b>
<b>Asset Financing:</b>					
Owned	11	-	111	497	619
<b>Carrying amount at 31 March 2022</b>	<b>11</b>	<b>-</b>	<b>111</b>	<b>497</b>	<b>619</b>

2020-21	Furniture & Fittings	Office machinery & Telecoms	Leasehold Improvements	Information Technology	Total
	£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>-</b>	<b>253</b>	<b>169</b>	<b>448</b>
<b>Carrying amount at 31 March 2020</b>	<b>41</b>	<b>-</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>-</b>	<b>253</b>	<b>169</b>	<b>448</b>

\*Rounding differences in open/closing figures

## 6. Intangible assets

Intangible assets consist of purchased software licences.

2021-22	Purchased software licences	Assets under development	Total
	£000	£000	£000
<b>Cost or valuation</b>			
At 1 April 2021*	592	-	592
Additions	92	-	92
<b>At 31 March 2022</b>	<b>684</b>	-	<b>684</b>
<b>Amortisation</b>			
At 1 April 2021*	438	-	438
Charged in year	76	-	76
<b>At 31 March 2022</b>	<b>514</b>	-	<b>514</b>
<b>Carrying amount at 31 March 2022</b>	<b>170</b>	-	<b>170</b>
<b>Carrying amount at 31 March 2021*</b>	<b>154</b>	-	<b>154</b>

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>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>439</b>
<b>Carrying amount at 31 March 2021*</b>	<b>156</b>	-	<b>156</b>
<b>Carrying amount at 31 March 2020</b>	-	<b>168</b>	<b>168</b>

\*Rounding differences in open/closing figures

## 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.

	2021-22 £000	2020-21 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings</b>		
Not later than one year	471	874
Later than one year and not later than five years	-	471
<b>Total</b>	<b>471</b>	<b>1,345</b>
<b>Other:</b>		
Not later than one year	44	27
Later than one year and not later than five years	34	22
<b>Total</b>	<b>78</b>	<b>49</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 2022.

## 9. Cash and cash equivalents

Any cash held at 31 March 2022 by Ofwat must be surrendered to the Consolidated Fund per note 1.6.

	2021-22 £000	2020-21 £000
Balance at 1 April	3,320	2,460
Net change in cash and cash equivalent balances	1,016	860
Balance at 31 March	<b>4,336</b>	<b>3,320</b>
The following balances at 31 March were held at:		
Government Banking Services (GBS)	4,336	3,320
Total	<b>4,336</b>	<b>3,320</b>

## 10. Trade receivables and other current assets

	2021-22 £000	2020-21 £000
Amounts falling due within one year		
Trade receivables	367	968
Deposits and advances	17	11
HM Revenue and Customs (VAT)	230	117
Prepayments and accrued income	614	421
Total	<b>1,228</b>	<b>1,517</b>
Amounts falling due after more than one year:		
Prepayments and accrued income	80	-
Total	<b>80</b>	-

## 11. Trade payables and other current liabilities

	2021-22 £000	2020-21 £000
Amounts falling due within one year		
Trade payables	690	326
Other payables	379	447
Other taxation and social security	430	455
Accruals	2,628	2,405
Deferred income	17	41
Amounts issued from the consolidated fund for supply but not spent at year end	4,336	3,320
<b>Total</b>	<b>8,480</b>	<b>6,994</b>

The increase in current liabilities is due to the increase in unspent cash at year end. During the year we drew £3.3 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 includes licence fees collected late in the year. The balance on working capital at year end will be returned to the Consolidated Fund.

## 12. Provisions for liabilities and charges

Provisions	2021-22 £000				2020-21 £000
	Incentive payment Costs	Dilapida- tions Provision	Other	Total	Total
Balance at 1 April	109	310	-	419	-
Provided in the year	-	-	-	-	419
Provisions utilised in the year	(109)	-	-	(109)	-
Provisions not required written back	-	(95)	-	(95)	-
Balance at 31 March	-	215	-	215	419



Analysis by type	2021-22 £000				2020-21 £000
	Incentive payment Costs	Dilapid- ations Provision	Other	Total	Total
Amounts falling due within one year	-	215	-	215	109
Amounts falling due after more than one year	-	-	-	-	310
<b>Total</b>	-	215	-	215	419

Analysis of expected timing of discounted flows	2021-22 £000				2020-21 £000
	Incentive payment Costs	Dilapid- ations Provision	Other	Total	Total
Not later than one year	-	215	-	215	109
Later than one year and not later than five years	-	-	-	-	310
<b>Balance at 31 March</b>	-	215	-	215	419

The dilapidations provision was written back as it is no longer required. It was in relation to the works for the City Centre Tower lease which is currently under review.

## 13. Pensions Liabilities

### 13.1 Pensions Liabilities

Pensions liabilities	2021-22 £000	2020-21 £000
Balance at 1 April	2,523	2,549
<b>Analysis of the amount charged to the Statement of Comprehensive Net Expenditure</b>		
Interest costs	30	44
Benefits paid	(197)	(196)
<b>Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity</b>		
Experience loss/(gain)	(1,159)	26
Actuarial loss/(gain)	21	100
<b>Balance at 31 March</b>	<b>1,218</b>	<b>2,523</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 2022.

2021/22 has seen an actuarial gain mainly due to a change in pension distribution in year with the death of a pension recipient, therefore reducing the pension liability. There are also sensitivities to take into consideration regarding actuarial assumptions that may affect the actuarial gain or loss.

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 2022 are as follows:

- The gross discount rate is assumed to be 1.55% a year (31 March 2021: 1.25%).
- The consumer price index (CPI) is assumed to be 2.90% (31 March 2021: 2.22%).
- Net (of CPI) discount rate is assumed to be -1.30% (31 March 2021: -0.95%).

## 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 3.0%, or £35,000.

- Increasing the CPI inflation assumption by 0.5% would result in a corresponding decrease in liabilities of approximately 3.0%, or £35,000.
- Increasing assumed life expectancies in retirement to equal those of people one year younger would result in a corresponding decrease in liabilities of approximately 5.0%, or £65,000.

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 (gains)/losses

Analysis of actuarial (gains)/loss	2021-22 £000	2020-21 £000
Experience (gains)/losses arising on the scheme liabilities	(1,159)	26
Changes in assumptions underlying the present value of scheme liabilities	21	100
<b>Actuarial (gains)/loss</b>	<b>(1,138)</b>	<b>126</b>

The 2021-22 actuarial gain was due to a change in pension distribution in year with the death of a pension recipient, therefore reducing the pension liability.

## 13.4 History of experience losses

History of experience losses	2021-22 £000	2020-21 £000	2019-20 £000	2018-19 £000
Experience (gains)/losses arising on the scheme liabilities				
Amount	(1,159)	26	55	40
Percentage of the present value of the scheme liabilities	(95.2)%	1.0%	2.2%	1.5%
Total amount recognised in Statement of Taxpayers' Equity				
Amount	(1,138)	126	7	(151)
Percentage of the present value of the scheme liabilities	(93.4)%	5.0%	0.3%	(5.7)%

## 14. Contingent liabilities disclosed under IAS 37

In accordance with IAS 37 there are no contingent liabilities to be disclosed for 2021-22.

## 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 £6.0 million to Defra in respect of CCW's operating costs in 2021-22 (2020-21: £5.9 million).

### 15.2 Innovation Fund (third party assets)

As part of PR19, Ofwat has allowed appointed companies to collect from their customers a combined total of £200 million to 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 2021-22 we transferred £1.5 million (2020-21: £0.3 million) to the Innovation Fund partner, with £0.5m cash collected but not transferred as at 31 March 2022. This is not recorded in our financial statements or cash balances as it represents third party assets (Note 9).

### **15.3 Other**

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

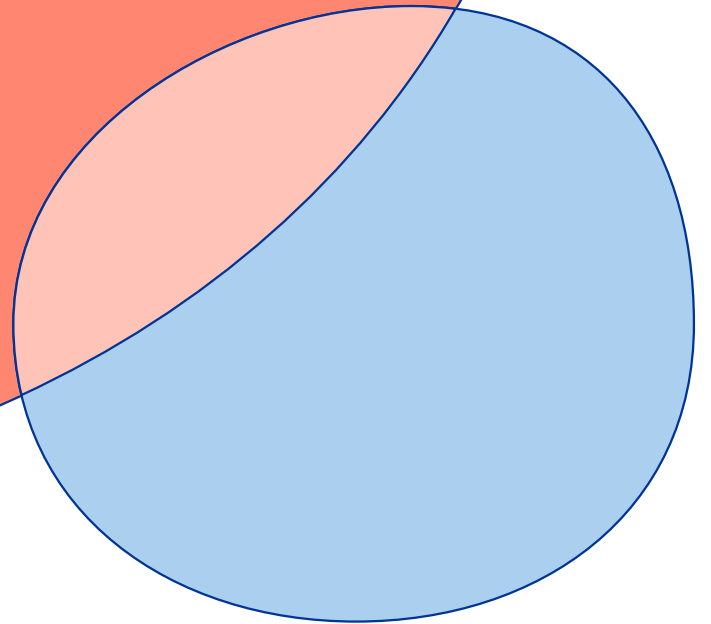
Senior managers' remuneration is disclosed in the Remuneration and staff report. There are no undisclosed related party transactions between Ofwat and any of our Directors.

## **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 2021-22

Below we highlight our progress against the work we outlined in Ofwat's Forward Programme 2021-22. The status shown reflects progress against the commitments in the forward programme during the year as a whole. Our teams have delivered all of our Forward Programme milestones, whilst also embracing the continued challenges of Covid-19 and remote working.

What we said	Status
<b>April to June 2021</b>	
We will review the Outline Business Case for the first Direct Procurement for Customers project to assess its suitability for DPC and ensure value for money for customers.	Met
We will engage with the sector on their ambitions for making better use of their data, including digitalisation of their own systems and on the benefits of open data.	Met
To prepare for the next price review at PR24, we will consult on draft findings from our review of PR14, publish a consultation on a high level framework for key PR24 areas, including our approach for regulating for the long term, and publish the results of our review of the bioresources market.	Met
We will publish for consultation our provisional decisions on company proposals for a green recovery.	Met
We will consult on our initial thinking as to how we regulate multi-party, multi-sector, large-scale water resources infrastructure solutions, including how we address any key gaps and barriers in the current framework.	Met
We will run the first round of our main innovation competition in spring 2021. In addition to running our innovation fund we will also continue to support the sector in its efforts to encourage innovation through initiatives such as the Centre for Excellence and the joint sector strategy.	Met
We will publish key insights emerging from our work co-creating an asset management maturity assessment with the sector. This will include what we have learned about the sector's asset management maturity, some recommendations and proposed next steps.	Met
We will review the information companies submit in their Annual Performance Reports (APRs) in mid-July to	Met

understand their in-period ODI performance. Companies or Ofwat will then confirm by 15 August the intention to make an in-period determination by 15 November.	
As part of our continuing work to understand the industry's commitment to and performance on net zero, we will finalise the voluntary operational reporting requirements for 2020-21 and publish an information note setting out further guidance on reporting. We will continue to participate in the UKRN working group on climate change.	Met
We will consult on any updates to our Regulatory Accounting Guidelines for the 2021-22 reporting period to ensure that the annual performance report is prepared consistently and in line with our overall regulatory reporting framework.	Met
We will consult on the methodological approach going forward for dealing with sludge liquors, so that companies can put the appropriate arrangements in place before the start of the next financial year.	Met
We will publish and lay our annual accounts 2020-21 before the UK Parliament and the Welsh Parliament 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 2021</b>	
We will publish our final decisions on company proposals to assist a green recovery. A	Met
As part of our work to protect business customers from the risks associated with systemic retailer failure as a result of Covid-19, we committed to review levels of bad debt arising and, if this exceeded 2% across the market, to provide regulatory protections for a portion (but not all) of excessive bad debt arising. We will commit to make decisions whether and how to provide such regulatory protections in 2021-22.	
We will progress our approach to new connection charging rules for Welsh companies ahead of the charging rules coming into effect.	Met
We will consult on the future approach to monitoring of new appointees, in addition to mechanisms through the Regulatory Accounting Guidelines, to reflect their significant growth in recent years.	Met
We will publish for consultation our draft decisions on the standard gate one submissions for RAPID schemes.	Met
We will support the other regulators and both UK and Welsh governments to ensure that the draft regional plans for future water resources align with the policy expectations for enhanced drought resilience and environmental improvement.	Met
<b>October to December 2021</b>	
We will prepare for and participate in the Comprehensive Spending Review, subject to the Government timetable.	Met



We will publish for consultation our draft decisions on the accelerated gate two submissions for large-scale water resources infrastructure solutions that address the deficit in Hampshire.	Met
We will publish our state of the market assessment for year 4 of the business retail market, improving our understanding of how well the market is delivering benefits for customers.	Met
We will begin a review of the Retail Exit Code (REC) price controls in the business retail market (likely to be completed in 2022-23).	Met
We will publish monitoring and performance reports, covering financial monitoring, Board governance and service delivery. We will continue to monitor financial resilience of companies and engage with companies on the issue of financial resilience where appropriate.	Met
We will publish final Regulatory Accounting Guidelines 2021-22 to ensure that the annual performance report is prepared consistently and in line with our overall regulatory reporting framework.	Met
We will publish annual league tables on companies' service to their customers: the customer service measure of experience (C-MeX) to their residential customers and developer services measure of experience (D-MeX) to their developer customers.	Met
We will publish in-period determinations for the 17 largest companies by 15 November so that any incentive payments due can be recovered in the 2022-23 charging year.	Met
<b>January to March 2022</b>	
We will run the second rounds of both the Innovation in Water competition and the main competition towards the end of 2021 and beginning of 2022. We will continue to review how the first rounds of our innovation competition have performed and ensure this learning is factored into the design and focus of the second rounds to ensure we are achieving our objectives.	Met
We will consult on our draft forward programme of work for 2022-23 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 disputes](#), 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).

[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 2021-22. Where we have fallen materially short of our targets we have identified actions to improve our performance in 2022-23.

Where a stakeholder is unhappy about how we have handled a complaint or case, whether as part of our casework or information governance, they can ask us to review what we did in line with our [complaints process](#). In 2021-22 we received four requests for internal reviews.

Metric	Details of what is being measured	Total number	Target	2021-22 Actual
<b>Information requests</b>				
<b>FOI/EIR requests</b>	Enquiries responded to within the 20 day deadline	165: 145 FOIs, 20 EIRs (5 FOIs received during 2021-22 were still ongoing at	100%	98% (143 FOI, 19 EIR)

		the end of the financial year)		
<b>SARs</b>	Enquiries responded to within the deadline	4	100%	75% (3)
<b>General enquiries</b>				
<b>General enquiries</b>	Enquiries responded to within ten working days of receipt	903	95%	98% (889)
<b>Disputes and complaints about water and wastewater services</b>				
<b>General complaints – Ofwat has no legal role<sup>13</sup></b>	Complaints where Ofwat has no legal role, responded to within ten working days of receipt	1,954	95%	99% (1,941)
<b>Complex complaints – Ofwat has no role</b>	Complaints acknowledged within ten working days of receipt	75	95%	91% (68)
	Complaints responded to within 20 working days of receipt	75	95%	85% <sup>14</sup> (63)
<b>Complaints – Ofwat may/does have a role – Preliminary Assessment<sup>15</sup></b>	Complaints acknowledged within ten working days of receipt	8	95%	100% (8)
	Complaints responded to within 20/40 working days of receipt	8	95%	50% <sup>2</sup> (4)

<sup>13</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>14</sup> Some complex complaint issues can take longer to respond to because they require us to gather more information from the customer and water company concerned and advice from internal or external subject matter experts to inform our decision. We have completed lessons learnt exercises on complaints where we have not met our target levels of service to understand which areas of our process have taken longer to complete and contributed to us missing our service levels. We are introducing a new investigation toolkit as an internal guide to support our staff in these areas, equipping them to complete timely, high-quality assessments.

<sup>15</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. Our performance against our levels of service for complex complaints has improved since 2020-21 (rising from 63% to 85%), however our performance against our levels of service for completing preliminary assessments has decreased (from 87% to 50%). During 2021-22 a number of the specific preliminary assessments we completed were very complex in nature and took a large amount of resource to gather and review relevant information. Our aim is to introduce our new investigation toolkit early in 2022-23 to address some of the lessons learnt from these and other past complaints.

<b>Internal Reviews</b>	Reviews conducted within the deadline	4	100%	75% (3)
<b>Investigations we carry out</b>				
<b>Customer disputes cases<sup>16</sup></b>	Formal cases closed within our service standard timeframes (including those cases closed prior to final decision/ determination due to informal resolution or withdrawal by the customer)	1 case received in 2021-22 (2 cases received in 2020-21 were still ongoing during 2021-22)	100%	1 (the 2 outstanding cases from 2020-21 were also closed during 2021-22)
<b>Licensing</b>				
<b>NAV applications<sup>17</sup></b>	NAV applications for which we completed our initial checks within five working days of receipt	389	100%	95% (370)
	NAV application decisions made within 85 working days of receipt	244	100%	93% (228)
<b>WSSL applications<sup>18</sup></b>	WSSL applications (including self-supply) for which we completed our initial checks within five working days of receipt	2	100%	100% (2)
	WSSL application decisions made within 45/60 working days of receipt	2	100%	0% <sup>19</sup> (0)
<b>WSSL Revocations<sup>20</sup></b>	Number of WSSL revocations completed <sup>21</sup>	0	N/A	N/A

<sup>16</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>

<sup>17</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>18</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>19</sup> The applications decisions we made in 2021-22 were for applications that were submitted in 2020-21 and were more complex in nature, compared to previous years. These required significant follow-up information and assessment. In the 2021-22 period we refused two applications for WSSLs – both applications did not demonstrate the competencies we assess against. The WSSL Licences we refused are set out at [WSSL Applications Refused – Ofwat](#).

## Complaints to the Parliamentary Ombudsman

During 2021-22 we were made aware of two complaints referred to the Parliamentary and Health Service Ombudsman (PHSO) about Ofwat. One of these (received in August 2021) was closed with no further action from the PHSO following its primary investigation. The PHSO found no evidence of maladministration, however did recommend that we apologise to the customer due to the delays they had experienced in progressing their complaints about their water company with Ofwat. We have since made this apology to the customer, and fed lessons learnt into how our customer complaints team manage the timescales within which it handles customer complaints and providing updates to customers on progress.

We were also contacted by the PHSO regarding a second complaint (October 2021). This initial contact asked us to confirm whether our internal review process had been completed for the customer complaint, prior to the PHSO conducting a primary investigation. The PHSO advised the customer at this stage that our internal review process would need to be completed prior to it beginning an investigation. This complaint has since been through a managerial review at Ofwat which recommended further steps to take. We are now working with the relevant water company to ensure that necessary action is taken to alleviate the customer's concerns. We have not heard further from the PHSO regarding this complaint.

## **A3 List of impact assessments carried out during 2020-21**

None. See Appendix A9 on the application of our Public Sector Equality Duty more generally.

## 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 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 in England 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, including through use 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 and are actively learning lessons at each gate such as revising governance requirements and reducing the number of assessment questions. We have also established a risk-based approach to reporting, providing common reporting pro formas, revising these following company feedback and using cross-company groups to share good practice. 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 have continued to develop our approach to PR24 and beyond. We have progressed our thinking and engaged with the sector through multiple consultations and publications.</p> <p>We are proposing as flagged in our May document to reduce the number of stages of the price review process to enable a greater focus on the long-term. We are also developing our approach to business plan incentives, to encourage high quality business plans that limit the need for us to intervene</p>

	<p>to protect customers and the environment, which will reduce the burden of regulation.</p> <p>Another way in which we intend to seek to reduce the regulatory burden of our price review process is to reduce the number of performance commitments, and focus them on areas of enduring importance to customers and the environment, and reflecting our duties. As part of our work on risk and return for PR24, we are also seeking to optimise our risk allocation framework, reducing complexity where this is appropriate and may be beneficial for customers.</p> <p>This work will form part of our methodology for PR24, to be published in draft in July 2022, and finalised in December 2022.</p>
<b>Regulatory reporting and monitoring</b>	<p>In May 2021 we consulted on companies' regulatory reporting obligations for the 2021-22 reporting year, which highlighted proposed changes to the reporting requirements for the Annual Performance Report (APR). 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</p>
<b>Markets</b>	<p>In March 2022 we removed licence condition C for the English water companies, which concerns infrastructure charges for developments that were agreed before 2018 and set a limit to infrastructure charges. This follows the introduction in April 2018 of a new charging regime for developer services for English companies. Having put in place transitional provisions, we revisited the need for such provisions in the course of the year and, following engagement with the industry, decided to remove the condition altogether. Removing the licence condition simplifies the requirements for water companies in setting infrastructure charges.</p>
<b>Innovation</b>	<p>To help companies navigate the broader water sector regulatory landscape and address any perceived regulatory barriers, we have worked with the Drinking Water Inspectorate and the Environment Agency to create a joint portal for innovation related regulatory questions or queries. This will enable regulators to provide coordinated support to a range of innovators. This was formally launched in May 2022.</p>
<b>Licensing and enforcement</b>	<p>In 2019-20 our casework and enforcement team introduced a new case management system to help deliver our customer enquiries and licensing services to customers more efficiently and consistently. The system and linked customer portal also made it a smoother process for customers and businesses submitting complaints and regulatory information to us. In 2021-22 we delivered further enhancements to this system to further improve our service and reduce unnecessary regulatory burdens on users of our services. In addition we completed a process improvement project of our processes for assessing NAV licence applications, resulting in us delivering a series of recommendations to further streamline the process and reduce administrative burdens for customers and Ofwat, and we intend to take this forward in 2022-23.</p>



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

None.

## A6 Final and provisional orders made and penalties imposed

In December 2021, we imposed a financial penalty on Thames Water Utilities Limited (Thames Water) under s22A of the Water Industry Act 1991 in relation to failings with respect to the transfer of business customer information into the central market operating system (CMOS) prior to the opening of the business retail market and maintenance of accurate information since. We also identified contraventions by Thames Water of the wholesale retail code (WRC). We reduced the penalty to £1 in light of undertakings provided by Thames Water, including refunds and compensation totalling around £11.3 million. Thames Water will forego around £2 million in amounts undercharged.

We also accepted [binding commitments](#) offered by Thames Water under section 31A of the Competition Act 1998 (CA98) to address competition concerns that we had identified during our investigation into its approach to the introduction of smart water meters at business premises.

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

None

## A8 Staff composition 2021-22

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

Level and salary range	2021-22			2020-21			2019-20			2018-19		
	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	0	0	0	6	33	0	0	0	0
Band 2 £24,493 to £33,850	26	58	38	8	75	25	13	77	15	13	62	8
Band 3 £33,851 to £50,615	18	72	22	8	38	0	13	62	9	22	68	23
Band 4 £50,616 to £77,422	12	33	8	15	56	0	9	44	13	17	47	6
Band 5 £77,423 to £116,134	3	67	0	2	0	50	1	100	0	3	67	0
<b>Total</b>	<b>59</b>	<b>58</b>	<b>25</b>	<b>33</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>

All figures are rounded to the nearest whole number.

## Staff in post

Type	31 March 2022	31 March 2021	31 March 2020	31 March 2019
Employed staff headcount	255	243	240	248
Agency staff and consultancy headcount	16	10	8	17

## Employed staff information

Area	31 March 2022	31 March 2021	31 March 2020	31 March 2019
*Full-time equivalent staff	246	234	232	240
Proportion of women (%)	52	52	50	50
Proportion from ethnic minorities (%)	21	16	15	15
Proportion disabled (%)	3	3	3	4
Members of the Senior Civil Service	8	10	10	10
Number of fixed-term and casual contracts	31	19	32	50
Number of staff working part-time	34	33	28	39
Staff turnover (%)	20	9	16	16

\*FTE figure is rounded up to the nearest whole number.

## Staff training attendance (by ethnic group)

Ethnic group <sup>(a)</sup>	2021-22 <sup>(c)</sup>		2020-21 <sup>(c)</sup>		2019-20 <sup>(c)</sup>		2018-19 <sup>1</sup>	
	Number of training days	%	Number of training days	%	Number of training days	%	Number of training days <sup>(b)</sup>	%
White							–	–
Other ethnic groups							–	–
Unknown							2,125	100
<b>Total number of training days</b>							2,125	100

1. We did not collect information on training days by ethnic group
2. Rounded up to the nearest whole number
3. No information on training days was captured by Ofwat in 2019-20, 2020-21 or 2021-22 (the previous Civil Service Learning site has been decommissioned and we are not able to access old records)

## Staff by gender

Area	31 March 2022	31 March 2021	31 March 2020	31 March 2019
Employed staff headcount	255	243	240	248
Number of women	133	126	123	124
Number of men	122	117	116	124
Number unspecified			1	

## Senior Directors by gender\*

Area	31 March 2022	31 March 2021	31 March 2020	31 March 2019
Employed headcount	7	9	10	10
Number of women	5	6	6	7
Number of men	2	3	4	3

\* These figures exclude the role of the Chief Executive.

## Members of Senior Civil Service by gender

Area	31 March 2022	31 March 2021	31 March 2020	31 March 2019
Employed headcount	8	10	10	10
Number of women	5	7	7	7
Number of men	3	3	3	3

## 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.

We set out below how we have complied with this duty in 2021-22 in our external and internal activities.

### 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 are commissioning research to understand customers' experiences, including on issues such as affordability and 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 do this through our board leadership, transparency and governance principles and the objectives in companies' licences, and during 2021-22 continued to assess how companies are demonstrating that they are meeting the objectives of these principles.

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

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 2021 People Survey in relation to the views of our people on questions regarding inclusion and fair treatment. 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:

- **Launching our new Being Ourselves EDI strategy for Ofwat:** Our new EDI strategy 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. The strategy is accompanied by a three-year action plan defining our work programme.
- **Enhancing our diversity pay gap reporting:** We have published our Gender Pay Gap reporting for 2020 and 2021 and also for the first time we have prepared an Ethnicity Pay Gap report for 2020 and 2021.
- **Created the role of Being Ourselves Champions:** Champions from across Ofwat committed to equality, diversity and inclusion. They provide ideas, challenge, and energy to drive forward our EDI strategy.
- **Improved our EDI data collection rates:** We have continued to encourage people to update their diversity data via our HR system, so that we can accurately measure where we are now against where we are trying to get to on our EDI journey. We have seen an increase in the proportion of those who have disclosed their diversity information.
- **Established staff networks around protected characteristics:** We developed guidance for anyone wanting to set up additional networks and connected with networks in the wider Civil Service and within other regulators.
- **Created an EDI training and development programme for** all of our people to attend.
- **Mentoring with a difference:** We have updated and extended our original reverse mentoring scheme to become our new 'mentoring with a difference' programme covering a range of EDI topics and made it available to all of our people.
- **Outside in Talks:** We have continued our programme of external guest speakers to share their experiences with our people.
- **Early Careers:** We have continued to focus on growing our own talent through increased graduate opportunities. We improved the diversity of our Graduate intake of 2021 by targeting 'Millionplus' universities and actively championing EDI during the recruitment and selection process.

## 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

The total number of employees who were relevant union officials during the relevant period is set out below.

Number of employees who were relevant union officials during the relevant period	Full-time equivalent employee number
4	3.6

### Percentage of time spent on facility time

We set out below the number of employees who were relevant union officials employed during the relevant period and the percentage of their working hours spent on facility time.

Percentage of time	Number of employees
0-0.99%	
1-50%	4
51%-99%	
100%	

### Percentage of pay bill spent on facility time

We set out below the percentage of Ofwat's total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

Total cost of facility time	£1.4k
Total pay bill	£19,595k
Percentage of the total pay bill spent on facility time	0.01%

## **Paid trade union activities**

We set out below the number of hours spent by employees who were relevant union officials during the relevant period on paid trade union activities as a percentage of total paid facility time hours.

<b>Time spent on paid trade union activities as a percentage of total paid facility time hours</b>	0%
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## 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 2021-22 financial year in delivering public services in accordance with our Welsh Language Scheme. It also identifies areas for improvement.

### Our Welsh Language Scheme

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 request in either language.

During 2021-22, 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.

If we identify a need for communications 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.

## **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 2021-22, 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 trialled new approaches internally in 2021-22 to increase the amount of communications translated into the Welsh language. We now aim to seek approval for a revised Welsh Language Scheme in 2022-23.

## **Communicating with the Welsh-speaking public in 2021-22**

### **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 2021-22.

### **Telephone communications**

During 2021-22, we did not receive any telephone enquiries in Welsh.

### **Public meetings**

We held no public meetings in Wales or in England during 2021-22.

### **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 2021-22.

Where we have carried out customer research we have included booster samples to allow us to report separately for Wales. We have also translated the findings into Welsh.

## **Our public face**

### **Publicity campaigns and advertising**

We did not carry out any publicity campaigns wholly or mainly in Wales during 2021-22. Nor did we place any advertisements in English language papers published wholly or mainly in Wales.

### **Publications**

We have carried out a scoring exercise for documents that we published over the past 12 months, which has resulted in us translating 22 documents in 2021-22. This compares to seven documents in 2020-21.

## Ofwat Welsh language social media statistics 2021-22

We significantly increased the number of social media posts in the Welsh language during 2021-22. We will report on the number of Welsh language posts in future years.

	2021-22
Social media platform	Number of posts in Welsh language
Twitter	51
LinkedIn	51

## 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 2021-22 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 2021-22, 2020-21 and 2019-20

Pages	2021-22		2020-21		2019-20	
	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>	25	28 seconds	57	23 seconds	54	45 seconds
<a href="#">Cysylltu â ni</a>	25	24 seconds	61	9 seconds	40	30 seconds
<a href="#">Cyhoeddiadau</a>	47	2 minutes 21 seconds	78	30 seconds	116	45 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 2021-22, we published no official notices or public notices relating to issues that relate wholly or mainly to Wales. The staff recruitment notices we published in Welsh are set out below.

## Press releases and contact with the media

During 2021-22 we issued seven press releases which were translated into Welsh (compared to two in 2020-21). These were issued to Welsh language press and broadcast media. Three releases were in relation to the Ofwat ListenCareShare campaign, while another was the announcement of the new Director of Wales.

## 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 skill.

- In 2021 we appointed the Director of Wales who is fluent in the Welsh language. For this campaign we advertised the role in English and Welsh and across job boards across England and Wales.
- We also advertised our Chief Executive role in Welsh and English.

We have increased our outreach to graduates this year to include Welsh Universities specifically Cardiff, Swansea, Aberystwyth and Bangor.

## Information and communications technology

We have had no need to provide information and services in Welsh in 2021-22 in relation to the information and communications technology (ICT) products or services that we have designed or purchased.

We enable the Welsh language pack for Microsoft Office products for a small number of users.

## A12 Common Core Tables

Departmental spending table, 2017-18 to 2024-25, all figures presented in £000s

	2017-18 Outturn	2018-19 Outturn	2019-20 Outturn	2020-21 Outturn	2021-22 Outturn	2022- 23 Plans	2023-24 Plans	2024-25 Plans
<b>Resource DEL:</b>								
Ofwat - Water Services Regulation Authority	(396)	(888)	(410)	(344)	(900)	320	320	320
<b>Total Resource DEL</b>	<b>(396)</b>	<b>(888)</b>	<b>(410)</b>	<b>(344)</b>	<b>(900)</b>	<b>320</b>	<b>320</b>	<b>320</b>
<b>of which:</b>								
Staff costs	15,562	17,672	21,083	19,951	19,671	21,199	20,645	20,163
Purchase of goods and services	7,933	10,728	11,194	7,779	7,706	10,365	17,232	17,724
Income from sales of goods and services	(266)	(258)	(113)	(105)	(80)	-	-	-
Net public service pensions (b)	180	190	29	196	197	152	150	154
Rentals	812	856	892	858	862	-	-	-
Depreciation (a)	212	253	249	306	297	666	923	913
Take up of provisions	-	-	-	419	-	-	-	-
Release of provision	(18)	-	-	-	(95)	(278)	-	-
Unwinding of the discount rate on pension scheme liabilities	79	966	71	44	30	160	160	160
Release of provisions covering payments of pension benefits	(180)	(190)	(1,093)	(196)	(197)	(152)	(150)	(154)
<b>Other resource</b>	<b>(24,710)</b>	<b>(31,105)</b>	<b>(32,722)</b>	<b>(29,596)</b>	<b>(29,291)</b>	<b>(31,792)</b>	<b>(38,640)</b>	<b>(38,640)</b>

<b>Resource AME:</b>								
Ofwat - Water Services Regulation Authority	-	-	-	-	-	-	-	-
<b>Total Resource AME</b>	-	-	-	-	-	-	-	-
<b>Total Resource Budget</b>	(396)	(888)	(410)	(344)	(900)	320	320	320
<b>Capital DEL:</b>								
Ofwat - Water Services Regulation Authority	338	121	181	120	485	2,719	310	650
<b>Total Capital DEL</b>	338	121	181	120	485	2,719	310	650
<b>Capital AME:</b>								
Ofwat - Water Services Regulation Authority	-	-	-	-	-	-	-	-
<b>Total Capital AME</b>	-	-	-	-	-	-	-	-
<b>Total Capital Budget</b>	338	121	181	120	485	2,719	310	650
<b>Total Departmental Spending (c)</b>	(270)	(1,020)	(478)	(530)	(712)	2,373	(293)	57
<b>of which:</b>								
<b>Total DEL</b>	(270)	(1,020)	(478)	(530)	(712)	2,373	(293)	57

\*DEL – Departmental Expenditure Limit; AME – Annually Managed Expenditure

a) Includes impairments.

b) Pension schemes reported under FRS 17 accounting requirements. These figures therefore include cash payments made and contributions received, as well as certain non-cash items.

c) Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

## Administration budgets table, 2017-18 to 2024-25, all figures presented in £000s

	2017-18 Outturn	2018-19 Outturn	2019- 20 Outturn	2020- 21 Outturn	2021-22 Outturn	2022- 23 Plans	2023- 24 Plans	2024- 25 Plans
<b>Resource DEL:</b>								
Ofwat - Water Services Regulation Authority	(396)	(888)	(410)	(344)	(900)	320	320	320
<b>Total administration budget</b>	<b>(396)</b>	<b>(888)</b>	<b>(410)</b>	<b>(344)</b>	<b>(900)</b>	<b>320</b>	<b>320</b>	<b>320</b>
<b>of which:</b>								
Staff costs	15,562	17,672	21,083	19,951	19,671	21,199	20,645	20,163
Purchase of goods and services	7,933	10,728	11,194	7,779	7,706	10,365	17,232	17,724
Income from sales of goods and services	(266)	(258)	(113)	(105)	(80)	-	-	-
Net public service pensions	180	190	29	196	197	152	150	154
Rentals	812	856	892	858	862	-	-	-
Depreciation	212	253	249	306	297	666	923	913
Take up of provisions	-	-	-	419	-	-	-	-
Release of provision	(18)	-	-	-	(95)	(278)	-	-
Unwinding of the discount rate on pension scheme liabilities	79	966	71	44	30	160	160	160
Release of provisions covering payments of pension benefits	(180)	(190)	(1,093)	(196)	(197)	(152)	(150)	(154)
<b>Other resource</b>	<b>(24,710)</b>	<b>(31,105)</b>	<b>(32,722)</b>	<b>(29,596)</b>	<b>(29,291)</b>	<b>(31,792)</b>	<b>(38,640)</b>	<b>(38,640)</b>

**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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