
Water Services Regulation Authority

Resource Accounts

2009-10

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(For the year ended 31 March 2010)

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Annual Report

Resource Accounts: Water Services Regulation Authority

Foreword

These accounts cover the operation of the Water Services Regulation Authority (Ofwat) for the period 1 April 2009 to 31 March 2010 under first time adoption of International Financial Reporting Standards (IFRS). They have been prepared on an accruals basis in accordance with the Government Financial Reporting Manual (FRoM). The report summarises the main objectives and outputs for the year.

Ofwat's aims and objectives

Ofwat is the economic regulator of the water and sewerage sectors in England and Wales.

Our duties are laid down in the Water Industry Act 1991 (WIA91) and Water Act 2003 (WA03).

In exercising our functions we are required, by section 2 of WIA91 (as amended by section 39 WA03), to act in a way that we judge will:

- enable water and sewerage companies to carry out their functions properly;
- enable them to finance their functions, in particular by securing a reasonable rate of return on their capital;
- protecting the interests of consumers where appropriate by promoting competition;
- have regard to the interests of vulnerable groups;
- promote economy and efficiency on the part of companies; and
- contribute to the achievement of sustainable development.

We also take due account of our general environmental and recreational duties under the Act.

Our main objectives in the period 1 April 2009 to 31 March 2010 included:

- Objective 1 – Ensuring a fair deal for customers and keeping companies accountable: monitoring and enforcement, leakage targets, developing new measures of customer service and contributing to the Government's review of charging and metering;
- Objective 2 – Making monopolies improve and harnessing market forces: operation of the water supply licence regime, markets and competition policy development and completing the 2009 review of price limits (PR09); and
- Objective 3 – Contributing to sustainable development and delivering better regulation: security of supply, climate change, environmental and water quality improvement.

Review of Ofwat's activities

Our latest annual report will be published on 14 July 2010 (HC104) and available on our website at www.ofwat.gov.uk, or by contacting The Stationery Office on 0870 600 5522.

Our key outputs for 2009-10, as reported in our annual report, are listed below.

1. Ensuring a fair deal for customers and keeping companies accountable

- All companies met their 2008-09 leakage targets, despite some of the most difficult operating conditions for more than a decade. Thames Water made significant progress with its mains replacement programme, which includes mains replaced at shareholders' expense as part of a section 19 undertaking. We are seeking reporter confirmation early in 2010-11 that the company has met its undertaking.
- We continued to publish comparisons of companies' performance in our annual industry reports and to require improvements where performance was inadequate.
- We published new guidance on water resale.
- We contributed to the independent review of charging and metering for water and sewerage services, chaired by Anna Walker.
- We dealt with more than 2,300 disputes and complaints between April 2009 and March 2010, obtaining rebates or compensation of more than £0.5 million for customers. We also secured capital works in excess of £20 million to address problems experienced by customers.

2. Making monopolies improve and harnessing market forces

- In April, we received the companies' final business plans in support of PR09. We completed the review successfully and published our final determinations of price limits at the end of November. The price limits cover the five-year period April 2010 to March 2015.
- We contributed to the independent review of competition and innovation in water markets, chaired by Professor Martin Cave.
- We published modifications to the water supply access pricing guidance.
- As part of our market reform work, we consulted on the information we require to support our accounting separation analysis.
- With the conclusion of PR09, we initiated our future regulation programme to assess the options for setting price limits in the future in conjunction with other development projects on market reform, metering, charging and regulatory compliance.

3. Contributing to sustainable development and delivering better regulation

- We continued to play an active role in the Government-led Water Saving Group, working with other members to develop water efficiency targets for 2010-11.
- We contributed to Defra's work in producing the Flood and Water Management Act.
- We contributed to Defra's consultations on measuring greenhouse gas emissions and on the Adaptation Reporting Power in the Climate Change Act 2008.
- We contributed to the Welsh Assembly Government's consultation on its Climate Change Strategy Programme of Action.
- We continued to support the implementation of the Water Framework Directive through participation in stakeholder and implementation meetings.

Sustainability Report

Taking account of the environment in Ofwat's work

One of our strategic goals is 'contributing to sustainable development'. The main elements of our policy are listed below.

- We encourage the companies we regulate to take responsibility for the wider social and environmental impacts of their activities. They must meet today's consumer needs, without prejudicing future generations.
- The PR09 outputs required from the companies over the next five years include actions to secure long-term, sustainable water and sewerage services.
- We published 'Delivering sustainable water – Ofwat's strategy' in March 2010. This document set out a new strategic direction which has at its centre social, economic and environmental long-term sustainable water and sewerage services for England and Wales.
- We continue to work on embedding sustainable development and climate change action at the heart of policy, encouraging the companies to take sensible and measured steps that benefit and secure services over the long term.
- We continue to reduce our own environmental impact by:
 - promoting a public transport discount scheme for employees;
 - recycling paper and other products;
 - reducing the number of printed documents we produce in favour of primarily web-based publications;
 - enabling home/remote working; and
 - investing in energy efficient information technology.

Management Commentary

Financial commentary

The financial highlights for Ofwat are summarised below.

Operating costs summary

	2009-10 £000	2008-09 £000
Income		
Deferred income prior year	4,014	1,318
Licence fees received	18,108	17,551
Other income	80	100
	<u>22,202</u>	<u>18,969</u>
Expenditure		
Administration costs	(17,249)	(14,999)
	<u>4,953</u>	<u>3,970</u>
Licence fee income deferred to the following period	(4,999)	(4,014)
Net operating cost	<u>46</u>	<u>44</u>

Ofwat is funded by fees charged to the regulated companies. Fees are recovered annually from appointed companies and licensed suppliers. Our fee income is subject to the constraints set out in the appointed companies' licence conditions. Our budget is subject to negotiation with HM Treasury. Other income is made up from charges related to the service level agreements held with the Consumer Council for Water (CCWater). These service level agreements which were set up to support the formation of CCWater, ceased on 31 March 2010.

The operating budget set at the start of the year was £18.7 million. This included an estimate of £0.2 million to cover our costs relating to the Thames Tideway project. At the beginning of the financial year, we recovered £17.9 million in general licence fees. During the year, a £0.2 million special fee was recovered from Thames Water Utilities Ltd in respect of our Thames Tideway expenditure. The statement of Parliamentary supply estimate was £18.9 million, however when the final budget was confirmed this was set at £18.7 million.

On the completion of PR09, the office implemented a change management and re-organisation programme. The planned changes required a provision in 2009-10 with most of the restructuring costs being incurred in 2010-11. The aim is to ensure Ofwat is structured and has the capacity to deliver its strategy over the period to 2015 and beyond. The changes include:

- a new HR service;
- greater use of programme and project management; and
- a smaller executive team.

The costs of the re-organisation were met within the budget set at the start of the year.

Licence fees for 2009-10 were set at a level to raise £18.1 million in aggregate, £0.6 million less than budgeted total expenditure. In the outturn, we spent £1.5million less than we had budgeted, chiefly because contingencies for which we had allowed did not arise. As a result, the balance of deferred income rose by £1 million. In 2010-11 we are budgeting to utilise £0.6 million of this balance to defray expenditure, allowing us to set licence fees at a lower level than would otherwise be the case. We plan to reduce the balance further in future years.

Compared with 2008-09, our operating expenditure increased by 15%, this reflects the resource requirement to deliver the Ofwat strategy.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

Ofwat prepares resource accounts under the Government Resources and Accounts Act 2000 and is required in the management commentary to include a reconciliation of resource expenditure between Estimates, Accounts and Budgets. Departments report to Parliament through Resource Accounting and to HM Treasury through the Resource Budget.

The Estimate is a statement of how much money Ofwat expects to need in the coming year and for what purposes, for which parliamentary authority is sought. This may include cash receipts.

The Resource Budget is the means by which the Government plans and controls the expenditure of resources to meet its objectives. During the financial year, Ofwat disposed of tangible fixed assets at a loss of £17.2 thousand resulting in administration operating costs being incurred outside of the administration budget. This arose because of an unintended consequence of an HM Treasury classification change relating to the disposal of assets in 2006-07.

The Net Operating Cost can differ from the Estimate and the Resource Budget because it may include items that fall outside of the UK Government's remit, for example EU transactions.

	2009-10 £000	2008-09 £000
Net Resource Outturn (Estimates)	60	44
Net Operating Cost (Accounts)	46	44
Resource Budget Outturn (Budget) of which:	45	43
Departmental Expenditure Limits (DEL)	(1)	(1)
Annually Managed Expenditure (AME)	46	44

We observe parliamentary control totals for administration costs, which are analysed by objectives. These details are provided in the accounting statement and supporting notes to the accounts (pages 28 to 41).

Authority for us to incur expenditure is provided by Parliament through the public expenditure process.

International Financial Reporting Standards (IFRS)

Ofwat produced a full set of shadow IFRS financial statements for the year ended 31 March 2009, which were audited by the NAO. No specific recommendations arose from the work completed.

Financial instruments

We do not have borrowings and rely primarily on licence fee income and Contingency Fund repayable advances for our cash requirements. We are not, therefore, exposed to significant liquidity risks. Further details are provided at note 19 to the accounts.

Going concern

Our statement of financial position at 31 March 2010 shows negative taxpayers' equity of £8.5 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the Consolidated Fund. This is primarily made up of the accumulated underspend and the pension provision for the retired Directors General of Water Services. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirement. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the specified year, nor retained in excess of that need. All unspent monies, including those derived from Ofwat's income, are surrenderable to the Consolidated Fund.

In common with other government departments, the future financing of our liabilities is met by future grants of supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. We confirm our funding for 2010-11 has been approved. The accounts for 2009-10 have been prepared on a going concern basis.

Roles and responsibilities

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

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

Chief Executive

Regina Finn

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

Non-executive directors

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

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

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

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

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

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

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

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

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

Non-executive board member of the Office of Rail Regulation to 31 March 2010 and the SITA Trust. From 1 April 2010, non-executive director with the Information Commissioner.

Gillian Owen, 2-3 days a month.

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

Non-executive directors' terms of appointment

Non-executive director appointments are generally for five years. The appointments of Philip Fletcher, Jane May, Peter Bucks, Gillian Owen and Michael Brooker run until 31 March 2011, and Penny Boys until 31 March 2014.

Non-executive director appointments have no entitlement to performance related pay or pension entitlements. Compensation in the event of early termination is at the discretion of the Secretary of State.

Audit Committee

Our systems of internal control, risk management and governance are scrutinised by the Audit Committee. Members of the committee in 2009-10 were Peter Bucks (Chairman), Penny Boys and Richard Kennett (Independent member). Richard Kennett is a chartered accountant with extensive experience in audit, business and risk management, and is an independent member of the Audit Committee of Hanover Housing Group and

a Council Member of the Health Professions Council, where he is the Chairman of the Finance and Resources Committee.

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

Equal opportunities policy

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

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

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

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

Employee involvement

We attach great importance to managing, developing and training staff. In July 2009, Ofwat was successfully re-accredited as an Investors in People organisation. We continue to hold regular staff briefings and seminars. We have a staff committee, which is consulted on a range of issues. We have a recognition agreement with the trade unions that represent Ofwat staff, namely PCS, Prospect and FDA.

During the year we established an Institute of Leadership and Management (ILM) level 3 award course for junior managers.

Sickness absence

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

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

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

The Positive People Company provide Ofwat with an Employee Assistance Programme that offers a voluntary and confidential support, information and counselling service to help employees and their immediate family members to resolve personal problems and concerns.

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

	2009-10			2008-09		
	Short Term	Long Term	Total	Short Term	Long Term	Total
Days lost	863	1,088	1,951	809	917	1,726
Percentage lost			4%			4%

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

Supplier payment performance

We achieved 95.8% against our target for paying 100% of agreed invoices within 30 days of receipt during 2009-10. The corresponding figure for 2008-09 was 97.6%.

Protected personal data related incidents

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

There have been no protected personal data related incidents in 2009-10.

Internal audit

KPMG Audit LLP (KPMG) provided our internal audit services in 2009-10. The service provides an independent appraisal service for management by measuring and auditing the adequacy, reliability and effectiveness of management, risk management, and financial control systems. The internal auditors make recommendations based on the appraisal of each system reviewed.

During the year, no remuneration was paid to KPMG for non-audit work. This three-year contract came to an end on 31 March 2010. From April 2010, our internal audit service will be provided by PricewaterhouseCoopers. This new contract was jointly procured with Ofqual and the Office of Fair Trading (OFT).

External audit

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

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

The notional cost of this service is £53.5 thousand, which has been met by a non-cash adjustment to the General Fund. The notional cost of the IFRS Trigger Point 4 audit fee was £6.0 thousand.

The future

In March 2010, we published 'Ofwat forward programme 2010-11 to 2012-13'. This document sets out our priorities for guiding how we will develop economic regulation of the water and sewerage sectors in England and Wales over the medium term. The main priorities and work streams include development of new policy covering:

- metering, charges and affordability;
- sustainable development and climate change;
- setting price limits in the future;
- market reform; and
- regulatory compliance.

The work programme provides detail on the work streams and projects to implement our strategy.

Remuneration Report

Executive Team

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

Regina Finn*	Chief Executive
Keith Mason*	Director of Finance and Networks
Cathryn Ross*	Director of Markets and Economics
Rob Ashley	Interim Director of Policy and Communications
Stuart Crawford	Interim Director of Corporate Services and Programme Management
Andrew Dunn**	Director of Consumer Protection
George Day**	Director of Network Regulation
Huw Brooker**	Director of Legal Services
Roger Dunshea**	Director of Operations

* denotes Board member

** until 31 December 2009.

Service contracts

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

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

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

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

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

Details of remuneration are included in the tables below.

Interim directors

During the financial year, we were not successful in recruiting the Director of Policy and Communications and it was necessary to employ the services of an externally appointed Interim Director – Rob Ashley. To plan and initiate the change management programmes we conducted a competitive tender and appointed an Interim Director of Corporate Services and Programme Management – Stuart Crawford.

Staff remuneration

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

Salaries are set on the basis of recruiting and retaining high-calibre staff within the framework of controlling public expenditure set by the Government. PRP is determined by the appraisal system and limits set by HM Treasury. During the year, we initiated a review of our pay system.

Non-executive directors

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

Remuneration Committee members

During the year, the members of the SCS (senior civil servants) and Staff Remuneration Committees were:

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

Pension liabilities

The main pension scheme for Ofwat staff is the Principal Civil Service Pension Scheme (PCSPS). This is a defined benefit, unfunded scheme. The payment of benefits from the scheme is borne by the Civil Service Superannuation Vote. The pension liabilities arising from Ofwat's employees' membership of the PCSPS are not provided for in these accounts in accordance with HM Treasury's instructions and as described on page 14.

A full provision has been made in the accounts for liabilities arising in respect of the by-analogy pension schemes for both the former Directors General as required by HM Treasury (note 16.2). Claims are made on the Exchequer to cover the pension costs that relate to employment other than with Ofwat.

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

Early departure costs and compensation payments

At the end of PR09, we implemented the plan to re-organise the way we work. We have implemented a more streamlined structure of four divisions and more project-based working. As a result, we incurred some restructuring costs in 2009-10 and have made provision in the accounts for early departure and other costs which mainly occur in 2010-11.

A classic member, left under compulsory early retirement in November 2009, with a service enhancement of five years, and was earning £31,695 a year at the time of leaving. This person received a compensation payment of £18,657.41.

Senior managers' remuneration

The following information was subject to audit.

	Salary £000	2009-10 Benefits in kind (to nearest £100)	Salary £000	2008-09 Benefits in kind (to nearest £100)
Regina Finn Chief Executive	155-160	–	160-165	–
Keith Mason Director of Finance and Networks	115-120	–	110-115	–
Cathryn Ross Director of Markets and Economics (from 8 September 2008)	130-135	–	60-65 (full year equivalent 110-115)	–
Andrew Dunn Director of Consumer Protection	85-90	–	85-90	–
George Day Director of Network Regulation	105-110	–	90-95	–
Huw Brooker Director of Legal Services	105-110	–	100-105	–
Roger Dunshea Director of Operations	100-105	–	100-105	–

The following information was subject to audit.

	2009-10 Payment £000	2008-09 Payment £000
Third party payments Provision of interim manager services		
Sand Resources Ltd Rob Ashley* Interim Director of Policy and Communications (from September 2008)	285-290	120-125
Interim Performers Ltd Stuart Crawford* Interim Director of Corporate Services and Programme Management (from July 2009)	135-140	–

*Civil service pension rights are not applicable to these members of the senior Executive Team.

Non-executive members of the Authority remuneration

The following information was subject to audit.

	Salary £000	2009-10 Benefits in kind (to nearest £100)	Salary £000	2008-09 Benefits in kind (to nearest £100)
Philip Fletcher CBE Chairman	105-110	500	105-110	1,200
Penny Boys CB Non-executive Director	20-25	3,300	25-30	2,600
Michael Brooker Non-executive Director	20-25	1,200	25-30	1,200

	Salary £000	2009-10 Benefits in kind (to nearest £100)	Salary £000	2008-09 Benefits in kind (to nearest £100)
Peter Bucks Non-executive Director	20-25	2,100	25-30	2,400
Jane May Non-executive Director	20-25	1,600	25-30	1,500
Gillian Owen Non-executive Director	20-25	1,000	25-30	1,200

Independent member of the Audit Committee remuneration

The following information was subject to audit.

	Salary £000	2009-10 Benefits in kind (to nearest £100)	Salary £000	2008-09 Benefits in kind (to nearest £100)
Richard Kennett Independent Member	0-5	700	0-5	500

Salary

'Salary' covers both pensionable and non-pensionable amounts and includes gross salary, performance pay or bonuses, overtime, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

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

Senior managers' pension benefits

The following information was subject to audit.

	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2010 and related lump sum £000	CETV at 31 March 2010 £000	CETV at 31 March 2009* £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Regina Finn Chief Executive	2.5-5: lump sum –	5-10: lump sum –	99	65	26	–
Keith Mason Director of Finance and Networks	0-2.5: lump sum 5-7.5	20-25: lump sum 65-70	425	364	36	–
Cathryn Ross Director of Markets and Economics	2.5-5: 10-12.5	10-15: lump sum 40-45	170	122	39	–

	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2010 and related lump sum £000	CETV at 31 March 2010 £000	CETV at 31 March 2009* £000	Real increase in CETV £000	Employer contribution to partnership pension account Nearest £100
Andrew Dunn Director of Consumer Protection	0-2.5: lump sum –	0-5: lump sum –	78	50	23	–
George Day Director of Network Regulation	2.5-5: lump sum –	20-25: lump sum –	268	205	27	–
Huw Brooker Director of Legal Services	0-2.5: lump sum –	15-20: lump sum –	185	149	23	–
Roger Dunshea Director of Operations	0-2.5: 2.5-5	30-35: 100-105	694	623	31	–

* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements.

Since 30 July 2007, it has been possible for civil servants to be in one of four defined benefit schemes; either a 'final salary' scheme (**classic**, **premium** or **classic plus**); or a 'whole career' scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year.

Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members joining since October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium**, **classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' 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 in respect of service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 calculated 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 immediately after the scheme year end the accrued pension is updated in line with RPI. In all cases, members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

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

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

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Value (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme.

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

The figures include the value of any pension benefit in another scheme or arrangement that the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 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 drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation or 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.

Statement of Accounting Officer's Responsibilities

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

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

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

- observe the accounts direction issued by HM Treasury including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

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

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

Statement on Internal Control

Scope of responsibility

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

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

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

The purpose of the system of internal control

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

The system of internal control has been in place in Ofwat for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance. Assurance is provided to the Accounting Officer by each budget holder (directors and team leaders) who have signed a statement of internal control covering the period from 1 April 2009 to 31 March 2010.

Capacity to handle risk

The Board, Audit Committee and Executive Team

The Board recognises the importance of leadership to create an environment where risk management is effective. The Board, Audit Committee and Executive Team regularly review the strategic risk register and current priority risks from the operational risk register. In addition, the Audit Committee receives presentations on a rolling basis from each director on their management of risk in their division. Risk assessment is embedded into the work of the office. Senior managers, and their staff, are committed to managing risk. To strengthen its oversight we have an independent member to our Audit Committee, who is not a Board member.

The risk and control framework

The Board

The Board reviews Ofwat's strategy annually and risk management quarterly. In June 2009, the Board updated Ofwat's strategy and we published a revised version in March 2010. The Board also held a strategic risk management review in March 2010. This recognised the increasing risk environment of what is an ambitious and challenging revised strategy.

It was acknowledged that the external risks focused on collaboration and engagement of stakeholders in delivering new policy developments. The internal risks included the implementation of a new project-based approach to delivery within a tight budget envelope. The Board agreed the strategic risk register would be revised in April 2010 and that for some projects the level of risk appetite would increase.

Risk management

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

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

- potential risk areas have been identified with mitigating actions for areas such as decision taking, failure in quality assurance, inability to recruit the right staff, failure in business continuity, breaches of security, financial procedures and corporate governance;
- annual risk management workshops are held with each division;
- divisional risk registers are reviewed monthly;
- directors attend the audit committee to provide briefings on risk management at divisional level;
- risk registers are updated regularly and reports prepared for Executive Team and Audit Committee; and
- actions are followed up from internal audit studies.

Key risks that we addressed during the year were:

- the current legislative framework, which does not promote competition in the water and sewerage sectors. We addressed this risk by working with Defra on new legislative proposals designed to achieve market development within the sectors;
- PR09, which we completed in November 2009. The project risk register was reviewed regularly and mitigating controls and actions completed. The project was subject to a series of internal audit reviews which were reported to the Audit Committee;
- the completion of PR09 provided an opportunity to review the office structure and approach to policy development. The implementation of a more streamlined structure and project-based working commenced in January 2010. The risks of these changes has been addressed through an evolutionary approach in conjunction with effective risk monitoring actions and controls;
- the budget setting assumptions included the risk of appeals by companies and the likelihood of progress of new legislation. The risk of appeals reduced during the year, notably those related to PR09. The timing and content of the new legislation became more uncertain towards the second half of the year. These contributed to the underspend at the year end; and
- the increasing environmental, social and climate change challenges to the water and sewerage sectors provide growing risks. To address these, we published 'Delivering sustainable water – Ofwat's strategy' in March 2010. We produced a new risk strategy in April 2010.

Our internal audit plan 2009-10 covered:

- financial systems;
- risk management;
- information security statement; and
- PR09 project management, business plan analysis and audit trail.

All reports were satisfactory.

Information security statement

Ofwat holds a range of information covering commercial and personal data. We have an Information Risk Policy (IRP) and related procedures in place. In June 2009, we reported to the Cabinet Office our first Annual Security Report. No areas of concern were identified.

Review of effectiveness

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

We consult on and publish our forward programme each year. This sets out our high-level objectives for the coming financial year plus a look forward to the following two years. This forward programme drives divisional plans, programme projects and ultimately each member of staff's objectives. Directors and team leaders regularly review progress on divisional and team plans. The Executive Team reviews monthly the progress of key projects. The Executive Team and the Board review progress on the strategy each quarter. We have a process of individual performance review for staff in place. The resource requirements for Ofwat are assessed regularly against the forward programme and developing priorities. The non-executive directors also provide me with an independent view of our performance. On 14 July 2010, Ofwat will lay its annual report for 2009-10 before Parliament.

The Board, Audit Committee and Executive Team regularly assess and monitor our performance and related systems of internal control. Our internal auditors in 2009-10, KPMG, review and advise on our risk management processes and internal controls and during the year reviewed systems and procedures in respect of finance and information security.

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

Regina Finn
Accounting Officer

17 June 2010

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

I certify that I have audited the financial statements of the Water Services Regulation Authority for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, the Statement of Net Operating Costs by Departmental Strategic Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Water Services Regulation Authority circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Water Services Regulation Authority; and the overall presentation of the financial statements.

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

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the Department's affairs as at 31 March 2010 and of its net cash requirement, net resource outturn, net operating cost, net operating costs by departmental strategic objectives, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given in the Sustainability Report and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or

- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

*Amyas C E Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London
SW1W 9SS*

23 June 2010

Statement of Parliamentary Supply

for the year ended 31 March 2010

Summary of Resource Outturn 2009-10

Summary of Resource Outturn 2009-10

	Note	Estimate			Outturn			2009-10 £000	2008-09 £000
		Gross Expenditure	A in A	Net Total	Gross Expenditure	A in A	Net Total	Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Request for Resources									
1: Regulation of the Water Industry	3	18,959	(18,899)	60	17,249	(17,203)	46	14	44
Total resources		18,959	(18,899)	60	17,249	(17,203)	46	14	44
Non-operating cost A in A		-	-	-	-	-	-	-	-

Net cash requirement 2009-10

	Note	Estimate		Outturn		2009-10 £000	2008-09 £000
		Estimate	Outturn	Estimate	Outturn	Net Total outturn compared with Estimate: saving/ (excess)	Outturn
Net cash requirement	5	1,135	115	1,020	109		

Summary of the income payable to the Consolidated Fund

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

Note	Forecast 2009-10 £000		Outturn 2009-10 £000		
	Income	<i>Receipts</i>	Income	<i>Receipts</i>	
Total	6	-	-	1,492	1,063

Outturn receipts are less than income because settlement of the £429 thousand Competition Commission cost invoiced to Sutton & East Surrey Water Plc is not due for payment until April 2010.

Explanations of variances between Estimate and outturn are given in note 3 and in the Management Commentary.

Operating Cost Statement

for the year ended 31 March 2010

Administration costs:			2009-10	2008-09
Request for resources 1:			£000	£000
	Note	Staff costs	Other costs	Income
Staff costs	8	10,749	-	-
Other administration costs	9	-	6,500	-
Operating income	10	-	-	(17,203)
Totals		10,749	6,500	(17,203)
Net operating cost	4		46	44

Statement of Financial Position

as at 31 March 2010

	Note	2010 £000	2009 £000	01 April 2008 £000
Non-current assets:				
Property, plant and equipment	11	860	878	903
Intangible assets	12	120	105	108
Total non-current assets		980	983	1,011
Current assets:				
Trade receivables	13	1,179	943	20,864
Cash and cash equivalents	14	1,063	2,986	498
Total current assets		2,242	3,929	21,362
Total assets		3,222	4,912	22,373
Current liabilities:				
Trade and other payables	15	(8,097)	(9,145)	(23,550)
Total current liabilities		(8,097)	(9,145)	(23,550)
Non-current assets less net current assets/liabilities		(4,875)	(4,233)	(1,177)
Non-current liabilities:				
Provisions	16	(747)	(90)	-
Pension liabilities	16	(2,897)	(2,370)	(2,526)
Other payables	15	(4)	(75)	(151)
Total non-current liabilities		(3,648)	(2,535)	(2,677)
Assets less liabilities		(8,523)	(6,768)	(3,854)
Taxpayers' equity:				
General Fund		(8,545)	(6,797)	(3,896)
Revaluation Reserve		22	29	42
Total taxpayers' equity		(8,523)	(6,768)	(3,854)

Regina Finn
Accounting Officer

17 June 2010

The notes on pages 28 to 41 form part of these accounts

Statement of Cash Flows

for the year ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Cash flows from operating activities			
Net operating cost	4	46	44
Adjustments for non-cash transactions	9	(981)	(367)
Increase(decrease) in trade and other receivables		236	(19,921)
Less movements in receivables relating to items not passing through the OCS		(429)	20,270
Increase in trade payables		1,119	14,481
Less movements in payables relating to items not passing through the OCS		(1,560)	(17,698)
Use of provisions	16	237	150
Net cash (inflow)/outflow from operating activities		(1,332)	(3,041)
Cash flows from investing activities			
Purchase of property, plant and equipment		218	187
Purchase of intangible assets		85	61
Net movement in capital receivables (payables)		81	(84)
Net cash outflow/(inflow) from investing activities		384	164
Cash flows from financing activities			
From the Consolidated Fund (Supply) - current year		(115)	(109)
Advance from the Contingencies Fund		3,000	3,500
Repayment to the Contingencies Fund		(3,000)	(3,500)
Capital element of payments in respect of finance leases		-	-
Net financing		(115)	(109)
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		1,063	2,986
Net cash requirement		115	109
From the Consolidated Fund (Supply) - current year		(115)	(109)
Receipts due to the Consolidated Fund which are outside the scope of the Departments activities		-	65,812
Payment of amounts due to the Consolidated Fund		(2,986)	(66,310)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(1,923)	2,488
Cash and cash equivalents at the beginning of the period	14	2,986	498
Cash and cash equivalents at the end of the period	14	1,063	2,986

The notes on pages 28 to 41 form part of these accounts

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2010

Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 1 April 2008	(3,896)	42	(3,854)
Changes in taxpayers' equity for 2008-09			
Net gain on revaluation of property, plant and equipment	-	8	8
Non-cash charges - cost of capital	(183)	-	(183)
Non-cash charges - auditors remuneration	46	-	46
Non-cash charges - actuarial loss	136	-	136
Non-cash charges - Change in discount rate	-	-	-
Transfers between reserves	21	(21)	-
Net operating cost for the year	(44)	-	(44)
Total recognised income and expense for 2008-09	(24)	(13)	(37)
Net Parliamentary Funding - drawn down	109	-	109
CFER's payable to the Consolidated Fund	14 (2,986)	-	(2,986)
Balance at 1 April 2009	(6,797)	29	(6,768)
Changes in accounting policy	-	-	-
Restated balance at 1 April 2009	(6,797)	29	(6,768)
Changes in taxpayers' equity for 2009-10			
Net gain on revaluation of property, plant and equipment	-	(2)	(2)
Non-cash charges - cost of capital	9 (267)	-	(267)
Non-cash charges - auditors remuneration	9 54	-	54
Non-cash charges - actuarial loss	16 (546)	-	(546)
Transfers between reserves	5	(5)	-
Net operating cost for the year	(46)	-	(46)
Total recognised income and expense for 2009-10	(800)	(7)	(807)
Net Parliamentary Funding - drawn down	115	-	115
CFER's payable to the Consolidated Fund	6 (1,063)	-	(1,063)
Balance at 31 March 2010	(8,545)	22	(8,523)

The notes on pages 28 to 41 form part of these accounts

Statement of Operating Costs by Departmental Strategic Objectives

for the year ended 31 March 2010

	2009-10				2008-09			
	Strategic Objective 1	Strategic Objective 2	Strategic Objective 3	Total	Strategic Objective 1	Strategic Objective 2	Strategic Objective 3	Total
Gross Expenditure	3,036	11,591	2,622	17,249	4,125	9,224	1,650	14,999
Income	-	-	-	(17,203)	-	-	-	(14,955)
Net Expenditure	3,036	11,591	2,622	46	4,125	9,224	1,650	44

Income received from licence fees and publications is not specific to one objective but applies to all regulatory objectives

Notes to the Departmental Resource Accounts

1 Statement of accounting policies

These financial statements have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Ofwat for the purpose of giving a true and fair view has been selected. The particular policies adopted by Ofwat are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, the FRoM also requires Ofwat to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The Statement of Operating Costs by Departmental Strategic Objectives and supporting notes analyse Ofwat's income and expenditure by the objectives agreed by the Water Services Regulation Authority.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets at fair value to the business by reference to their valuation in existing use.

1.2 Property, plant and equipment

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

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

With the exception of personal computers and office furniture, individual items must exceed a capitalisation threshold of £1,000 for inclusion as property, plant and equipment. PC and office furniture items falling below the threshold are capitalised as groups. A threshold of £250 exists for individual items to be classified as grouped assets.

1.3 Depreciation

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

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

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

1.4 Intangible assets

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

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

1.5 Amortisation

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

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

1.6 Financial instruments

Ofwat does not hold any complex financial instruments. Financial instruments included within these accounts are receivables and payables (notes 13 and 15). Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when Ofwat is unable to collect an amount due in accordance with the agreed terms.

1.7 Financing

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

1.8 Operating income

Operating income is income that relates directly to the operating activities. It consists primarily of licence fees charged on a full cost recovery basis. There is also a small amount of operating income recovered from CCWater under the Service Level Agreement for providing support services. These services ceased on 31 March 2010.

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

1.9 Cash

Cash is primarily generated through licence fees and the activities outlined in 1.8. At the end of a financial year any cash remaining in Ofwat's bank accounts (Barclays, Citi Bank and Office of the Paymaster General) is paid over to the Consolidated Fund (note 6). As Ofwat does not receive the income from companies at the start of the financial year a sum is borrowed from the Consolidated Fund and repaid later.

1.10 Trade receivables

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

1.11 Fines and penalty income

Income recovered from fines and penalties is not recorded as income in the Operating Cost Statement. It is recognised as a payment due to the Consolidated Fund at the date the legal notice is served.

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

1.12 Administration and programme expenditure

Administration costs are recorded in the Operating Cost Statement. They include the costs of running Ofwat, as determined under the administration cost-control regime. There was no programme expenditure between 1 April 2009 and 31 March 2010 (2008-09: nil).

1.13 Capital charge

A charge, reflecting the cost of capital utilised by Ofwat, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for:

- a. Cash balances with the Office of the Paymaster General, where the charge is nil; and
- b. Consolidated Fund payables, where the credit is nil.

1.14 Leases

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

Equipment purchased under a finance lease is charged to the Operating Cost Statement through depreciation on a straight line basis over the minimum term of the lease. An annual interest charge is calculated at either the

rate explicit in the lease or the Bank of England base rate as at the contractual date if no rate is explicit in the lease.

1.15 Pensions

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

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

1.16 Value added tax

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

1.17 Provisions

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

Discount rates of 2.5% per annum apply for pension liabilities and 2.2% for other provisions.

1.18 Contingent liabilities

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

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

1.19 Going concern

Our Statement of Financial Position at 31 March 2010 shows negative taxpayers' equity of £8.5 million. This reflects the inclusion of liabilities falling due in future years, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be from grants of supply approved annually by Parliament, to meet our net cash requirements. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than that required for the specified year nor retained in excess of that need. All unspent monies, including those derived from the department's income, are surrenderable to the Fund. We confirm our funding for 2010-11 has been approved.

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

The accounts for 2009-10 have been prepared on a going concern basis.

1.20 Staff costs

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

1.21 Accounting Estimates

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

2 First-time adoption of IFRS

	General Fund £000	£000
Taxpayers' equity at 31 March 2009 under UK GAAP	6,474	
Adjustments for:		
IAS 19 - Employee Benefits	389	
Finance leases	4	
Deferred income	(99)	
Taxpayers' equity at 1 April 2009 under IFRS	<u>6,768</u>	
Net operating cost for 2009-10 under UK GAAP		<u>44</u>
Net operating cost for 2009-10 under IFRS		<u>44</u>

3 Analysis of net resource outturn by section

						Outturn		2009-10 £000	2008-09 £000
	Admin	Other current	Grants	Gross expenditure	A in A	Net Total	Net Total	Estimate Net total compared with Estimate	Prior-year outturn
RFR1: Regulation of the Water Industry									
Section A	17,203	-	-	17,203	(17,203)	-	1	1	-
Section B	-	(92)	138	46	-	46	59	13	44
Total	<u>17,203</u>	<u>(92)</u>	<u>138</u>	<u>17,249</u>	<u>(17,203)</u>	<u>46</u>	<u>60</u>	<u>14</u>	<u>44</u>
Resource Outturn	<u>17,203</u>	<u>(92)</u>	<u>138</u>	<u>17,249</u>	<u>(17,203)</u>	<u>46</u>	<u>60</u>	<u>14</u>	<u>44</u>

Section A - Water Services Regulation Authority.

Section B - Interest on Pension Scheme Liabilities. Annually Managed Expenditure (AME).

The former Directors General are covered by 'by-analogy pension schemes'. Ofwat makes full provision for liabilities arising in respect of these schemes and includes benefits accrued in respect of non-Ofwat employment. The Exchequer makes an annual contribution in relation to this non-Ofwat employment as disclosed in note 16.2.

In accordance with the requirement of HM Treasury, to ensure parity between those departments who pay into the multi-employer schemes and those that run their own unfunded by-analogy schemes, we are required to record certain transactions within AME (net total £46 thousand).

The provision liability attracts a cost of capital credit (£92 thousand), the rate of which is set at 3.5% real. This is recorded as other current costs.

The accounts record the increase in the liability due to the unwinding of the discount rate (interest on pension scheme liabilities (£138 thousand)) which is recorded as grant expenditure. The discount rate is based on AA corporate bond rates, which is advised separately, and a 2.75% inflation assumption.

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

4 Reconciliation of outturn to net operating cost and against Administration Budget

4.1 Reconciliation of net resource outturn to net operating cost

		2009-10 £000	2008-09 £000		
	Note	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	3	46	60	14	44
Net operating cost		46	60	14	44

4.2 Outturn against final Administration Budget

	2009-10 £000	2008-09 £000	
	Budget	Outturn	Outturn
Gross Administration Budget	18,900	17,203	14,955
Income allowable against the Administration Budget	(18,899)	(17,203)	(14,955)
Net outturn against final Administration Budget	1	-	-

5 Reconciliation of net resources to net cash requirement

		2009-10 £000	2008-09 £000	
	Note	Estimate	Outturn	Net total outturn compared with estimate: saving (excess)
Resource Outturn	4	60	46	14
Capital				
Acquisition of property, plant and equipment	11,12	480	313	167
Accruals adjustments				
Non-cash items	9	(374)	(981)	607
Changes in working capital other than cash		808	(492)	1,300
Changes in payables falling due after more than one year		-	(71)	71
Use of provision	16	161	237	(76)
Excess cash to be surrendered to the Consolidated Fund		-	1,063	(1,063)
Net cash requirement		1,135	115	1,020

6 Analysis of income payable to the Consolidated Fund

		2009-10 £000		2008-09 £000	
	Note	Income	Forecast Receipts	Income	Outturn Receipts
Excess cash surrenderable to the Consolidated Fund	5	-	-	1,063	1,063
Other amounts collectable on behalf of the Consolidated Fund*		-	-	1,063	1,063
		-	-	429	-
Total income payable to the Consolidated Fund		-	-	1,492	1,063

* this includes income in relation to the Competition Commission cost recovery

7 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2009-10 £000	2008-09 £000
Operating Income	10	17,203	14,955
Income authorised to be appropriated in aid	10	(17,203)	(14,955)
Operating Income payable to the Consolidated Fund		-	-

8 Staff numbers and related costs

Staff costs comprises:

	2009-10 £000			2008-09 £000	
	Total	Permanently employed staff	Others	Non-exec directors	Total
Wages and salaries	8,535	8,126	192	217	7,126
Social Security costs	669	646	-	23	554
Other pension costs	1,545	1,545	-	-	1,414
Sub Total	10,749	10,317	192	240	9,094
Less recoveries in respect of outward secondments	-	-	-	-	-
Total Net Costs*	10,749	10,317	192	240	9,094

* of the total no charge has been made to capital

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

For 2009-10, employer's contributions of £1,529,817 were payable to the PCSPS (2008-09: £1,359,955) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2010-11, the rates are in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of benefits accruing during 2009-10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £19,363 (2008-09: £12,124) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £1,786; 0.8% (2008-09: £1,102; 0.8%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the date of the Statement of Financial Position were £1,948 (2008-09: £1,414). Contributions prepaid at that date were nil (2008-09: nil).

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

Average number of people employed

The average number of whole-time equivalent persons employed during the year was as follows:

Departmental Strategic Objective	2009-10			2008-09	
	Total	Permanently employed staff	Others	Non-exec directors	Total
Objective 1	43.93	43.42	0.36	0.15	58.8
Objective 2	146.19	144.15	1.34	0.70	105.5
Objective 3	31.85	31.15	0.55	0.15	38.8
Total	221.97	218.72	2.25	1	203.1

9 Other Administration Costs

	2009-10	2008-09
	<u>£000</u>	<u>£000</u>
	<u>Outturn</u>	<u>Outturn</u>
Rentals under operating leases:		
Accommodation	907	752
Office equipment	-	12
	<u>907</u>	<u>764</u>
Non cash items:		
Depreciation	231	203
Amortisation	66	56
Loss on disposal of assets	17	1
Cost of Capital charges	(267)	(183)
Addition/(release) of provision	(10)	90
Restructuring provisions	748	-
Other finance costs	142	130
External Auditors' remuneration	54	46
Permanent diminution of assets	-	24
	<u>981</u>	<u>367</u>
Other expenditure:		
Consultancy services	2,245	2,799
Training	265	236
Travel and subsistence	267	171
Taxation charges	24	9
Rates	200	165
Computer hire and maintenance	386	208
Other hire and maintenance	98	29
Seminars, meetings and conferences	153	126
Minor items and stationery	51	80
Publications	46	72
Books and periodicals	113	94
Postal services and couriers	21	14
Telecommunications	78	62
Recruitment costs	158	257
Office Consumables	51	53
Accommodation expenses	206	134
Internal Audit fees	55	49
Professional Subscriptions	24	25
Transfer Allowance - Relocation	40	20
Payroll and pension services	30	29
Business continuity	25	10
Record management	25	26
Other	51	106
	<u>4,612</u>	<u>4,774</u>
Total	<u>6,500</u>	<u>5,905</u>

The notional cost of the external auditors' remuneration in 2009-10 includes:

- Resource Accounts audit charge of £47.5k
- IFRS Trigger Point 4 audit charge of £6.0k

10 Income

This note analyses the income recorded in the Operating Cost Statement.

	<u>2009-10</u>	<u>2008-09</u>
	<u>£000</u>	<u>£000</u>
	<u>Outturn</u>	<u>Outturn</u>
RfR1		
Licence fees	18,108	17,551
Licence fees received in advance - prior year	4,014	1,318
Licence fees received in advance - current year	(4,999)	(4,014)
CCWater administration support fees	65	87
Miscellaneous	15	13
Total	<u>17,203</u>	<u>14,955</u>

The balance of deferred income will be carried forward. In 2010-11 we are budgeting to utilise £0.6m of this balance to defray expenditure allowing us to set licence fees at a lower rate than would otherwise be the case. The forecast is that the underspend will reduce significantly over the next five years to fund the strategy goals set in March 2010.

Owat is mandated to collect licence fees from the appointed companies and licensed suppliers in respect of CCWater's operating costs. In 2009-10 we collected £6.342 million; £5.667 million was transferred to the Department for Environment, Food and Rural Affairs and £0.675 million to the Welsh Assembly Government. In accordance with HM Treasury guidance, we do not record these transactions in our financial statements.

Owat provides support services to CCWater under Service Level Agreements (SLAs). These agreements cover service provisions of Library and Information Services, Finance and Human Resources. An amount of £64.9 thousand plus VAT was received from the provision of service from 1 April 2009 to 31 March 2010.

All SLAs with CCWater ceased on 31 March 2010.

This analysis is provided for HM Treasury's fees and charges purposes.

	<u>£</u>	<u>£</u>	<u>£</u>
Service provided	Amount received	Actual cost of provision of service	Surplus (deficit)
Library and Information Services	5,344	5,344	-
Finance	36,677	36,677	-
Human Resources	22,866	22,866	-
	<u>64,887</u>	<u>64,887</u>	<u>-</u>

A review of the actual cost of services provided to CCWater was undertaken at 31 March 2010.

11 Property, plant and equipment

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

	£000	£000	£000	£000	£000	£000
	Furniture & Fittings	Office machinery & Telecomms	Leasehold Improvements	Information Technology Payments on Account	Information Technology	Total
Cost or valuation						
At 1 April 2009	365	436	277	58	1,573	2,709
Additions	53	3	30	-	133	219
Reclassifications	-	-	-	(58)	58	-
Disposals	(26)	(110)	-	-	(41)	(177)
Revaluation	-	-	-	-	-	-
At 31 March 2010	392	329	307	-	1,723	2,751
Depreciation						
At 1 April 2009	181	248	49	-	1,353	1,831
Charged in year	29	88	29	-	85	231
Disposals	(23)	(110)	-	-	(40)	(173)
Revaluation	2	-	-	-	0	2
At 31 March 2010	189	226	78	-	1,398	1,891
Net book value at 31 March 2010	203	103	229	-	325	860
Net book value at 31 March 2009	184	188	228	58	220	878
Asset Financing:						
Owned	203	17	229	-	325	774
Finance Leased	-	86	-	-	-	86
Net book value at 31 March 2010	203	103	229	-	325	860
	£000	£000	£000	£000	£000	£000
	Furniture & Fittings	Office machinery & Telecomms	Leasehold Improvements	Information Technology Payments on Account	Information Technology	Total
Cost or valuation						
At 1 April 2008	397	467	255	-	1,752	2,871
Additions	39	20	22	58	48	187
Reclassifications	-	-	-	-	-	-
Disposals	(89)	(53)	-	-	(206)	(348)
Revaluation	18	2	-	-	(21)	(1)
At 31 March 2009	365	436	277	58	1,573	2,709
Depreciation						
At 1 April 2008	234	216	25	-	1,493	1,968
Charged in year	26	85	24	-	68	203
Disposals	(90)	(53)	-	-	(204)	(347)
Revaluation	11	-	-	-	(4)	7
At 31 March 2009	181	248	49	-	1,353	1,831
Net book value at 31 March 2009	184	188	228	58	220	878
Net book value at 31 March 2008	163	251	230	-	259	903
Asset Financing:						
Owned	184	24	228	58	220	714
Finance Leased	-	164	-	-	-	164
Net book value at 31 March 2009	184	188	228	58	220	878

12 Intangible assets

Purchased software licences.

	£000	£000	£000
	Purchased software licences	Assets Under Development	Total
Cost or valuation			
At 1 April 2009	328	-	328
Additions	62	32	94
Disposals	(152)	-	(152)
Revaluation	-	-	-
At 31 March 2010	238	32	270
Amortisation			
At 1 April 2009	223	-	223
Charged in year	66	-	66
Disposals	(139)	-	(139)
Revaluation	-	-	-
At 31 March 2010	150	-	150
Net book value at 31 March 2010	88	32	120
Net book value at 31 March 2009	105	-	105
	£000	£000	£000
	Purchased software licences	Assets Under Development	Total
Cost or valuation			
At 1 April 2008	278	-	278
Additions	61	-	61
Disposals	(2)	-	(2)
Revaluation	(8)	-	(8)
At 31 March 2009	329	-	329
Amortisation			
At 1 April 2008	170	-	170
Charged in year	58	-	58
Disposals	(2)	-	(2)
Revaluation	(2)	-	(2)
At 31 March 2009	224	-	224
Net book value at 31 March 2009	105	-	105
Net book value at 31 March 2008	108	-	108

13 Trade receivables and other current assets

13.1 Analysis by type

	2009-10 £000	2008-09 £000
Amounts falling due within one year		
Trade receivables	246	252
Deposits and advances	91	65
Other receivables*	429	-
HM Revenue and Customs (VAT)	36	70
Prepayments and accrued income	375	531
	<u>1,177</u>	<u>918</u>
Amounts falling due after more than one year:		
Prepayments and accrued income	2	25
	<u>2</u>	<u>25</u>

*Other receivables for 2009-10 represents the £429 thousand recovery of Competition Commission's costs due from Sutton & East Surrey Water Plc's due to be transferred to the Consolidated fund in April 2010.

13.2 Intra-government balances

	2009-10 £000	2008-09 £000
Balances with other central government bodies	37	90
Payments due from CCW ater	5	1
Balances with local authorities	20	165
Intra-government balances	62	256
Balances with bodies external to government	1,117	687
Total receivables at 31 March 2010	<u>1,179</u>	<u>943</u>

14 Cash and cash equivalents

	2009-10 £000	2008-09 £000
Balance at 1 April 2009	2,986	2,488
Net change in cash and cash equivalent balances	(1,923)	498
Balance at 31 March 2010	<u>1,063</u>	<u>2,986</u>
The following balances are held at:		
Office of HM Paymaster General (OPG)	1,062	2,985
Commercial banks and cash in hand	1	1
Balance at 31 March 2010	<u>1,063</u>	<u>2,986</u>

15 Trade payables and other current liabilities

15.1 Analysis by type

	2009-10 £000	2008-09 £000
Amounts falling due within one year		
Trade payables	132	421
Other payables	159	145
Accruals	943	1,241
Licence Fee deferred income	4,999	4,015
Deferred income	39	29
Current part of finance leases	86	93
Other taxation and social security	247	215
Consolidated Fund extra receipts due to be paid to the Consolidated Fund - receivable*	429	-
Excess cash due to be paid to the Consolidated Fund	1,063	2,986
	<u>8,097</u>	<u>9,145</u>
Amounts falling due after more than one year		
Finance leases	4	75
	<u>4</u>	<u>75</u>

*Represents the £429 thousand Competition Commission cost recovery due from Sutton & East Surrey Water Plc

15.2 Intra-government balances

	2009-10 £000	2008-09 £000
Balances with other central government bodies	1,953	3,401
Balances with local authorities	-	148
Payments due to CCWater	-	-
Intra-government balances	1,953	3,549
Balances with bodies external to government	6,148	5,671
Total payables at 31 March 2010	8,101	9,220

16 Provisions for liabilities and charges

16.1 Provisions

	2009-10 £000		
	Restructure costs	Legal costs	Total
Balance at 1 April 2009	-	90	90
Provided in year	747	-	747
Provision utilised in year	-	(80)	(80)
Unwinding of discount	-	-	-
Provision not required written back	-	(10)	(10)
Balance at 31 March 2010	747	-	747

On completion of PR09, we implemented a planned reorganisation to streamline the management structure and introduce wider use of project management. A provision was made to cover the restructuring, the costs of which mainly fall in 2010-11.

16.2 Pension liabilities

	2009-10 £000	2008-09 £000
Balance at 1 April 2009	2,370	2,526
Analysis of the amount charged to the Operating Cost Statement		
Interest costs	138	130
Benefits paid		
Benefits paid	(157)	(150)
Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity		
Experience (gain)/loss	63	69
Effect of change in discount rate	-	-
Effect of change in mortality assumptions	-	-
Effect of change in demographic and financial assumption	-	-
Actuarial loss	483	(205)
Balance at 31 March 2010	2,897	2,370

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. These include benefits accrued in respect of non-Ofwat employment; 63% and 95% respectively of these entitlements relate to non-Ofwat employment and are funded from the Exchequer.

An actuarial valuation was carried out by the Government Actuary's Department (GAD) at 31 March 2010.

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

- mortality rates for pensioners are assumed to follow standard mortality tables (PA92-06); and
- all members are married, with wives being three years younger than their husbands.

The main financial assumptions (used to assess liabilities at 31 March 2010) are as follows:

- the net discount rate is assumed to be 1.8%;
- the gross discount rate is assumed to be 4.6% a year (31 March 2009:6.04%), although this assumption has a minor impact on the value of the liability; and
- in nominal terms, these assumptions imply price inflation of 2.75% a year.

Analysis of actuarial loss

	2009-10 £000	2008-09 £000	2007-08 £000
Experience (gains)/losses arising on the scheme liabilities	63	69	23
Changes in assumptions underlying the present value of scheme liabilities	483	(205)	163
Per statement of Recognised Gains and Losses	546	(136)	186

History of experience losses

	2009-10	2008-09	2007-08	2006-07	2005-06
Experience (gains)/losses arising on the scheme liabilities Amount (£000)	63	69	23	(109)	80
Percentage of the present value of the scheme liabilities	2.2%	2.9%	0.9%	(4.2)%	3.1%
Total amount recognised in the statement of recognised gains and losses Amount (£000)	546	(136)	(16)	259	251
Percentage of the present value of the scheme liabilities	18.8%	(5.7)%	(0.6)%	10.1%	9.9%

17 Capital commitments

Under a contract for financial software we have a capital commitment as at 31 March 2010 of £27 thousand. (31 March 2009: nil).

18 Commitments under leases

18.1 Operating leases

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

	2009-10 £000	2008-09 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	906	832
Later than one year and not later than five years	3,259	3,302
Later than five years	2,386	2,722
	<u>6,551</u>	<u>6,856</u>

18.2 Finance leases

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

	2009-10 £000	2008-09 £000
Obligations under finance leases comprise:		
Other		
Not later than one year	90	168
Later than one year and not later than five years	7	106
Later than five years	-	-
	<u>97</u>	<u>274</u>
Less interest element	(5)	(13)
	<u>92</u>	<u>261</u>

19 Financial Instruments

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

Liquidity risk

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

Interest rates and foreign currency risks

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

Fair values

There is no material difference between the book values and the fair values of Ofwat's financial assets and liabilities at 31 March 2010.

20 Contingent liabilities disclosed under IAS37

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

As at 31 March 2010 there are two possible contingent liabilities requiring disclosure. These relate to employment issues and could give rise to liabilities for legal and settlement costs and again these cannot be quantified until the outcome of current proceedings is known.

21 Related party transactions

Ofwat transferred £5.667 million to the Department for Environment, Food and Rural Affairs and £0.675million to Welsh Assembly Government in respect of CCWater's operating costs for 2009-10.

Ofwat holds Service Level Agreements with CCWater for providing support services; £72 thousand was invoiced and received during the financial year; of which £7 thousand was offset against the cost of consultancy work on the fully managed payroll service. This figure excludes VAT payable to HM Revenue and Customs.

Ofwat also has a small number of immaterial transactions with other government departments. We were party to an internal audit framework contract tendered by OFT.

There are no related party transactions between Ofwat and any of its Directors.

22 Events after the reporting period

The financial statements do not reflect events after the 17 June 2010.



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