

# **Water Services Regulation Authority**

## **Resource Accounts 2006-07**

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**(For the year ended 31 March 2007)**

*Ordered by the House of Commons to be printed*

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**CONTENTS**

	Page
Annual Report:	
Introduction	2
Management Commentary	2
Roles and Responsibilities	5
Remuneration Report	8
Statement of Accounting Officer's responsibilities	14
Statement on internal control	15
Certificate and report of the Comptroller and Auditor General to the House of Commons	17
The accounting statements:	
Statement of parliamentary supply	19
Operating cost statement	20
Balance sheet	21
Cash flow statement	22
Statement of operating cost by departmental Aim and Objectives	23
Notes to the department resource accounts	24

## ANNUAL REPORT

### Introduction

These accounts cover the operation of the Water Services Regulation Authority (Ofwat) for the period 1 April 2006 to 31 March 2007. They have been prepared on an accruals basis in accordance with the Government Financial Reporting Manual. The report summarises the main objectives and outputs for the year. This includes the changes arising from the implementation of the Water Act 2003.

### Ofwat's aims and objectives

The Water Services Regulation Authority was established on 1 April 2006 and took over the duties previously carried out by the Director General of Water Services until 31 March 2006. As the economic regulator of the water and sewerage industry in England and Wales our duties are laid down in the Water Industry Act 1991 (WIA91) and Water Act 2003 (WA03).

In exercising 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 properly carry out their functions;
- enable them to finance their functions, in particular by securing a reasonable rate of return on their capital;
- promote effective competition in the interest of consumers;
- 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 2006 to 31 March 2007 were:

- Objective 1 - Protecting consumers: monitoring and enforcement, leakage targets and special investigations;
- Objective 2 - Promoting value: operation of the water supply licence regime and competition policy development, preparing for the 2009 price review;
- Objective 3 - Safeguarding the future: security of supply, environmental and water quality improvement;

### Management commentary

#### *Review of Ofwat's activities*

Our latest annual report was published on 28 June 2007 (HC576). It is available on our website [www.ofwat.gov.uk](http://www.ofwat.gov.uk), or by contacting The Stationery Office on: 0870 600 5522.

Our key outputs for 2006-07, as reported in our annual report, are listed below.

### 1. Protecting consumers

- We secured a legally binding undertaking from Thames Water that committed the company to undertake an additional 368 km of mains renewal at a cost of £150 million, to be met entirely by the company's shareholders.
- During 2006-07 we launched investigations into irregularities in customer service data at Severn Trent Water and Thames Water, and continued our investigations into irregularities at Southern Water. We have given notice that we propose financial penalties for each company. The investigation into leakage data supplied by Severn Trent Water Ltd is subject to a Serious Fraud Office enquiry.
- We announced a proposal to impose an £8.5 million fine on United Utilities for its failure to trade at arm's length from its associate companies.
- We were a main party to the Competition Commission inquiry into the proposed merger between South East Water and Mid Kent Water.
- We made improvements to the way that security of supply is reflected in the overall performance assessment (OPA).
- We continued to publish comparisons of companies' performance in our five annual industry reports.

### 2. Promoting value

- During the year we launched an internal review of market competition, including water supply licensing, inset appointments and self-lay.
- We published a revised version of the access code guidance, which incorporated changes to the application process, including a reduction in the fees licensees pay to appointed water companies.
- We set out the timetable for the price review along with our expectations for companies' strategic direction statements.
- We published with Ofgem 'Financing networks', a discussion paper which considered ideas for regulating the efficient financing of utility companies' capital investment programmes.

### 3. Safeguarding the future

- 2006-07 saw the publication of 'A sustainable water industry – To PR09 and beyond', setting out our approach to sustainable development and setting prices in a longer-term approach, and taking an integrated, long-term approach to companies' capital maintenance and asset management proposals. We also published a sustainable development action plan in our forward programme for 2007-08 to 2009-10.
- We worked with the water companies, the Environment Agency, Defra and CCWater to manage water supply during the extended dry period, which started in the winter of 2004-05.
- We continued to play an active role in the Government-led Water Saving Group. In addition, we published a best practice register of companies' water efficiency activity for the first time.
- We worked with the Environment Agency on developing our approach to setting economic levels of leakage targets.
- In 2006-07 we held joint environmental performance meetings with the Environment Agency and the ten water and sewerage companies to discuss performance, including an update of progress in delivering the enhancement programme.
- We continued to support the implementation of the Water Framework Directive through participation in stakeholder and implementation meetings. We also responded to a consultation of the river basin planning process.

**Financial commentary**

The financial highlights for Ofwat are summarised below:

<b>Operating costs summary</b>	<b>2006-07</b>	<b>2005-06</b>
	£000s	£000s
<b>Income</b>		
Deferred income prior year	1,341	893
Licence fees received	11,804	10,738
Other income	168	281
	<u>13,313</u>	<u>11,912</u>
<b>Expenditure</b>		
Administration costs	(11,511)	(10,571)
	1,802	1,341
Income deferred to following period	(1,841)	(1,341)
Net operating surplus	<u>(39)</u>	<u>-</u>

The operating budget set at the start of the year was £12.4m.

Ofwat is funded by fees charged to the regulated companies. 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. Fees are recovered annually from appointed undertakers and licenced suppliers; £11.8m of fees were recovered at the beginning of the financial year. Other income was made up by income from the service level agreement with the Consumer Council for Water (CCWater) and the sale of publications.

Compared with 2005-06 our operating expenditure increased by 9%. This was due to additional costs associated with the formation of the Water Services Regulation Authority, increased consultancy, the project to upgrade our accommodation and the costs of the Competition Appeals Tribunal (CAT) cases. Consultancy costs have increased due to preparation for PR09 and work on competition cases. Consultancy contracts are subject to competitive tender, contract management and evaluation reviews. The 7% underspend against the budget arose from savings due to vacancies, consultancy contingency deferred to 2007-08 or no longer required, the reclassification of revenue expenditure to capital in respect of the accommodation upgrade and other efficiencies. The underspend will be carried forward and offset against future licence fees.

During the year the IT servers were replaced by a new blade server at a cost of £221k. The office accommodation was improved by the installation of air conditioning and completion of advanced works to enable rationalisation of floor space at a cost of £433k. These figures include both capital and revenue expenditure.

The outturn net cash requirement of £292k is lower than the Estimate net cash requirement of £828k due to unused capital expenditure and changes in working capital arising from a lower than planned use of deferred income.

**Reconciliation of resource expenditure between Estimates, Accounts and Budgets**

	<b>2006-07</b>	<b>2005-06</b>
	£000s	£000s
<b>Net Resource Outturn (Estimates)</b>	<b>39</b>	-
Net Operating Cost (Accounts)	39	-
Resource Budget Outturn (Budget) of which	39	-
Departmental Expenditure Limits (DEL)	-	-
Annually Managed Expenditure (AME)	39	-



As a government department we do not have shareholders. However, we are required by HM Treasury to achieve a cost of capital return of 3.5%. This is assessed on the average value of the net assets over the financial year. We have to observe parliamentary control totals for administration costs and our costs are analysed by objectives. These details are provided in the accounting statement and supporting notes to the accounts (pages 24 to 42).

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

#### *Financial instruments*

We do not have borrowings and rely primarily on licence fee income and Contingency Fund loans for our cash requirements. We are not, therefore, exposed to liquidity risks. Further details are provided at note 21 to the accounts.

#### *Exceptional item*

In December 2006 the Competition Appeals Tribunal (CAT) issued its judgement in the appeal by Albion Water Ltd against Ofwat and Dŵr Cymru Cyfyngedig, Welsh Water, concerning the supply of water to the Shotton Paper Works. The CAT awarded costs against Ofwat totalling £273k.

#### *Going concern*

Our balance sheet at 31 March 2007 shows negative taxpayers' equity of £4.4m. 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 provision for retired Directors General of Water Services pensions. 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 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 2007-08 has been approved. The property, rights and liabilities of the DGWS were transferred to Water Services Regulation Authority under a transfer scheme on 1 April 2006. The accounts for 2006-07 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. He was appointed as the acting Chief Executive and interim Accounting Officer from 1 April 2006 until 8 October 2006. This responsibility transferred on a permanent basis to Regina Finn, on her appointment as Chief Executive on 9 October 2006.

The board has a non-executive chairman, five non-executive directors and three executive directors including the Chief Executive.

#### **Non-executive directors**

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

Director General of Water Services 2000-06. Member of the Archbishops' Council for the Church of England and member of an advisory group to the Qualifications and Curriculum Authority (both positions are unpaid).

Jane May (Chairman of Remuneration Committee). Appointed 1 April 2006, 2-3 days per month. Non-executive board member of the Office of Rail Regulation and non-executive director of the Public Guardianship Office and SITA Trust Board.

Peter Bucks (Chairman of Audit Committee). Appointed 1 April 2006, 2-3 days per month. Non-executive board member of the Office of Rail Regulation. Senior Financial Adviser to Ofgem 1997 to date. Former Corporate Finance adviser Ofwat 2000-05.

Penny Boys CB (Member of Remuneration and Audit Committees). Appointed 1 April 2006, 2-3 days per month. Independent member of Horserace Betting Levy Board. Former Executive Director of the OFT.

Michael Brooker. Appointed 1 February 2007, 2-3 days per month. Non-executive director of the Water Industry Commission for Scotland and the Executive Board of the Natural Environment Research Council. Former Chief Executive of Dŵr Cymru Cyfyngedig.

Gillian Owen. Appointed 1 February 2007, 2-3 days per month. Independent Consultant and a 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. Former member of the Competition Commission.

Lord Whitty (Member of Audit Committee), 2-3 days per month, resigned July 2006. Member of the House of Lords. Chair of the National Consumer Council, President of the Combined Heat and Power Association and, since August 2006 a member of the board of the Environment Agency.

### **Term 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 terminate on 31 March 2011, and that of Penny Boys terminates on 31 March 2010.

### **Audit Committee**

Our financial and risk management systems and reports are scrutinised by the Audit Committee. Members of the committee in 2006-07 were Peter Bucks (Chairman), Lord Whitty (to 10 July 2006) and Penny Boys (from 10 July 2006). The NAO, internal audit (KPMG Audit LLP), the Chief Executive and senior finance staff attend the committee. The 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 or 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 undertook 31 separate recruitments, which in some cases sought more than one member of staff. Everyone was recruited through open competition, with the exception of two staff on casual appointments.

### **Employee involvement**

We attach great importance to managing, developing and training our staff in accordance with best practice. In October we held a successful employee event at which board members and staff shared ideas on the key issues affecting our work. We have a staff committee, which is consulted on a range of issues including our forward programme. In October 2006 we were reaccredited for a third consecutive time as an Investor in People organisation. In January 2007 we signed a recognition agreement with the trade unions that represent Ofwat staff, namely PCS, Prospect and FDA. During the year we invested in a programme of work to upgrade our office accommodation and provide a better working environment for staff. We promote environmentally friendly policies including incentives for staff to commute by public transport.

**Payment of suppliers**

We achieved 99.8% against the Government target for paying agreed invoices within 30 days of receipt during 2006-07. We are committed to achieving the 100% target. The corresponding figure for 2005-06 was 99.1%.

**Internal audit**

KPMG Audit LLP (KPMG) provides our internal audit service. The service provides an independent appraisal service for management by measuring and auditing the adequacy, reliability and effectiveness of management and financial control systems. KPMG make recommendations based on the appraisal of each system reviewed. The internal audit service for 2007-10 was put out to competitive tender jointly with CCWater in November 2006. KPMG was appointed internal auditor from 1 April 2007.

**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 HM Treasury directions and report to Parliament on his 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 Ofwat's auditors are aware of that information. So far as she is aware, there is no relevant audit information of which Ofwat's auditors are unaware.

The notional cost of this service is £33k, which has been met by a non-cash adjustment to the General Fund.

NAO carried out a value for money study "Meeting the demand for water" (HC150 2006-2007); this report was published on 19 January 2007.

**The future**

Our Forward Programme for 2007-08 to 2009-10 was published in April 2007. It launched a new strategic objective "Ofwat – Protecting consumers, promoting value and safeguarding the future". The programme sets out the key priorities including the periodic review of price limits in 2009 (PR09), a strategic review of competition in the sector and long-term sustainable development.

Regina Finn  
Accounting Officer

5 July 2007

## REMUNERATION REPORT

### Management team

The composition of the management team in the reporting period was as follows:

Philip Fletcher* (1 April to 8 October 2006)	Acting Chief Executive
Regina Finn* (Appointed 9 October 2006)	Chief Executive
Melinda Acutt*	Director of Network Regulation
Keith Mason*	Director of Regulatory Finance and Competition
Andrew Dunn (Appointed 19 February 2007)	Director of Consumer Protection
Roger Dunshea	Director of Operations
Huw Brooker	Head of Legal Services
Fiona Pethick	Head of Corporate Affairs
Sue COX (1 December 05 to 16 February 2007)	Acting Head of Consumer Affairs

\* denotes Board member.

Members of the management team (apart from Philip Fletcher and Sue Cox) are members of the Senior Civil Service (SCS) and are appraised and remunerated, including performance pay, in line with SCS requirements. The contracts of members of the management team can be terminated by the standard process as set out in the Civil Service Management Code. Details of remuneration are included in the tables below. Philip Fletcher worked full time as Chairman and Acting Chief Executive from 1 April to 8 October 2006. He was paid the Chief Executive's salary until 8 October 2006 and thereafter drew his Chairman's salary.

Philip Fletcher is remunerated in line with the non-executive directors and Sue Cox with other staff.

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

### Staff remuneration

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

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

### Non-executive directors

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

**Remuneration Committee members***Staff Remuneration Committee*

During the year the members of the SCS and Staff Remuneration Committees were:

Jane May (Chair)  
Philip Fletcher CBE  
Penny Boys CB

*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 are 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 12.

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 as disclosed in note 15 of the accounts. 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.

**Senior Managers' Remuneration**

The following information is subject to audit.

	<b>2006-07</b>		<b>2005-06</b>	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
<b>Philip Fletcher CBE</b> Director General (appointment ceased 31 March 2006)	-	-	175-180	-
Acting Chief Executive (1 April – 8 October 2006)	85-90 (full year equivalent 175-180)	3,100	-	-
<b>Regina Finn</b> Chief Executive (appointed 9 October 2006)	60-65 (full year equivalent 130-135)	-	-	-
<b>Roger Dunshea</b> Director of Operations	95-100	-	95-100	-
<b>Melinda Acutt</b> Director of Network Regulation	85-90	-	20-25 (full year equivalent 85-90)	-
<b>Keith Mason</b> Director of Regulatory Finance and Competition	100-105	-	95-100	-
<b>Huw Brooker</b> Head of Legal Services	80-85	-	80-85	-
<b>Andrew Dunn</b> Director of Consumer Protection (Appointed 19 February 2007)	5-10 (full year equivalent 80-85)	-	-	-
<b>Fiona Pethick</b> Head of Corporate Affairs	80-85	-	75-80	-
<b>Sue Cox</b> Acting Head of Consumer Affairs (to 16 February 2007)	55-60 (full year equivalent 70-75)	-	20-25 (full year equivalent 65-70)	-

Non executive members of the Authority	2006-07		2005-06	
	Salary £000	Benefits in kind (to nearest £100)	Salary £000	Benefits in kind (to nearest £100)
<b>Philip Fletcher CBE</b> Chairman	45-50 (full year equivalent 100-105)	2,100	-	-
<b>Peter Bucks</b> Non-executive Director	10-15	2,700	-	-
<b>Penny Boys CB</b> Non-executive Director	10-15	2,700	-	-
<b>Jane May</b> Non-executive Director (from 1 April 2006)	10-15	1,000	-	-
Non-executive Advisory Director (until 31 March 2006)	-	-	10-15	-
<b>Michael Brooker</b> Non-executive Director (Appointed 1 February 2007)	0-5 (full year equivalent 10-15)	-	-	-
<b>Gillian Owen</b> Non-executive Director (Appointed 1 February 2007)	0-5 (full year equivalent 10-15)	-	-	-
<b>Lord Whitty</b> Non-executive Director (Left 31 July 2006)	0-5 (full year equivalent 10-15)	200	-	-

*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 the 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. Travel arrangements for the acting chief executive and non-executive members of the Authority fell into this category.

## Senior Managers' Pension Benefits

Officials	Real increase in pension and related lump sum at age 60	Accrued pension at age 60 at 31 March 2007 and related lump sum	CETV at 31 March 2007	CETV at 31 March 2006	Real increase in CETV	Employer contribution to partnership pension account
	£000	£000	£000	£000	£000	Nearest £100
<b>Regina Finn</b> Chief Executive (Appointed 9 October 2006)	0-2.5: lump sum -	0-5: lump sum -	10	-	8	-
<b>Roger Dunshea</b> Director of Operations	0-2.5: lump sum 0-2.5	25-30: lump sum 85-90	518	494	12	-
<b>Melinda Acutt</b> Director of Network Regulation	0-2.5: lump sum -	0-5: lump sum -	19	4	12	-
<b>Keith Mason</b> Director of Regulatory Finance and Competition	0-2.5: lump sum 2.5-5	15-20: lump sum 45-50	274	240	27	-
<b>Huw Brooker</b> Head of Legal Services	0-2.5: lump sum -	5-10: lump sum -	91	79	10	-
<b>Andrew Dunn</b> Director of Consumer Protection (Appointed 19 February 2007)	0-2.5: lump sum -	0-5: lump sum -	2	-	2	-
<b>Fiona Pethick</b> Head of Corporate Affairs	0-2.5: lump sum 0-2.5	20-25: lump sum 65-70	374	359*	6	-
<b>Sue Cox</b> Acting Head of Consumer Affairs (to 16 February 2007)	2.5-5: lump sum 2.5-5	15-20: lump sum 40-45	285	266*	38	-

\*CETV figures at 31 March 2006 were revised by People Pay and Pensions Agency (PPPA).

### Civil Service Pensions (CSP)

Pension benefits are provided through the CSP arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium, and Classic Plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, and Classic Plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement 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 and Classic Plus. Benefits in Classic accrue at the rate of 1/80<sup>th</sup> of pensionable salary 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 1/60<sup>th</sup> of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic Plus is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic.

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. 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 60, or immediately on ceasing to be an active member of the scheme if they are already 60.

Further details about the CSP arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)

#### *Cash Equivalent Transfer Values (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 the amount that would be paid 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 CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the Cabinet's Office Civil Superannuation Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

#### *Real increase in CETV*

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

Regina Finn  
Accounting Officer

5 July 2007

## 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 during the year and the use of resources by the department 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 its net resource outturn, resources applied to 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 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; and
- prepare the accounts on a going-concern basis.

HM Treasury appointed Philip Fletcher Accounting Officer of Ofwat under his capacity of Director General of Water Services, on the formation of the Water Services Regulation Authority he remained as Accounting Officer in his capacity as Acting Chief Executive until 8 October 2006. This responsibility then transferred to the new Chief Executive, Regina Finn, on 9 October 2006.

The responsibilities of an Accounting Officer include 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. They are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in *Government Accounting*.

## STATEMENT ON INTERNAL CONTROL 2006-07

### 1. 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, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*.

We have over the past year further developed our risk management procedures with regular reports to our Audit Committee and Board. The Audit Committee members were drawn from the non-executive directors of the Board.

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 its longer term position.

### 2. 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; it can therefore only provide 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 2007 and up to the date of approval of the annual report and accounts, and accords with HM Treasury guidance.

### 3. Capacity to handle risk

Risk management is the responsibility of the Board and Management Team. During the period, we revised and updated the risk registers. The Board, Management Team and Audit Committee received reports summarising key messages from the risk registers and commentaries on our assurance activities. Risk assessment is embedded into the work of the office. Senior managers, and their staff, are committed to managing risk.

### 4. The risk and control framework

The Board regularly reviews the strategic risk framework. 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:

- 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 within each division;
- Risk registers are updated regularly and reports prepared for Management Team and Audit Committee; and

- Actions are followed up from internal audit studies.

A number of risks were addressed during the year, these were:

- drought in the south east of England;
- management of Competition Appeals Tribunal cases;
- special investigations into the information provided by three companies;
- a number of merger and acquisition proposals;
- replacement of IT servers;
- management of reputational risk.

## 5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system is informed by the work of the internal auditors and the senior managers within Ofwat who have responsibility for the development and maintenance of 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, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

We consult on and publish our forward programme. This sets out our high level objectives for the coming financial year plus a look forward to the following two years. The forward programme drives divisional plans and ultimately each member of staff's objectives. The Management Team review weekly the progress of key projects. There is also a quarterly assessment of achievement of the forward programme objectives. In addition to this, I carry out annual divisional performance reviews and we have in place a process of individual performance review for staff. 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. In June 2007 Ofwat laid its annual report for 2006-07 before Parliament.

The Board, Management Team and Audit Committee regularly assess and monitor our performance and related systems of internal control. Our internal auditors, KPMG, review and advise on our risk management processes and internal controls and during the year reviewed systems and procedures in respect of finance, human resources and IT systems.

KPMG 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 system of internal control together with recommendations for improvement.

Regina Finn  
Accounting Officer

5 July 2007

## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of Water Services Regulation Authority (Ofwat) for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and 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**

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Introduction, Management Commentary, and Roles and Responsibilities section is consistent with the financial statements. I also report whether 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.

In addition, I report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinions**

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

### *Audit Opinion*

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Department's affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- information given within the Annual Report, which comprises the Introduction, Management Commentary, and Roles and Responsibilities section is consistent with the financial statements.

## Audit 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.

## Report

I have no observation to make on these financial statements.

*John Bourn*

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

12 July 2007

## STATEMENT OF PARLIAMENTARY SUPPLY

## Summary of Resource Outturn 2006-07

			<b>Estimate</b>		<b>Outturn</b>		<b>2006-07</b>	<b>2005-06</b>
	<b>Gross</b>	<b>A in A</b>	<b>Net Total</b>	<b>Gross</b>	<b>A in A</b>	<b>Net Total</b>	<b>£000</b>	<b>£000</b>
	<u>expenditure</u>			<u>expenditure</u>			Net total outturn compared with Estimate; saving/ (excess)	<b>Outturn</b> Net Total
Request for resources 1: Regulation of the Water Industry (Note 2)	12,557	(12,398)	159	11,511	(11,472)	39	120	-
Total resources	<u>12,557</u>	<u>(12,398)</u>	<u>159</u>	<u>11,511</u>	<u>(11,472)</u>	<u>39</u>	<u>120</u>	<u>-</u>
Non operating cost A in A	-	-	-	-	-	-	-	-

## Net cash requirement 2006-07

	<b>Note</b>	<b>Estimate</b>	<b>Outturn</b>	<b>2006-07</b>	<b>2005-06</b>
				<b>£000</b>	<b>£000</b>
				Net total outturn compared with Estimate; saving/ (excess)	<b>Outturn</b>
Net cash requirement	4	828	292	536	40

## Summary of income payable to the Consolidated Fund

In addition to appropriations in aid the following income relates to Ofwat and is payable to the Consolidated Fund (*cash receipts being shown in italics and figures in thousands*). This represents cash held at 31 March 2007 that is payable to the Consolidated Fund.

	<b>Note</b>	<b>Forecast 2006-07</b>		<b>Outturn 2006-07</b>	
		<u>Income</u>	<u>Receipts</u>	<u>Income</u>	<u>Receipts</u>
Total	5	-	-	502	502

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

*The notes on pages 24 to 42 form part of these accounts.*

**Operating Cost Statement**

for the year ended 31 March 2007

				2006-07 £000	2005-06 £000
Administration costs: Request for resources 1:	Note	Staff Costs	Other Costs	Income	
Staff costs	7	7,191	-	-	6,896
Other administration costs	8	-	4,320	-	3,675
Operating income	9	-	-	(11,472)	(10,571)
<b>Totals</b>		<b>7,191</b>	<b>4,320</b>	<b>(11,472)</b>	-
<b>Net Operating Cost</b>	3			<b>39</b>	-

All income and expenditure are derived from continuing operations

**Statement of Recognised Gains and Losses**

for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Net operating cost		(39)	-
Net gain on revaluation of tangible fixed assets	17	1	5
Experience gain/(loss)	15	109	(80)
Change in actuarial assumptions	15	(368)	-
Change in real discount rate	15	-	(171)
<b>Recognised gains and losses for the financial year</b>		<b>(297)</b>	<b>(246)</b>

The notes on pages 24 to 42 form part of these accounts



**BALANCE SHEET**

as at 31 March 2007

		31 March 2007 £000	31 March 2006 £000
<b>Fixed assets:</b>	<b>Note</b>		
Tangible assets	10	502	358
Intangible assets	11	97	48
		<u>599</u>	<u>406</u>
<b>Current assets:</b>			
Debtors	12	387	313
Cash at bank and in hand	13	502	1,163
		<u>889</u>	<u>1,476</u>
Creditors (amounts falling due within one year)	14	<u>(3,303)</u>	<u>(3,080)</u>
<b>Net current liabilities</b>		<b>(2,414)</b>	<b>(1,604)</b>
<b>Total assets less current liabilities</b>		<b>(1,815)</b>	<b>(1,198)</b>
Provision for liabilities and charges	15	(10)	(39)
<b>Total net liabilities excluding pension liabilities</b>		<b>(1,825)</b>	<b>(1,237)</b>
Pension liabilities	15	(2,571)	(2,542)
<b>Total net liabilities including pension liabilities</b>		<b>(4,396)</b>	<b>(3,779)</b>
<b>Taxpayers' equity:</b>			
General Fund	16	(4,429)	(3,811)
Revaluation reserve	17	33	32
		<u>(4,396)</u>	<u>(3,779)</u>

Regina Finn  
Accounting Officer

5 July 2007

*The notes on pages 24 to 42 form part of these accounts.*

**CASH FLOW STATEMENT**

for the 12 months ended 31 March 2007

	<b>Note</b>	<b>2006-07 £000</b>	<b>2005-06 £000</b>
Net cash inflow from operating activities	18a	640	1,097
Capital expenditure and financial investment	18b	(430)	(39)
Receipts due to the Consolidated Fund which are outside the scope of the Departments activities		-	-
Payments due to the Consolidated Fund	18d	(1,163)	(420)
Financing	18c	292	105
<b>(Decrease)/increase in cash for the period</b>		<b>(661)</b>	<b>743</b>

*The notes on pages 24 to 42 form part of these accounts.*

## STATEMENT OF OPERATING COSTS BY DEPARTMENTAL AIMS AND OBJECTIVES

for the 12 months ended 31 March 2007

Aim	Gross	2006-07 Income	Net	Gross	Restated 2005-06 Income	Net
Objective 1	3,987	-		4,557	-	
Objective 2	5,819	-		3,921	-	
Objective 3	1,705	-		2,093	-	
<b>Net operating costs</b>	<b>11,511</b>	<b>(11,472)</b>	<b>39</b>	<b>10,571</b>	<b>(10,571)</b>	<b>-</b>

Ofwat's objectives were as follows:

- Objective 1 - Protecting consumers: monitoring and enforcement, leakage targets and special investigations;
- Objective 2 - Promoting value: operation of the water supply licence regime and competition policy development, preparing for the 2009 price review;
- Objective 3 - Safeguarding the future: security of supply, environmental and water quality improvement;

*Note:*

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

Direct costs are identified for each objective through the activity costing system. Overheads are apportioned to the objectives on the basis of direct costs.

Ofwat's capital is employed exclusively for administration purposes and supporting our regulatory functions. Its distribution between objectives is therefore not markedly different from the related gross administration cost.

The operating costs for 2005-06 have been restated to reflect Ofwat's revised objectives.

*The notes on pages 24 to 42 form part of these accounts.*

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

### 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, the FReM 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 Cost by Departmental Aim and Objectives* and supporting notes analyses Ofwat's income and expenditure by the objectives agreed by the Water Services Regulation Authority.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of Ofwat for the purpose of giving a true and fair view has been selected. Ofwat's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their present value to the business by reference to their current costs.

#### 1.2 Fixed assets

Tangible and intangible assets have been stated at current cost using indices provided by the Valuation Office Agency.

Tangible fixed assets include furniture and fittings, office machinery and telecommunications equipment, leasehold improvements, website development costs and IT equipment. Intangible fixed assets include purchased software licences.

No depreciation is charged to leasehold improvements under construction.

With the exception of personal computers and office furniture, individual assets must exceed a capitalisation threshold of £1,000 for inclusion as fixed assets. PCs 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 fixed assets.

#### 1.3 Depreciation and amortisation

Depreciation is provided at rates calculated to write-off the value of tangible fixed assets by equal instalments over their estimated useful lives. Asset lives are within the following ranges:

<b>Asset classification</b>	<b>Asset life</b>
Leasehold improvements	Term of the lease
Furniture, fixtures and fittings	10 years
IT equipment and website development costs	4-5 years
Office machinery	5 years
Telecommunications	5 years

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.

#### 1.4 Leases

Ofwat had no finance leases as at 31 March 2007 (31 March 2006: nil). Rentals due under 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.

#### 1.5 Research and development

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets those criteria specified in SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

Ofwat had no research and development activity in 2006-07 (2005-06: nil).

#### 1.6 Operating income

Operating income is income that relates directly to our 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 Agreements we hold with them for provision of support services.

Since all costs are recovered via 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 level of licence fees charged to the water and sewerage companies under the Water Industry Act 1991.

#### 1.7 Administration and programme expenditure

Administration costs are recorded in the operating cost statement. They include the costs of running Ofwat, as defined under the administration cost-control regime, together with associated operating income. There was no programme expenditure between 1 April 2006 to 31 March 2007 (2005-06: nil).

#### 1.8 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;
- b Consolidated Fund creditors, where the credit is nil.

#### 1.9 Pensions

The majority of past and present employees are covered by the provisions of the Principal Civil Service Pension Schemes (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 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 contributions 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 FRS17.

### 1.10 Value Added Tax

Most of our 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 fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### 1.11 Provisions

Ofwat provides for legal or constructive obligations which are of uncertain timing or amount at the balance sheet date 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.

The discount rate changed from 2.8% in 2005-06 to 1.8% per annum in 2006-07, this is applied to pension scheme liabilities. The discount rate of 2.2% applies to other provisions.

### 1.12 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS12, 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 FRS12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS12 are stated at the amounts reported to Parliament.

As at 31 March 2007 there were no contingent liabilities requiring disclosure, (31 March 2006: nil).

### 1.13 Going concern

Our balance sheet at 31 March 2007 shows negative taxpayers' equity of £4.4m. 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 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 the department's income, are surrenderable to the Fund. We confirm our funding for 2007-08 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 are approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming.

The accounts for 2006-07 have been prepared on a going concern basis. The property, rights and liabilities of the Director General of Water Services were transferred to the Water Services Regulation Authority (Ofwat) under a transfer scheme on 1 April 2006.

## 2. Analysis of net resource outturn by section

	£000 Outturn						2006-07 £000 Estimate		2005-06
	Admin	Other current*	Grants	Gross Expenditure	A in A	Net Total	Net Total	Net total compared with Estimate	Prior-year outturn
RfR1:									
Section A	11,472	-	-	11,472	(11,472)	-	2	2	-
Section B	-	(89)	128	39	-	39	157	118	-
<b>Total</b>	<b>11,472</b>	<b>(89)</b>	<b>128</b>	<b>11,511</b>	<b>(11,472)</b>	<b>39</b>	<b>159</b>	<b>120</b>	<b>-</b>
<b>Resource Outturn</b>	<b>11,472</b>	<b>(89)</b>	<b>128</b>	<b>11,511</b>	<b>(11,472)</b>	<b>39</b>	<b>159</b>	<b>120</b>	<b>-</b>

*Key to Request for Resources and Sections*

Request for Resources 1 – Regulation of the Water Industry

- 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 15.

In accordance with 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 £39k).

The provision liability attracts a cost of capital credit (£89k), 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 (£128k)) which is recorded as grant expenditure. The discount rate is based on AA corporate bond rates, which is advised separately, and a 2.5% inflation assumption.

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

*Explanation of the variance between Estimate and outturn (net total resources – section b):*

The underspend against the estimate was related to the uncertainty in the scoring and impact of possible overnight discount rate changes of the former Directors General pension costs.

**3. Reconciliation of outturn to net operating cost and against Administration Budget****3(a) Reconciliation of net resource outturn to net operating cost**

	2006-07			2005-06
	£000			£000
	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn	39	159	120	-
Non-supply income (Consolidated Fund Extra Receipts)	-	-	-	-
Net operating cost	39	159	120	-

**3(b) Outturn against final administration budget**

	2006-07		2005-06	
	£000		£000	
	Budget	Outturn	Budget	Outturn
Gross Administration Budget	12,339	11,472	12,101	10,571
Income allowable against the Administration Budget	(12,398)	(11,472)	(12,098)	(10,571)
Net outturn against final Administration Budget	1	-	3	-

**4. Reconciliation of resources to cash requirement**

		£000	£000	£000
	Note	Estimate	Outturn	Net total outturn compared with estimate; saving (excess)
Resource Outturn	3	159	39	120
Capital				
Acquisition of fixed assets	18b	716	499	217
Investments		-	-	-
Non-operating A in A				
Proceeds of fixed assets disposals		-	-	-
Accruals adjustments				
Non-cash items	18a	(450)	(322)	(128)
Non cash items (staff)		-	-	-
Pension contributions		-	-	-
Changes in working capital other than cash	18a	39	(810)	849
Changes in creditors falling due after more than one year		-	-	-
Use of provision	18a	364	384	(20)
Excess cash to be surrendered to the Consolidated Fund	18d	-	502	(502)
<b>Net cash requirement</b>		<b>828</b>	<b>292</b>	<b>536</b>

The explanation of the variance between the outturn net cash requirement and the Estimate can be found in the Management Commentary.



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

In addition to appropriations in aid the following income relates to Ofwat and is payable to the Consolidated Fund.

	Forecast 2006-07			Outturn 2006-07	
	Note	Income	Receipts	Income	Receipts
Excess cash surrenderable to the Consolidated Fund	13	-	-	502	502
<b>Total income payable to the Consolidated Fund</b>		<b>-</b>	<b>-</b>	<b>502</b>	<b>502</b>

## 6. Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2006-07	2005-06
Operating Income	9	11,472	10,571
Income authorised to be appropriated in aid	9	(11,472)	(10,571)
<b>Operating Income payable to the Consolidated Fund</b>		<b>-</b>	<b>-</b>

## 7. Staff numbers and related costs

Staff costs consist of:

	2006-07				2005-06
	Total	Permanently employed staff	Others	Non-exec directors	Total
	£000s	£000s	£000s	£000s	£000s
Wages and salaries	5,698	5,444	143	111	5,464
Social security costs	427	411	-	16	414
Other Pension costs	1,079	1,079	-	-	1,027
<b>Sub Total</b>	<b>7,204</b>	<b>6,934</b>	<b>143</b>	<b>127</b>	<b>6,905</b>
Less recoveries in respect of outward secondments	(13)	(13)	-	-	(9)
<b>Total Net Costs*</b>	<b>7,191</b>	<b>6,921</b>	<b>143</b>	<b>127</b>	<b>6,896</b>

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

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but Ofwat is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at **31 March 2007**. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2006-07, employer's contributions of £1,073,667 were payable to the PCSPS (2005-06: £985,644) at one of four rates in the range 17.1 to 25.5% (2005-06 16.2 to 24.6%) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The salary bands and contribution rates were revised for 2006-07. From 2007-08 the salary bands will be revised and the rates will be in a range between 17.1% and 25.5%. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a **partnership** pension account, a stakeholder pension with an employer contribution. Employers' contributions of £4,646 for 2006-07 (2005-06: £4,687) were paid to one or more of a panel of four appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3 to 12.5% (2005-06: 3 to 12.5%) of pensionable pay. Employers also match employee contributions of up to 3% of pensionable pay. In addition, employer contributions of £421, 0.8% (2005-06: £180, 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 and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were £637.

Contributions prepaid at that date were nil.

### Average numbers of people employed

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

Objective	2006-07				Restated 2005-06
	Total	Permanent Staff	Others	Non-exec directors	Total
1	69	66.3	2.5	0.2	78
2	83	79.8	3.0	0.2	62
3	36	34.4	1.5	0.1	48
<b>Total</b>	<b>188</b>	<b>180.5</b>	<b>7</b>	<b>0.5</b>	<b>188</b>

The average staff numbers for 2005-06 have been restated to reflect Ofwat's revised objectives.

**8. Other Administration Costs**

	<b>Outturn 2006-07</b>	<b>Outturn 2005-06</b>
	£000s	£000s
Rentals under operating leases:		
Accommodation	844	873
Office equipment	41	49
	<b>885</b>	<b>922</b>
Non cash items:		
Depreciation	247	349
Amortisation	29	14
(Profit) on disposal of fixed asset	-	-
Loss on disposal of fixed asset	-	1
Cost of Capital Charges	(143)	(107)
Release of provision	(3)	-
Other Finance costs	128	125
Unwinding of discount on provisions	-	-
Overnight change to provision	-	1
External Auditors' remuneration	33	32
Provision utilised in year	-	13
Permanent diminution of fixed assets	31	43
	<b>322</b>	<b>471</b>
Other expenditure:		
Consultancy services	1,086	803
Legal Costs CAT	273	-
Training	117	104
Travel and subsistence	166	127
Rates	173	171
Computer hire and maintenance	178	190
Other hire and maintenance	42	22
Seminars, meetings and conferences	88	66
Minor Items and stationery	71	63
Publications	108	100
Books and periodicals	125	128
Postal services and couriers	22	28
Telecommunications	43	41
Recruitment costs	85	112
Accommodation expenses	119	156
Accommodation upgrade	192	-
Internal Audit fees	36	40
Other	189	131
	<b>3,113</b>	<b>2,282</b>
<b>Total</b>	<b>4,320</b>	<b>3,675</b>

The outturn for 2005-06 now shows 'Minor items and stationery' as a separate line, this was previously included in 'other' expenditure.

During the year there was no remuneration for non-audit work.

## 9. Income

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

	Outturn 2006-07	Restated Outturn 2005-06
	£000	£000
Licence fees	11,804	10,738
Licence fees received in advance – prior year	1,341	893
Licence fees received in advance – current year	(1,841)	(1,341)
Publication sales	2	4
CCWater administration support fees	160	266
Miscellaneous	6	11
<b>Total</b>	<b>11,472</b>	<b>10,571</b>

The analysis of income for 2005-06 has been restated following the reallocation of £12k from CCWater support fees to licence fees received in advance (current year). The reallocation occurred because of an agreement reached with CCWater in March 2007 that under or over charges would not be recovered.

Ofwat collected £5.7m from the water industry licensees and transferred £5.075m to Department for Environment, Food and Rural Affairs and £625k to National Assembly for Wales. This is in respect of CCWater's operating costs for 2006-07.

Ofwat provides support services to the CCWater under Service Level Agreements. These agreements cover service provisions of Information Management and Technology (agreement ceased 30 September 2006), Library and Information, Finance, Facilities Management and Human Resources. An amount of £159,749 plus VAT was received for the provision of service from 1 April 2006 to 31 March 2007. The Library and Information, Finance, Facilities Management and Human Resources Service Level Agreements were extended from 1 October 2006 until 30 September 2007.

This analysis is provided for Treasury's fees and charges purposes and not for SSAP 25.

Service Provided	Amount Received	Actual cost of provision of service	Surplus (Deficit)
	£000s	£000s	£000s
Information Management and Technology	53	53	-
Library and Information	16	2	14
Finance	30	30	-
Facilities Management	16	6	10
Human Resources	45	56	(11)
<b>Total for the year</b>	<b>160</b>	<b>147</b>	<b>13</b>

A full review of the actual cost of services provided was undertaken in September 2006. As a result the charge for each Service Level Agreement was revised prior to their extension in October 2006. No charges are incurred by CCWater for costs associated with the management of the agreements.

**10. Tangible fixed assets**

Tangible fixed assets consist of furniture and fittings, office machinery and telecommunications, website development costs and IT equipment. In 2005-06 the balance on telecommunication equipment was stated separately. However from 1 April 2006 telecommunications have been included with office machinery.

	Furniture fixtures and fittings	Office machinery & Telecomms Restated	Leasehold Improvements	Leasehold Improvement Under Development	IT equipment & website development costs	Total
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or valuation</b>						
At 1 April 2006	267	216	-	-	1,583	2,066
Additions	56	2	66	115	175	414
Disposals	(1)	(1)	-	-	(2)	(4)
Revaluation	1	(1)	-	-	(36)	(36)
<b>At 31 March 2007</b>	<b>323</b>	<b>216</b>	<b>66</b>	<b>115</b>	<b>1,720</b>	<b>2,440</b>
<b>Depreciation</b>						
At 1 April 2006	193	209	-	-	1,306	1,708
Charged in year	17	4	4	-	222	247
Disposals	(1)	(1)	-	-	(2)	(4)
Revaluation	-	-	-	-	(13)	(13)
<b>At 31 March 2007</b>	<b>209</b>	<b>212</b>	<b>4</b>	<b>-</b>	<b>1,513</b>	<b>1,938</b>
<b>Net book value at 31 March 2007</b>	<b>114</b>	<b>4</b>	<b>62</b>	<b>115</b>	<b>207</b>	<b>502</b>
<b>Net book value at 31 March 2006</b>	<b>74</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>277</b>	<b>358</b>

**11. Intangible fixed assets**

Intangible fixed assets comprises of purchased software licences.

	<b>Purchased Software Licences £000s</b>	<b>Assets Under Development £000s</b>	<b>Total £000s</b>
<b>Cost or valuation</b>			
At 1 April 2006	139	15	154
Additions	85	-	85
Reclassifications	15	(15)	-
Disposals	(15)	-	(15)
Revaluation	(9)	-	(9)
<b>At 31 March 2007</b>	<b>215</b>	<b>-</b>	<b>215</b>
<b>Amortisation</b>			
At 1 April 2006	106	-	106
Charged in year	29	-	29
Disposals	(15)	-	(15)
Revaluation	(2)	-	(2)
<b>At 31 March 2007</b>	<b>118</b>	<b>-</b>	<b>118</b>
<b>Net book value at 31 March 2007</b>	<b>97</b>	<b>-</b>	<b>97</b>
<b>Net book value at 31 March 2006</b>	<b>33</b>	<b>15</b>	<b>48</b>

**12. Debtors****12(a) Analysis by type**

	<b>2006-07</b>	<b>2005-06</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year:</b>		
Trade debtors	65	4
Deposits and advances	23	17
Other debtors	4	-
HM Revenue and Customs (VAT)	22	12
Prepayments and accrued income	273	280
<b>Total debtors at 31 March 2007</b>	<b>387</b>	<b>313</b>

**12(b) Intra-Government Balances**

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
<b>Amounts falling due within one year:</b>		
Balances with other central government bodies	27	12
Payments due from CCWater	62	-
Balances with local authorities	17	
<i>Subtotal: intra-government balances</i>	<u>106</u>	<u>12</u>
Balances with bodies external to government	281	301
<b>Total debtors at 31 March 2007</b>	<b><u>387</u></b>	<b><u>313</u></b>

**13. Cash at bank and in hand**

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Balance at 1 April	1,163	420
Net change in cash balance:	(661)	743
<b>Balance at 31 March 2007</b>	<b><u>502</u></b>	<b><u>1,163</u></b>

The following balances are held at :

Office of HM Paymaster General (OPG)	501	1,161
Commercial banks and cash in hand	1	2
<b>Balance at 31 March 2007</b>	<b><u>502</u></b>	<b><u>1,163</u></b>

**14. Creditors****14(a) Analysis by type**

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade creditors	246	55
Other creditors	-	197
Accruals	548	169
Deferred Income	1,841	1,341
Other tax and social security	166	155
Excess cash due to be paid to the Consolidated Fund	502	1,163
<b>Total Creditors at 31 March 2007</b>	<b><u>3,303</u></b>	<b><u>3,080</u></b>

**14(b) Intra-government balances**

	<u>2006-07</u>	<u>2005-06</u>
	<u>£000</u>	<u>£000</u>
<b>Amounts falling due within one year:</b>		
Balances with other central government bodies	695	1,543
<i>Subtotal:</i> intra-government balances	<u>695</u>	<u>1,543</u>
Balances with bodies external to government	2,608	1,537
<b>Total creditors at 31 March 2007</b>	<u><u>3,303</u></u>	<u><u>3,080</u></u>

**15. Provision for liabilities and charges**

	<u>Early departure costs</u>	<u>Onerous leases</u>	<u>2006-07</u>
	<u>£000</u>	<u>£000</u>	<u>Total</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance at 1 April 2006	26	13	39
Provided in year	-	-	-
Provision utilised in year	(15)	(11)	(26)
Unwinding of discount	-	-	-
Provision not required written back	(1)	(2)	(3)
<b>Balance at 31 March 2007</b>	<u><u>10</u></u>	<u><u>-</u></u>	<u><u>10</u></u>

We meet the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. We provide for this in full when the early retirement programme becomes binding on us by establishing a provision for the estimated payments discounted by the HM Treasury discount rate of 2.2% in real terms.

The Onerous lease provision relates to a property previously occupied by WaterVoice that was not included in the transfer scheme to CCWater. This lease expired 30 September 2006.



**Pension liabilities**

	2006-07	2005-06
	<u>Total</u>	<u>Total</u>
	£000	£'000
Balance at 1 April 2006	2,542	2,123
<b>Analysis of the amount charged to the Operating Cost Statement :</b>		
Current service costs	-	41
Past service costs	-	-
Interest cost	128	125
<b>Employee contributions</b>		
Additional voluntary contributions	-	65
<b>Benefits paid:</b>		
Benefits paid	(358)	(63)
<b>Analysis of the amount recognised in the SRGL:</b>		
Experience (gain)/loss	(109)	80
Change of discount rate	-	171
Change in actuarial assumptions	368	-
Actuarial loss	-	-
	<u>2,571</u>	<u>2,542</u>

The increase in benefits paid in 2006-07 compared with 2005-06 is in respect of the retirement of the former Director General.

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 as and 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 84% 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 2007.

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.
- All members are married, with wives being three years younger than their husbands.

The main financial assumptions (used to assess liabilities as at 31 March 2007) are as follows:

- Investment return in excess of price increases of 1.8% p.a.
- The gross rate of return is assumed to be 4.6% p.a., although this assumption has a minor impact on the value of the liability.

- In nominal terms, these assumptions imply price inflation of 2.75% p.a.

No allowance has been made for savings to the scheme in respect of the increases paid by the State on Guaranteed Minimum Pensions (GMPs). No information is available from the administrators. If any members had GMP, then this would act to reduce the liability calculated.

	At 31 March 2007	At 31 March 2006
	% (per annum)	% (per annum)
Inflation assumption	2.75	2.5
Rate of increase in salaries	4.3	4
Rate of increase for pensions in payment and deferred pensions	2.75	2.5
Rate used to discount scheme liabilities	4.6	5.4
Experience (gain)/loss as percentage of total discounted scheme liabilities as at 31 March	(4.2)	3.1
Total actuarial loss as a percentage of total discounted scheme liabilities as at 31 March	10.1	3.1

### Analysis of actuarial loss

	2006-07	2005-06
	£000	£000
Experience (gains)/losses arising on the scheme liabilities	(109)	80
Changes in assumptions underlying the present value of scheme liabilities	368	-
Per statement of Recognised Gains and Losses	259	80

### History of Experience losses

	2006-07	2005-06	2004-05
	£000	£000	£000
Experience gains/losses arising on the scheme liabilities			
Amount (£000)	(109)	80	227
Percentage of the present value of the scheme liabilities	(4.2)%	3.1%	10.7%
Total amount recognised in statement of recognised gains and losses			
Amount (£000)	259	251	519
Percentage of the present value of the scheme liabilities	10.1%	9.9%	24.5%

The real discount rate changed from 2.8% in 2005-06 to 1.8% in 2006-07.

**16. General Fund**

The General Fund represents the total assets less liabilities of Ofwat, to the extent that the total is not represented by other reserves and financing items.

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Balance at 1 April	(3,811)	(2,363)
Net Parliamentary Funding		
Drawn Down	292	40
Net Transfer from Operating Activities		
Net operating cost	(39)	-
Excess cash repayable to Consolidated Fund	(502)	(1,163)
Non Cash Charges		
Cost of Capital	(143)	(107)
Auditors remuneration	33	32
Overnight Charge to provision	-	-
Actuarial loss	(259)	(80)
Change in discount rate	-	(171)
Transfer from Revaluation Reserve	-	1
<b>Balance at 31 March</b>	<b><u>(4,429)</u></b>	<b><u>(3,811)</u></b>

**17. Revaluation Reserve**

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Balance at 1 April	32	28
Arising on revaluation during the year (net)	1	5
Transferred to general fund of realised element of Revaluation reserve	-	(1)
<b>Balance at 31 March</b>	<b><u>33</u></b>	<b><u>32</u></b>

**18. Notes to the Cash flow statement****18(a) Reconciliation of operating cost to operating cash flows**

		<u>2006-07</u>	<u>2005-06</u>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
Net operating cost	3	39	-
Adjustments for non-cash transactions	8	(322)	(471)
Adjustment for non-cash transactions staff costs	15	-	(41)
Increase/(Decrease) in Debtors	12	74	(89)
Increase in Creditors		(884)	(583)
Less movement in Creditors relating to items not passing through the OCS		69	-
Use of provisions	15	384	87
<b>Net cash inflow from operating activities</b>		<b><u>(640)</u></b>	<b><u>(1,097)</u></b>

**18(b) Analysis of capital expenditure and financial investment**

		<u>2006-07</u>	<u>2005-06</u>
		<b>£000</b>	<b>£000</b>
Payments to acquire intangible fixed assets		84	15
Payments to acquire tangible fixed assets		346	24
Proceeds of disposal of fixed assets		-	-
<b>Net cash outflow from investing activities</b>		<b><u>430</u></b>	<b><u>39</u></b>

**18(c) Analysis of financing**

		<u>2006-07</u>	<u>2005-06</u>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
From the Consolidated Fund (Supply) – current year	16	292	40
Pension Contributions	15	-	65
Advance from the Contingencies Fund		1,500	1,500
Repayment to the Contingencies Fund		(1,500)	(1,500)
<b>Net financing</b>		<b><u>292</u></b>	<b><u>105</u></b>

**18(d) Reconciliation of Net Cash Requirement to increase in cash**

		<u>2006-07</u>	<u>2005-06</u>
	<b>Note</b>	<b>£000</b>	<b>£000</b>
Net cash requirement		(292)	(40)
From the Consolidated Fund (Supply) – current year	16	292	40
Amounts due to the Consolidated Fund – received in a prior year and paid over	13	(1,163)	(420)
Excess cash to be surrendered to the Consolidated Fund	14(a)	502	1,163
<b>Increase/(Decrease) in cash</b>		<b><u>(661)</u></b>	<b><u>743</u></b>

**19. Capital commitments**

As at 31 March 2007 there were no capital commitments, (31 March 2006:nil).

**20. Commitments under operating leases**

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed to the period in which the lease expires.

	<u>2006-07</u>	<u>2005-06</u>
	£000	£000
Buildings:		
Expiry within 1 year	72	133
Expiry within 2 to 5 years	-	174
Expiry thereafter	751	548
	<u>823</u>	<u>855</u>
Other:		
Expiry within 1 year	1	15
Expiry within 2 to 5 years	2	7
Expiry thereafter	-	-
	<u>3</u>	<u>22</u>

**21. Financial instruments**

FRS13, derivatives and other financial instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, Ofwat is not exposed to the degree of financial risk faced by businesses. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS13 mainly applies. Ofwat has no powers to borrow or invest surplus funds and 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 currency risk.

*Fair values*

There is no material difference between the book values and the fair values of Ofwat's financial assets and liabilities as at 31 March 2007.

**22. Contingent liabilities**

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 2007 there were no contingent liabilities requiring disclosure, (31 March 2006: nil).

### 23. Related party transactions

Ofwat transferred £5.075m to Department for Environment, Food and Rural Affairs and £625k to National Assembly for Wales in respect of CCWater's operating costs for 2006-07.

Ofwat hold Service Level Agreements with CCWater for the provision of support services. Of the total of £159,749 invoiced for the year the sum of £57,649 was owed as at 31 March 2007. These figures exclude any VAT payable to HM Revenue and Customs.

Ofwat also has a small number of immaterial transactions with other government departments.

During the year a single payment of £2,353 was made to Realisation Consulting Ltd. in respect of consultancy work. Andrew Dunn is the Managing Director of Realisation Consulting Ltd. and has a controlling interest in the company.

This transaction was completed prior to Andrew Dunn's appointment with Ofwat and there were no outstanding balances due to Realisation Consulting Ltd. at 31 March 2007.

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

### 24. Post balance sheet events

The agreement on ten year leases for Ofwat holdings in Centre City Tower, Birmingham reached completion in June 2007; these leases have coterminous expiry dates of July 2017. The lease for floor 7 was extended for a further two months until 31 August 2007 to enable the schedule of moves to floor 17. Commitments under these leases are disclosed in note 20.

There are no other reportable post balance sheet events between the balance sheet date and the 13 July 2007, the date when the Accounting Officer dispatched the accounts to HM Treasury. The financial statements do not reflect events after this date.





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