

Water Services Regulation Authority (Ofwat) Annual report and accounts 2015-16

For the period 1 April 2015 to 31 March 2016



Water Services Regulation Authority (Ofwat)

Annual report and accounts 2015-16

For the period 1 April 2015 to 31 March 2016

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

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

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

Ordered by the House of Commons to be printed on 14 July 2016

HC 361



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

Print ISBN 9781474131032
Web ISBN 9781474131049

ID P002802097 06/16

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office.

About this document

This document sets out our annual report and accounts for the period 1 April 2015 to 31 March 2016.

It includes a description of the work we carried out during the year to deliver our legal duties.

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

Our duties are laid out primarily in the Water Industry Act 1991 as amended (WIA91). We are directly accountable to Parliament and the National Assembly for Wales.

Further information about our work is available on our website at www.ofwat.gov.uk.

Contents

Part 1: Our performance report	2
Part 2: Our accountability report	44
Part 3: Financial statements	94
Part 4: Appendices	119

Part 1: Our performance report

Overview

Chairman's foreword

I am pleased to report that 2015-16 was a productive and successful year for Ofwat.

It was the first year of the 2015-2020 regulatory period for water companies covered by our 2014 price review. In June 2016 we will learn what progress companies made during the year in meeting or exceeding the challenges we set them for through our 2014 review. Our review set higher challenges and better outcomes for customers and wider society from water companies. Outcome Delivery Incentives are refocusing companies on the service and operating promises they made to their customers. 'Totex' offers material opportunities for cost outperformance which will help to shift the frontier and enable us to set more challenging efficiency targets for companies, benefitting customers, next time around

2015-16 was a busy year in policy terms for Ofwat. Each five-year period brings a development and refinement of our approach to ensure, in the absence of competitive markets in the water sector, that we do our job well of holding water companies to account to perform to ever better standards and ever higher levels of efficiency. Shortly after taking up the role four years ago, I gave a pledge that the policy work for our approach to the next price review would happen more promptly than in the previous period. We have done this as Cathryn outlines in her report.

Through the year Ofwat worked hard with companies, investors and representatives of customers leading to publication of our approach to Water 2020, which includes key elements of our policy for the 2019 price review. The Board believes that we have given early and specific clarity about these key elements of our approach. The Board recognises that sometimes there is additional complexity to achieve an ultimate deregulatory goal. We are introducing market forces into the development of new water resources and the recycling of wastewater treatment solids into energy and fertilizer products. We are encouraged by the evidence of new providers appearing in the sector to offer efficient and innovative ways of providing service to customers. We have updated our approach to indexation for the first time since privatisation, with a mixed use of RPI and CPI, which sets us on a pathway to bringing the industry in line with legitimate and robust inflation indices, rather than

the increasingly unrecognised, outdated and flawed RPI index. Our policy work on Water 2020 will bring long term benefits to customers in England and in Wales, such as choice, resilience and efficiency. It will also benefit the environment by supporting catchment approaches and sustainability.

Our policy work extended into other fronts this year. We have worked hard with the UK Government, water companies and MOSL on the opening of the retail market for business customers in England in April 2017. We have also been working hard with the Welsh Government to ensure that business customers in Wales remain protected through regulation. We were asked by the UK Government to review the case for competition in residential retail markets in England, which will be published during 2016. We were pleased that Ofwat's original proposal for directly procured approaches to delivering large infrastructure projects culminated in the licence award for the Thames Tideway Tunnel. This project sets a new frontier in terms of the financing at lowest sustainable cost of major infrastructure.

We are very conscious at Ofwat of maintaining the sense of 'legitimacy' on the part of customers towards their water and waste water service providers. Our job as a regulator is to stay one step ahead in protecting customers, informing, enabling and incentivising companies to deliver more for less.

This has been a year of transformation at many levels in Ofwat. We have seen several Board changes at the close of the year. I would like to extend my thanks to our Non-Executive Directors Wendy Barnes, Chris Burchell and Robin Paynter-Bryant who each stepped down at the end of their terms around the end of the business year. Over a very busy three years, their guidance and support has been invaluable and we would not have succeeded without the support they and ongoing board colleagues provided.

I would also like to welcome warmly Mark Bailey, Alison Monroe and Tim Waggott as our new Non-Executive Directors and Aileen Armstrong and John Russell as new Executive Directors. I would also like to extend my thanks to Keith Mason, a stalwart member of Ofwat's team over the past 20 years, who has stepped down from the Board at the end of his term but continues with us in his role as Senior Director. Thames Tideway as well as expanding his contribution to the wider regulatory world.

Finally I would like to say thank you, on behalf of all members of our Board, to Ofwat's staff. I thank them for all their very hard work and their outstanding commitment over the past year. It's a challenging job being a regulator – combining the skills of analysis and of regulation and competition economics with business judgment, all to produce an outcome which appropriately keeps the sector we

regulate on its toes. I believe our people do an outstanding job and I would like to thank each and every one.

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

Jonson Cox
Chairman

Chief Executive's report

Last year I reported that we had completed the 2014 price review. And I am pleased to report that over the past 12 months we have achieved a great deal in ensuring the sector delivers on the excellent outcomes that the 2014 price review secured – and planning for how we continue to challenge the sector to deliver the outcomes that customers and wider society want to 2020 and beyond.

Looking ahead, we and the sector face a busy period and a challenging few years with:

- the opening of the retail market for business customers mainly in England by April 2017;
- preparing for and delivering the 2019 price review;
- introducing new markets for sludge and water resources; and
- potentially, depending on UK Government decisions, preparing for legislation and the introduction of a residential retail market in England.

And the foundations we have established in 2015-16 have created real momentum. They include:

- the development of our wide-ranging Water 2020 proposals for future markets, and the significant stakeholder engagement through the marketplace of ideas that helped create them;
- the successful transition of the Open Water programme from Open Water Markets Limited (OWML) into a programme managed by Ofwat and co-ordinating the work of Ofwat, Defra and Market Operator Services Limited (MOSL) to support the opening of the business retail market in England to competition in April 2017;
- challenging the sector and others to do more on affordability and to support customers in vulnerable circumstances;
- securing a positive outcome for Bristol Water's customers and broad support for our 2014 price review approach from the Competition and Markets Authority;
- commencing work to assess the costs and benefits of extending retail competition into the residential customer market in England;
- developing our and the sector's approach to our resilience, working closely with the Resilience Task and Finish Group;
- the appointment of the infrastructure provider for the Thames Tideway Tunnel in a way that has delivered significant benefits for customers, including on financing costs;
- reducing customer harm and detriment by making significant progress with our strategic casework; and

- developing and using our company monitoring framework to ensure that we and others can have confidence in companies' performance and hold them to account.

We recognise that in encouraging the sector to be more dynamic, fast paced and responsive to customers and the environment, we need to make sure we are equipped to respond. And during 2015-16 we continued the transformation of Ofwat in line with our vision to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to deliver trust in water. This includes:

- embedding our customer-focused, pro-market, targeted and proportionate approach to regulation;
- improving our programme-led and benefits-focused approach to delivery;
- developing the systems and information we need to plan and deliver over the long term;
- building and making best use of the infrastructure we need to allow us to work flexibly and in new ways;
- developing and recruiting the skills we need; and
- continually challenging ourselves to deliver value for money.

At Ofwat we challenge the sector to find better ways of doing things. And we apply the same challenge to ourselves. So I was delighted this year to Chair the UK Regulators Network (UKRN). UKRN provides an outstanding opportunity to learn from experiences in other sectors and develop more joined up approaches to regulation that benefit customers and wider society. I look forward to Ofwat continuing to play an active part in UKRN and working with Dermot Nolan, Ofgem's Chief Executive and UKRN's next Chair, in the coming year.

We have always been clear that delivering trust in water is a task that neither Ofwat nor the sector can achieve alone. The progress we have made this year has in large part been down to the excellent engagement we have received from our stakeholders. I know in some areas – particularly the preparations for business retail market opening in April 2017 – the pace has been unrelenting. So a massive thank you to everyone that has been involved so far, and for your continued contribution. And a particular thank you to:

- Water UK, companies, customer representatives and others for their input to the marketplace of ideas, which helped inform our Water 2020 proposals;
- Ben Jeffs and Sarah Hendry and their respective teams at MOSL and Defra for working with us to make sure work to open the business retail market remains on track for April 2017; and

- Jacob Tompkins and the members of the Resilience Task and Finish Group, whose input was invaluable in informing our and the sector’s approach to resilience.

Finally, I would like to repeat and add to Jonson’s thanks to our people over the past year. After an intensive price review, you have not let up in your effort and dedication to making sure this sector and the way it is regulated delivers for customers and society, and is held in high esteem around the world. Our challenge now – and it is the one we would want to have – is to stay one step ahead, so we can continue to challenge the sector and ourselves to maintain and build trust in water.



Cathryn Ross
Chief Executive

Purpose and activities

Our Trust in water strategy is the means through which we fulfil our statutory duties. We also carry out our relevant functions in accordance with the statements of strategic priorities and objectives we receive from the UK and Welsh Governments. Our priorities for 2015-16 were as follows.

1. Implementing Water Act reforms and preparing for the 2019 price review.
2. Maintaining customer confidence through a period of change.
3. Maintaining investor confidence in the sector through a period of change.
4. Monitoring sector performance.
5. To ensure that Ofwat has the skills, experience, systems, processes and culture that support our new strategy.

Our five-year business plan for 2016-17 to 2020-21 and 2016-17 forward programme set out our future plans.

Key issues and risks

Our risk and opportunities strategy sets out our approach for managing and responding to risks and opportunities. Our strategy is based on HM Treasury's 'Orange Book: Management of risk – Principles and Concepts'. And in line with the principles of the UK Corporate Governance Code, risk and opportunity management is embedded across our organisation. Our governance statement on page 54 gives more information on risks.

Going concern basis

We have adopted a going concern basis for the preparation of these accounts, as set out in note 1.16 on page 103.

Performance summary

1. Implementing Water Act reforms and preparing for the 2019 price review

Achievements	Introducing choice for business, charity and public sector customers in England by April 2017	Helping the sector overcome key challenges through future markets and improved price limit setting
Making sure overall work to open the new business retail market stays on track	Encouraging a reduction in environmental impact from over-abstraction	Helping the sector plan and deliver resilient services

£1 billion

– the potential benefits of Water 2020 proposals for water resources

£200 million

– net benefits of new retail market for business customers opening in April 2017

1.2 million

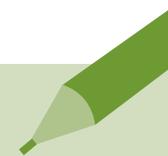
– the number of business, charity and public sector customers that will be able to choose their retailer from April 2017

“Resilience is the ability to cope with, and recover from, disruption, and anticipate trends and variability in order to maintain services for people and protect the natural environment, now and in the future”

– The first definition of water sector resilience provided by our Task and Finish Group

30-40

– the number of retailer licence applications we expect next year



2. Maintaining customer confidence through a period of change

Achievements	Challenging companies to do more on customer affordability	Encouraging the sector to think differently about the support it offers to customers in vulnerable circumstances	
Making sure customers were treated fairly following a serious water quality incident in Lancashire	Protecting customers in the merger of South West Water and Bournemouth Water	Examining the case for giving residential customers choice of retailer	Improving choice for developers to support growth
Reducing harm and detriment to customers by resolving complaints, disputes and company failures			

£21

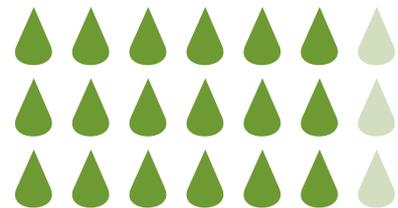
– the average amount per household companies spent on recovering and writing off water debt

£50-£60

– the average compensation payment to each United Utilities customer in Lancashire after a serious water quality incident in August 2015

2%

– reduction in average water and wastewater bills for 2015-16



18 out of 21

– water companies that had social tariffs in place as of 1 April 2016

500,000

– customers that have signed up for major affordability and vulnerability schemes

3. Maintaining investor confidence in the sector through a period of change

Achievements	
Increasing certainty and reducing barriers to mergers	Securing the long-term legitimacy of price controls
Providing certainty on company rewards and penalties for 2010-15	Encouraging more transparency on company performance
	Encouraging innovative delivery and financing models for large infrastructure projects
	Providing confidence in our decisions on price controls in 2015-20
	Improving certainty about Ofwat's strategy and our long-term plans

£45-£50

– the average amount that each Thames Water customer will save a year by the mid-2020s after procurement of the Thames Tideway Tunnel

16%

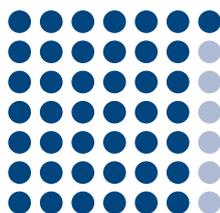
– average reduction in bills before inflation for Bristol Water's customers by 2020

46

– number of separate consultations on different aspects of how we regulate

43 of 49

– completed outputs from our 2015-16 forward programme



AAA

– the rating Moody's Investor Services gave the way in which we regulate; the credit rating agency's highest possible rating

4. Monitoring sector performance

Achievements	Driving improvements in company performance and accountability	Supporting improvements in developer services to encourage growth
Monitoring performance reported by companies		
	Working with others to develop a framework for monitoring the sector's progress in delivering trust and confidence	

£122 billion

– amount invested in services since privatisation

Two

– serious pollution incidents for every 10,000 km of sewer

– companies' average score for customer service

82 out of 100

– number of properties flooded by overflowing sewers

1,551

Companies met our principles for Board leadership, transparency and governance with a few limited exceptions



No hosepipe bans or other restrictions on use for the third year in a row

5. To ensure that Ofwat has the skills, experience, systems, processes and culture that support our new strategy

Achievements	Developing and recruiting the skills we need	Making Ofwat a great place to work
Improving planning and management information		
Improving delivery	Collaborating with other regulators to deliver benefits	Learning lessons from our past performance

63%

– our 2015 Civil Service engagement index, which asks employees about how much they like their workplace. The Civil Service average score was 58%

70%

– a majority of our people said they have confidence in the leadership of Ofwat – compared with just 31% in 2013

85%

– percentage of people who thought our new ICT enabled new ways of working

57%

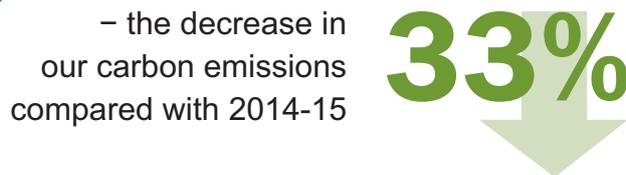
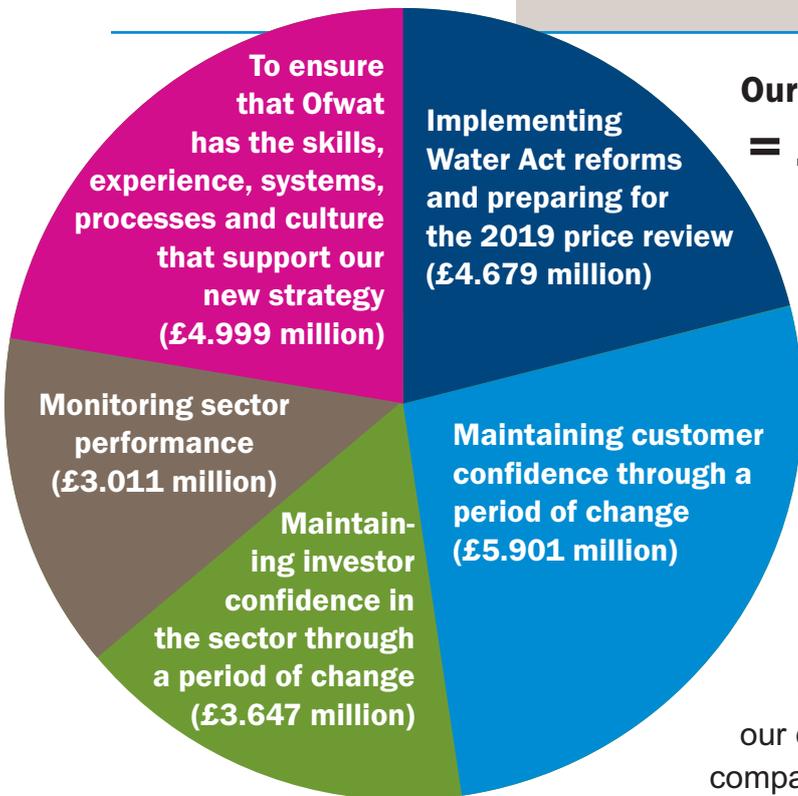
– percentage of people who thought that we put our values at the forefront of our work

Our new corporate values



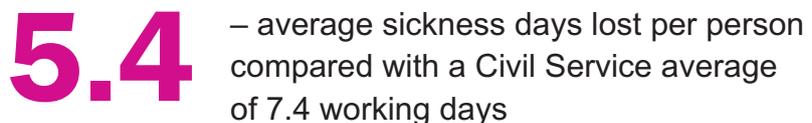
Finance, accountability and sustainability

Achievements	Average days lost to sickness below civil service average	Delivering our core regulatory work efficiently
No protected personal data incidents		
Staff turnover stable	Substantially decreased our carbon emissions	



4.2 times

– the highest-paid director in Ofwat was paid 4.2 times more than the median remuneration of the workforce



Performance analysis

Measuring our performance

Our vision for Ofwat is to be working at the leading edge, trusted and respected, challenging ourselves and others to build trust and confidence in water.

During the year, we developed a performance management system for assessing our progress against our vision as a regulator and summarising this in an accessible way: the 'Ofwat dashboard'. We are now using the Ofwat dashboard internally to help us monitor the benefits we are delivering through our work and prioritise what we do. To provide transparency on our performance, we intend to develop a version of the dashboard for routine publication in 2016-17, which will be more tailored to a range of external stakeholders. We will report on the outcome of this next year.

For 2015-16 we report our performance against our strategic priorities, which we set out in 'Ofwat's forward programme 2015-16' in March 2015.

Our 2015-16 performance

1. Implementing Water Act reforms and preparing for the 2019 price review

Helping the sector overcome key challenges through future markets and improved price limit setting

Setting price limits for monopoly companies and using markets are two of our main tools for getting the water sector to deliver a better deal for customers and wider society.

In July 2015 we consulted on some of the key challenges facing the sector – and how our regulatory framework may need to respond to help the sector deliver for its customers. In keeping with our collaborative approach, we worked with Water UK to set up a marketplace of ideas, which has seen companies contribute thoughts about how the sector needs to progress. Other organisations, such as the Consumer Council for Water and Citizens Advice, also contributed to the debate. We used some of those ideas – and lessons from the 2014 price review – to develop our initial proposals for future markets and price limit setting for 2020 ('Water 2020'), which we published in December 2015.

Our initial proposals build on the success of our approach at the 2014 price review and will enable and encourage companies to deliver better services that are better value for money, while also using scarce resources more smartly and working better for our natural environment. In practical terms, our initial proposals will:

- encourage companies to go further in developing relationships with customers that will enable better value, more sustainable services;
- encourage more water trading between companies and other water users, which will help some companies avoid the costs associated with expensive new storage capacity, keep bills down and stop us taking too much water from our rivers;
- remove barriers to free up scope for companies to make better use of wastewater solids to help meet both their own and the country's energy needs; and
- enable a move to use the more legitimate consumer price index (CPI) in setting price limits.

Alongside our proposals we have been planning and preparing in detail how we should deliver the 2019 price review. This included:

- recruiting the three new Senior Directors that will lead the review;
- consulting on changes to our regulatory accounting guidelines to align these more closely to current and proposed price controls;
- carrying out a targeted review of how companies report separate costs and revenues for sludge and water resources to improve data quality, in preparation for the introduction of wider competition and our proposed price controls for the 2019 price review.

We will make our design decisions on the regulatory framework for the next price review (PR19) in 2016-17. We will report on the outcome of this in next year's report.

Introducing choice for business, charity and public sector customers in England by April 2017

From April 2017, 1.2 million eligible business, charity and public sector customers located mainly in England will be able to shop around for their water retailer. In doing so they can benefit from lower prices, consolidated water bills, higher standards of service and more tailored services. The UK Government estimated the new market will deliver £200 million net benefit to the UK economy. During the year, Ofwat consulted on, developed and implemented a number of the key arrangements for the new retail market. These included the following.

- Developing the new water and wastewater supply licence and associated policy guidance for retailers. As a result of the work, shortly after the end of the

reporting year, we were able to open the application process for retailers to apply for water supply and/or sewerage licences (WSSLs). We expect about 30-40 applications for WSSLs in the coming year;

- Developing the framework for protecting the 1.2 million eligible customers in the new market, including:
 - finalising arrangements for the supplier of last resort ('Interim supply code') and supplier of first resort, including the 'Retail exit code';
 - consulting on a code of practice for the way retailers treat customers;
 - making recommendations to UK and Welsh Ministers on extending guaranteed service standards to all retailers; and
 - consulting on how we will decide the standard price, service and investment package (the '2016 non-household retail price review') that appointed monopoly companies will have to offer to all non-household customers from 2017-18 to 2019-20. This includes those customers eligible to switch in the new market from 1 April 2017;
- Developing the charging rules that appointed monopoly companies will need to follow in developing their water and wastewater charges in future, including their wholesale charges to retailers in the new market. We also set out:
 - our expectations for company charges information for 2016-17, including asking them to raise awareness of the new market among their customers; and
 - our requirements for companies to publish wholesale charges schemes by October 2016. This will allow retailers to finalise their offers to customers ahead of the market opening;
- To make sure that the market is ready to open in April 2017, introducing a temporary obligation into appointed monopoly companies' licences to make sure they prepare for the new market;
- To ensure that the market works smoothly when it opens, setting up and working with a temporary body (the 'interim code panel') to administer and recommend changes to the main market documents ('codes'). We also consider and, where we agree, approve recommendations for licence changes that the panel proposes; and
- Boosting the potential benefits of the market, by removing the restriction on retailers associated with incumbent monopoly companies from trading in that company's area (the 'in-area trading ban') – while reminding incumbent monopoly companies of their obligations to maintain a level playing field for all retailers. Fair competition will encourage companies to compete within the market and provide the best choice and range of opportunities for customers.

Making sure overall work to open the new business retail market stays on track

From May 2015, we took on further responsibilities as part of the overall programme of work to open the market ('Open Water') – after Open Water Markets Limited (OWML), the entity that was initially tasked with overseeing the work, closed down. Our work included:

- managing the transfer of responsibilities from OWML;
- commissioning the first independent review of the programme (the 'baseline review') and responding to its recommendations;
- making sure the programme had robust budgets and budget monitoring in place;
- supporting market participants during summer 2015 as they established Market Operator Services Limited (MOSL) – the privately funded body that is now, among other things, overseeing the procurement of the main ICT system to deliver the new market;
- providing assurance to the Secretary of State on Ofwat's preparations for the new retail market; and
- chairing the Open Water communications and programme management working groups to co-ordinate with the UK Government (Defra), MOSL and market participants to open the market.

The market remains on track to open in April 2017.

Helping the sector plan and deliver resilient services

Providing customers with reliable water and wastewater services needs to be at the heart of the sector's work, both now and in the future. While companies have made steps in understanding customer priorities and furthering resilience as part of the 2014 price review, there is still work to do. Risks to services are changing and increasing – for example environmental pressures, population growth and changes in customers' behaviour, and the impacts of climate change. The Water Act 2014 also gave Ofwat a new primary duty to further the resilience objective.

So during the year, we consulted on and concluded how our regulatory framework can help water companies deliver more resilient services. As part of our approach, we will:

- create a framework that informs, enables and encourages the sector to deliver the resilience its customers want and need – in innovative, efficient and sustainable ways;

- make sure that this framework creates the right regulatory climate for service providers to plan and invest for resilient services now and in the future; and
- act as the safety net for customers.

We also challenged the water sector to:

- take responsibility ('step up');
- take ownership and understand the customer, environmental and societal priorities in their areas;
- understand the risks to resilience in their areas; and
- act appropriately to deliver for their communities.

In developing our approach, we considered the recommendations of the Resilience Task and Finish group we commissioned, chaired by Jacob Tompkins, Managing Director of Waterwise. The group's work included, for the first time, establishing a common definition of resilience within the sector.

Encouraging a reduction in environmental impact from over-abstraction

During the year, we continued to work with the sector to develop incentives to stop too much water being taken from the environment ('over-abstraction'). We also continued encouraging companies to trade water where this is the best option for balancing the supply and demand for services. Water trading can benefit:

- the environment, by allowing scarce resources to be optimised between company areas as well as within them; and
- customers, as it can allow investment in developing new resources within a company's area to be deferred, reducing future upward pressures on bills.

During the year, we consulted on the trading and procurement code for:

- Dŵr Cymru; and
- Thames Water.

In the 2014 price review we introduced water trading incentives to encourage water trading between incumbent water companies. Companies can only receive these water trading incentives if they produce, and are compliant with, an approved trading and procurement code.

2. Maintaining customer confidence through a period of change

Challenging companies to do more on customer affordability

Average bills for 2015-16 across England and Wales fell by an average of 2% to £385 from 1 April 2015, following the limits we set in 2014 on monopoly companies' prices for 2015-20. But during the year, we published research showing that households have struggled in recent years, with the rising cost of living stretching many budgets to the limit and the cost of bad debt adding an average of £1 to customers' bills. We used the research to share best practice and challenge companies to do more to help customers struggling to pay their bills. And as of 1 April 2016, 18 out of 21 water companies had social tariffs in place.

Encouraging the sector to think differently about the support it offers to customers in vulnerable circumstances

More than 1.4 million people in the UK are over 85 and that number is projected to triple in the next 30 years. And half the UK population born after 1960 is expected to be diagnosed with cancer at some point in their lifetime – while more than 500,000 customers have signed up for major affordability or vulnerability schemes. Whether it's age, disability, illness, bereavement or something else – there are times when customers find themselves in circumstances that could make them vulnerable. At those times, water and wastewater services may be one of the furthest things from customers' minds – but also one of the most fundamental things they need. To encourage the sector to improve the support it offers to customers in vulnerable circumstances, we:

- carried out engagement within and outside the water sector;
- published research and a practitioners' pack;
- encouraged sharing of best practice among companies and decision makers across many sectors; and
- collaborated with other regulators in UKRN (see page 34) on a leaflet for customers that gives advice on free services and support available from utilities companies.

Following our work, Water UK and Energy UK announced that water and energy companies were working together to provide more joined up support to help vulnerable customers from April 2016.

Making sure customers were treated fairly following a serious water quality incident in Lancashire

In August 2015, United Utilities reported a water contamination incident in Lancashire after tests at a treatment plant found traces of the microscopic bug cryptosporidium. The incident meant that about 300,000 people had to boil their tap water for several weeks. The company took urgent steps to put the problem right. The incident was investigated by the Drinking Water Inspectorate, and we stayed in close touch with the company throughout to identify any wider issues or lessons learned. In terms of compensation, we were clear with the company that it needed to:

- listen to customers and treat them fairly;
- recognise the considerable inconvenience customers faced; and
- make compensation at the expense of the company, not customers.

After speaking to customer representatives, the company made an average payment of £50-£60 per customer.

Reducing harm and detriment to customers by resolving complaints, disputes and company failures

Resolving complaints, disputes and company failures is an important part of our work because it enables us to effectively target the most serious harm and detriment to customers. We carry out a range of different investigations and enforcement activity, from large, complex investigations into alleged breaches of competition law to smaller issues affecting individuals. We call this ‘casework’.

The best result for customers is if water companies sort out complaints, disputes or service failures without us having to investigate. So during the year, we developed and implemented a new strategy to help us more effectively target the most serious harm and detriment. Among other things, this involves us being clearer with companies how we expect them to behave or (where we have taken a decision on a complaint, dispute or service failure) how they should change.

We also made significant progress with our strategic casework. These are cases that are significant in terms of their size and complexity or have the potential to set precedents in the way the sector delivers services to customers and wider society.

Our work included making:

- a draft decision ('determination') on the dispute between Tata Steel and Dŵr Cymru over the terms and conditions for the supply of non-potable water to Tata's site in Llanwern, Wales under the Water Industry Act 1991;
- a final determination on a dispute between Anglian Water and Utility Law Solutions under sections 30A, 42(6) and 51C(11) of the Water Industry Act 1991; and
- a final determination on a bulk supply pricing dispute under section 56 of the Water Industry Act 1991 between United Utilities Water (UUW) and Iggesund Paperboard (Workington) Limited.

Alongside our strategic cases, we continued to efficiently resolve other non-strategic cases that we received (see 'Performance against standards of service' on page 125) – or directed them to other organisations better placed to resolve them. And to make our decisions more widely understood – and help avoid similar disputes or complaints occurring – we published simple case summaries on our website and produced a quarterly electronic bulletin ('On the Case') for companies and customers.

In individual cases, we may be able to achieve a more positive outcome – within a shorter timeframe and using fewer resources – by making an official agreement with parties to resolve a dispute or conflict ('settlement'). This is instead of us continuing to investigate and making a formal decision. Settling cases also allows us to focus our resources on other cases more quickly, which will reduce potential harm and detriment to other customers. So during the year, we consulted on, among other things, making settlement part of our formal approach to enforcement.

Improving choice for developers to support growth

Providing new water connections is currently one of only a few areas of the sector where customers in England and Wales can choose their service provider. Independent contractors – called self-lay organisations (SLOs) – compete with water companies to provide new connections. This benefits customers, particularly developers, by driving more customer-focused, efficient and innovative services.

We often get asked to decide on disputes involving the requirements ('self-lay agreements') that water companies place on SLOs to prove they have done a good job. These requirements can potentially be a barrier to SLOs competing to provide their services – but they also protect customers from sub-standard work. So during the year, we consulted on how the terms in self-lay agreements can strike a reasonable balance between ensuring SLOs can fairly compete in this market and

ensuring water companies can provide safe and secure water supplies to existing and new customers.

We also wrote to all water companies, telling them to review the information they provide to developers about their right to choose an SLO to install water mains and sewers instead of their local water company.

Protecting customers in the merger of South West Water and Bournemouth Water

During 2015, South West Water and Bournemouth Water announced they were merging. We referred the merger to the Competition and Markets Authority (CMA). We provided evidence to the CMA's inquiry into the merger. In parallel, we continued our discussions with South West Water to ensure customers share in the benefits of the merger and the regulatory regime is not compromised. As a result, South West Water made public commitments about:

- the benefits for its customers from the merger; and
- steps it will take to help the effectiveness of the regulatory regime.

South West Water will publish its progress against these pledges and they will be scrutinised at the customer challenge groups.

Examining the case for giving residential customers choice of retailer

We take our duty to protect customers and ensure they get the best possible deal very seriously. So in November 2015, we welcomed the Government's request that we look into the benefits to household customers in England of competition for retail water services and report back by summer 2016. 1.2 million business customers are already set to be able to choose their retail supplier from April 2017 – and there are 18 times as many households. We committed to a rigorous review that:

- is open, transparent and evidence based
- learns from other sectors and listens to a wide range of views; and
- takes full account of the best interests of customers and wider society.

Since November, we have issued a call for evidence and consulted our terms of reference for the review. We will report on the outcome in 2016-17. It will then be for the UK Government to decide if and when it wants to open a market for residential customers.

3. Maintaining investor confidence in the sector through a period of change

Increasing certainty and reducing barriers to mergers

We consulted on and finalised our approach to mergers under new rules which aim to reduce barriers to companies merging, providing benefits for customers. There are rules in place for water mergers which recognise the importance of Ofwat being able to compare information across companies to keep down prices and drive better service. Until now, qualifying company mergers were automatically referred to an in-depth CMA review. The Water Act 2014, when fully enacted, will make changes to these rules, giving Ofwat a greater role. Ofwat will provide an opinion to the CMA on:

- the impact of a merger on Ofwat's ability to make comparisons; and
- legal agreements with companies ('undertakings in lieu') which would remedy, mitigate or prevent the prejudicial effect on Ofwat's ability to make comparisons.

This could result in there being no need for an in-depth CMA review. Our increased role at an early stage in the process will provide greater certainty around potential mergers, reduce the burden on mergers that benefit customers, and ensure that customers remain protected.

Securing the long-term legitimacy of price controls

Our regulatory approach emphasises the importance of maintaining customer and investor confidence through a period of change. Keeping bills predictable and affordable is a priority for us and our partners in the water sector. Many of our reforms, including those proposed in our work on introducing future markets and improving price limit setting ('Water 2020'), will enable and encourage the sector to achieve new frontiers in efficiency, helping it to keep down bills and provide services that are resilient over the long term. We engaged widely with investors – as well as companies and consumer groups – on our Water 2020 proposals. This included considering how a transition from the retail price index (RPI) to the consumer price index (CPI) as a common measure of inflation could be achieved in the water sector, consistent with the recommendations of an independent report for the UK Statistics Authority, published in January 2015.

Previously we have linked companies' price limits at our price reviews to RPI. This means that inflation rises in customers' bills have also been linked to RPI. RPI is no longer an official statistic, its robustness has been challenged and its use by government and regulators has decreased. We have had extensive and constructive engagement with consumer groups, companies and investors about whether and

how to change inflation measures within our price controls. Other regulators have also sought views on this issue. But we knew that investors would be concerned about how our proposals would affect their investment in water and wastewater services.

So as part of our Water 2020 consultation in December 2015, we proposed:

- gradually changing our indexation for customers' bills and companies' assets to a more legitimate measure of inflation, the consumer price index (CPI or CPIH);
- doing this from the 2019 price review onwards so that from 2020, inflation on customers' bills will be linked to CPI or CPIH – helping to maintain customers' trust and confidence, and potentially reducing bill volatility; and
- a period of transition to CPI or CPIH from 2020, by continuing to apply RPI to 50% of companies' assets and CPI or CPIH to the remainder and all additions from that point. This recognises that investment in water and wastewater services happens over the long term.

To help develop our proposals, we engaged with many stakeholders including customer groups, companies and investors through bilateral meetings, investor roundtables and industry workshops. We also requested information from companies about RPI-linked hedging arrangements, to help validate the assumptions on which our December proposals were based. This engagement has been extremely valuable and we appreciate the extensive time, effort and attention dedicated to this by stakeholders.

We have continued to engage with investors, as well as other stakeholders including companies and customer groups, while developing our final proposals on Water 2020, which we published in May 2016. We will report on the outcome of this in next year's report.

Our work to open the business retail market in England in 2017 has changed how the sector is viewed by investors and new entrants, as they assess the impacts of greater competition in the business retail sector. In designing the new market, we have maintained investor confidence through a period of change by consulting on the key changes, holding workshops for key industry stakeholders and attending the industry working group meetings. We have ensured that the non-household retail sector continues to be viewed as a sustainable and attractive investment opportunity for investors. In opening up a new market to competition, we will create new opportunities for investors to enter the sector.

Encouraging more transparency on company performance

Last year we finalised a revised set of expectations for regulatory accounts to reflect our regulatory framework for monopoly company price controls at the 2014 price review. This gave investors a new level of transparency of information about companies' performance. During 2015-16, companies began to reference the return on regulatory equity (RORE) measure – which provides transparency over total expenditure, outcome incentive and financing outperformance – in their updates to investors.

Providing certainty on company rewards and penalties for 2010-15

We published our reconciliation rulebook as part of the 2014 price review process, giving companies and investors certainty about how variations in company performance from the 2014 final determinations would be adjusted. The 2014 price review set revenues and outcomes for water and wastewater companies in England and Wales for the period 2015-20, with £44 billion set to be invested in improving services.

Encouraging innovative delivery and financing models for large infrastructure projects

During the year, we continued to work alongside the UK Government and Thames Water to deliver value for money for customers through the competitive procurement of the Infrastructure Provider that will deliver the 25 km Thames Tideway Tunnel. Unprecedented in scale, size and complexity in the water sector in England and Wales, the project will deal with the problem of the amount of untreated sewage going into the River Thames. Our work included (among other things):

- consulting on and finalising the licence for the Infrastructure Provider;
- explaining Ofwat's and the Environment Agency's likely approach to enforcement;
- providing guidance on the approach to the economic regulation of the Infrastructure Provider; and
- confirming the award of the infrastructure provider licence to Bazalgette Tunnel Limited.

Previous forecasts had predicted the impact of the tunnel on average bills would be £70 to £80. In fact the impact is now expected to be much lower than this: about £20 to £25 per year by the mid-2020s (or a saving of about £45-£50 a year). £7 of this is already included in current bills and the average bills of Thames Water's customers are set to remain at the current level, before inflation, until 2020.

Providing confidence in our decisions on price controls 2015-20

Following our December 2014 decisions on the price limits of appointed monopoly water and wastewater and water-only companies for 2015-20, Bristol Water asked for its price limits to be reviewed by the CMA.

During 2015-16 we gave the CMA extensive evidence about our decisions. And in October 2015, the CMA's final decision on Bristol Water's price controls for 2015-20 substantially supported and reaffirmed our process for setting the price limits for appointed monopoly companies during the 2014 price review. The price limits we set for Bristol Water in December 2014 indicated that its customers should see a 19% reduction before inflation in their average bill to £155 by 2020. Bristol Water appealed that decision to the CMA, arguing the reduction should be less. Following the CMA's decision, average bills will now reduce by 16% before inflation by 2020. Bristol Water's original plan, signed off by its Board, would have reduced bills by only 6% before inflation.

Improving certainty about Ofwat and our long-term plans

A key part of investors being willing to invest in the sector is their perceptions of regulatory risk. So it is important for us, among other things, to be transparent about:

- how we regulate;
- changes to our regulatory framework;
- our plans for how we do our job; and
- delivering what we said we would.

During 2015-16 we launched our first five-year business plan for building and maintaining customers' and wider society's trust and confidence in water and wastewater services. This set out our long-term plan for continuing to transform how we regulate the sector by using a broader range of tools, our principles of economic regulation and new ways of operating and delivering our work. We will update our plan annually so we always look five years ahead.

During the year, we also:

- published 46 separate consultations on different aspects of how we regulate;
- carried out two impact assessments on significant changes to our regulatory framework (see page 144);
- completed 43 of the 49 outputs we set out in our 2015-16 forward programme (see page 119);
- reduced the regulatory burdens we impose on the sector (see page 146); and

- made it clear how our work aligns with the UK and Welsh Governments' respective priorities for the sectors in England and Wales (see page 130).

We also developed and launched a new corporate website, including a new dedicated investor page: a more modern, cost-effective platform for communicating with our stakeholders and helping them find the information they want more easily.

4. Monitoring sector performance

Monitoring performance reported by companies

Our shared vision for water and wastewater services in England and Wales is one where customers and wider society have trust and confidence in water and wastewater services, reflecting the vital nature of these public services. We want the companies that provide these services to be accountable to their customers for delivering the services they need and want at a price they can afford. As part of this, we expect companies to report on their performance directly to customers and other stakeholders. Having information that is easy to understand and navigate provides transparency and helps everyone build trust and confidence in water. Information forms the basis for conversations, so water companies can listen to their customers and deliver the right outcomes for them, the environment and wider society.

In July 2015, water companies published information showing customers how they performed against a range of indicators during 2014-15. We examined their performance and set out our view in November 2015.

Companies reported that they generally delivered good levels of service to most customers in 2014-15. Yet there are areas they need to improve further, in particular sewer flooding and pollution incidents.

- Companies scored an average of 82 out of 100 for customer service.
- The number of properties flooded from overflowing sewers decreased from 2,190 in 2013-14 to 1,551 in 2014-15.
- Serious pollution incidents decreased from about three incidents for every 10,000 km of sewer in 2013 to two per 10,000 km in 2014.
- Less serious pollution incidents decreased from 83 for every 10,000 km of sewer in 2013 to 71 for every 10,000 km in 2014.
- Carbon emissions remained stable, with companies emitting the equivalent of about 4 million tonnes of carbon dioxide in 2014-15.
- All of the companies met their targets for reducing water leaks from their networks.

- There were no restrictions on use, such as hosepipe bans – for the third year in a row.
- Companies maintained their assets to a sufficient standard in 2014-15.
- In real terms – after inflation is removed – companies' revenue remained broadly constant from 2013-14, which is in line with the price limits we set.
- The companies have now invested about £122 billion in services since privatisation.
- Companies met our principles for Board leadership, transparency and governance with a few limited exceptions. We continue to engage with companies to encourage further improvements.

Where companies identified issues with their performance, we followed these up with them to make sure they get back on track.

Driving improvements in company performance and accountability

We expect companies to be transparent and provide their customers and stakeholders with information that enables them to understand how the company is performing. And we expect companies to have processes in place to ensure that this information can be trusted. We also need companies to provide specific information that we can compare across companies, so we can all evaluate companies' performance against each other.

So in October 2015, we set out a framework for how company performance and financial information will be reported by companies to their customers and stakeholders – and how we will use that same information to ensure that customers are being protected. This has a number of elements, including the following.

- During the year, we finalised our company monitoring framework to help us make sure water companies provide customers with high-quality assurance on their performance. It challenges water companies to put processes in place so that the underlying data can be trusted. Each company must provide one of three levels ('categories') of assurance on its information, depending on the integrity of the information it has provided to us previously. Where there is a lack of confidence in the information individual water companies provide about their performance, we will step in to protect customers by increasing assurance requirements – and vice versa. In November 2015, we engaged with companies as they published their risks, strengths and weaknesses statements. We also engaged with them in March 2016 as they prepared their assurance plans. We also used the framework to re-assess Bristol Water and reclassify the company as 'prescribed'.
- We consulted on and finalised our financial monitoring framework to help us assess the sector's financial resilience and any risks to customers posed by

financial structures – and identify when it might be appropriate to intervene to protect customers. We also published:

- our first annual report on the financial resilience of the sector, ‘Monitoring financial resilience – a snapshot’;
 - our expectations for companies demonstrating long-term financial resilience; and
 - the outcome of our review of our processes and procedures for dealing with a company in financial distress, and the steps we will be taking to address the lessons coming out of it.
-
- As companies take more ownership and accountability, we need to make sure they are operating to high standards of Board leadership, governance and transparency. During the year, we assessed companies against our Board leadership, transparency and governance principles, which set out our minimum expectations for companies in these areas. We welcomed the steps that regulated companies have taken towards improving their accountability to customers. We also published a targeted report in December 2015 to challenge companies to do more.

Supporting improvements in developer services to encourage growth

Companies must play their part in encouraging the economic growth our country needs to prosper. As part of our work engaging and encouraging companies to improve the information and choices available in respect of developer services, we worked with the sector to take control of and improve its performance. So during the year, we welcomed water companies publishing levels of service for developer services every quarter. The sector developed the measures by engaging with customers. Water UK – the industry representative body – is regularly reporting companies’ performance, which will improve transparency and encourage those companies lagging behind to catch up. It will also help us identify where and how to focus our efforts to drive further benefits for customers. And we will continue to seek assurances from underperforming companies about how they plan to engage with customers to improve their services.

Since the first results were published in July 2015, the sector has consistently improved its performance, with overall levels of service performance rising from 89% to 98% for water supply and from 94% to 98% for wastewater.

Working with others to develop a framework for monitoring the sector's progress in delivering trust and confidence

We continued working on a way for all interested parties to monitor the progress the water sector makes towards trust in water. During 2015-16, we developed a proposal for a performance management system (the 'strategic assessment framework') that could be displayed in an easy to understand way (a 'water sector dashboard'). And in October 2015, we hosted a stakeholder event to:

- explain the dashboard's value in increasing transparency, informing debate and challenging progress; and
- seek the help of the sector and others to develop, implement, use and run the dashboard.

Our event was attended by representatives of companies, investors, environmental groups, government, customer groups, business customers and potential new retail entrants. Following our event, we agreed with Water UK that it will lead the development and implementation of a water sector dashboard with support from and in partnership with regulators and government. This will help make sure all aspects of the sector's service and delivery are represented. Water UK is currently developing the sector dashboard for release in 2016-17. We maintain a very close interest in this work and will report on the outcome in next year's report.

5. To ensure that Ofwat has the skills, experience, systems, processes and culture that support our new strategy

Improving planning and management information

During the year, we significantly improved our management information and systems for procurement, planning, budgeting and forecasting to support better decision making and value for money – culminating in the publication of our first five-year business plan. We also agreed a five-year financial strategy, based on the evidence we gave the UK Government during the 2015 Comprehensive Spending Review. The Spending Review settlement gave us, for the first time, a clear medium-term budget and greater flexibility to meet the major contingencies we face. This will significantly help our financial planning and value for money.

Developing and recruiting the skills we need

To deliver our strategy, we must have the right people, with the right skills, at the right time. This means:

- identifying the skills we need and when we need them;
- attracting people to work for us; and
- retaining and developing our people.

During the year, we developed our strategic workforce model and plan to give us the management information we need to make sure we have the right size, shape, and skills at the right time to deliver our strategy. As part of our approach, we:

- successfully ran an Apprentice, Graduate and Associate Director scheme to help grow skills within the organisation;
- successfully appointed 62 people with a mix of skills and professions and from a wide range of backgrounds, including economists, legal professionals, communicators, project managers, accountants and a range of operational and business skills;
- developed a new recruitment strategy to attract prospective employees;
- began a major project to look at alternative, collaborative delivery models; and
- developed a new learning and development package to attract new employees and develop our staff – from formal training to mentoring and sharing skills through communities of interest.

We were also pleased to confirm that:

- Jonson Cox, the Chair of Ofwat, was reappointed by the Secretary of State for the Environment, Food and Rural Affairs to serve another term until October 2020;
- three new non-executive directors were appointed to our Board shortly after the end of the reporting year; and
- we appointed three new Senior Directors to our Senior Leadership Team.

Making Ofwat a great place to work

To deliver our strategy we need our people. And we need our people to be happy with Ofwat as their place of work. We carry out an annual in-depth survey ('Heartbeat') – and quarterly checks ('Pulse surveys') – to measure our people's mood and to gather specific feedback on areas of life at Ofwat which people do or do not like. These tools also measure progress with the implementation of our business transformation programme.

During the year, we refreshed our corporate values in an exercise engaging all of our people. Our annual people survey produced significantly improved results. For example:

- 85% of people thought our new ICT enabled new ways of working – and 78% thought our refurbished Birmingham accommodation did too, despite its smaller footprint;
- 80% of people reported that they enjoy their jobs;
- our 2015 Civil Service engagement index – which gauges how much employees like their workplace, based on a range of factors – was 63%, compared to an average for the Civil Service of 58%;
- 70% of our people said they have confidence in the leadership of Ofwat – compared to just 31% in 2013; and
- 57% of people thought that we put our values at the forefront of our work – compared to 32% in 2014.

But we are not complacent. And our surveys highlighted a number of areas for improvement, including:

- only 28% of our people felt that our programme-based approach to working is operating effectively as it should;
- only 45% of our people reported that their work does not cause too much stress; and
- fewer than 50% of respondents felt Ofwat is a learning organisation.

So in response, we are:

- continuing to refine our programme-based approach to working;
- trialling some approaches to improving our people's wellbeing; and
- launching a new approach to learning and development.

We will report on the outcome of this next year.

Improving delivery

We have made substantial progress in how we plan and deliver our strategy to support our vision: to make Ofwat a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust in water. This included:

- implementing and embedding our new governance framework and programme management toolkit, which helped us successfully introduce more effective programme working;

- refreshing our finance system, implementing a new time recording system that supports full programme budgeting;
- improving our information asset management, business continuity and disaster recovery processes;
- beginning a significant reconfiguration of our ICT infrastructure by moving to the cloud;
- enhancing our case management system by introducing an information request management system;
- enabling our people to work in new, more agile and collaborative ways by:
 - developing a modern, vibrant and flexible office space; and
 - significantly improving our ICT infrastructure.

Our new corporate website has also enabled our people to engage both internally and externally. This allows others to contribute to our delivery: for example, Water UK established the marketplace of ideas as part of Water 2020, to allow for widespread and open contributions to the future regulation of the sector.

Collaborating with other regulators to deliver benefits

We can develop more efficient and effective regulation by learning from other sectors and working closely with other regulators. This is why we are an active member of the UK Regulators Network (UKRN). UKRN members are delivering a range of projects aimed at:

- developing coherent and consistent economic regulation across sectors;
- understanding cross-sector issues related to the affordability of services;
- empowering customers to engage effectively in markets;
- maintaining a positive environment for efficient investment in the UK's infrastructure;
- delivering efficient regulation;
- making markets work better to improve outcomes for customers; and
- achieving better understanding of the effectiveness of economic regulation.

For example, during the year, we contributed to the UKRN cost of capital group, which:

- carried out a review comparing the way each regulator sets the cost of capital; and
- looked at ways in which regulators can work together on cost of capital and company financing issues, including taxation and inflation.

In doing this, the group has:

- established a set of principles which participating regulators have signed up to;
- published an annual comparison report on recent cost of capital decisions; and
- maintained a central depository of cost of capital decisions.

This will help ensure that UKRN members take an effective, efficient and transparent approach to setting the cost of capital in their own sectors and, in doing so, reduce the political and regulatory risks of investing in these sectors.

In 2015-16, our Chief Executive, Cathryn Ross, was also the chair of UKRN. We also began work to:

- collaborate with UKRN members on developing new models of service delivery for corporate enabling functions; and
- develop wider collaborative models with UKRN for core regulatory work.

Learning lessons from our past performance

We welcomed a major new report by the National Audit Office (NAO) supporting our approach to regulation, which is delivering improved services and substantial new investment, and increasing value for money for customers. We also responded to a report by the UK Parliament's Public Accounts Committee following the NAO's study. Both recognised progress that has been made and highlighted a number of helpful recommendations about risk and reward. We are addressing these through our Water 2020 and Finance and Governance programmes.

Financial commentary

These accounts are shown on a fully consolidated group basis, which involves the consolidation of the core department (Ofwat) and Open Water Market Limited (OWML), a company limited by guarantee. OWML's accounts are available from Open Water's website.

OWML fell within the departmental boundary as a result of its inclusion in the January 2015 Designation Order, which reflects its re-classification as a public body by the Office of National Statistics in September 2014. OWML ceased trading on 31 August 2015, and on 3 May 2016 Companies House published a notice confirming the application to strike the company from its register.

The financial highlights for the group are summarised below.

Operating costs summary

	2015-16 £000				2014-15 £000		
	Core Regulation	Open Water Programme	Thames Tideway Project	Total Core Department	Departmental Group	Core Department	Departmental Group
Income							
Licence fees received	18,448	3,330	878	22,656	25,299	29,532	33,577
Other income	120	-	-	120	62	144	804
	18,568	3,330	878	22,776	25,361	29,676	34,381
Expenditure							
Administration costs	(18,207)	(3,217)	(853)	(22,277)	(24,862)	(29,134)	(33,839)
	(18,207)	(3,217)	(853)	(22,277)	(24,862)	(29,134)	(33,839)
Net operating cost	361	113	25	499	499	542	542

Core regulation budget

Ofwat is funded by fees charged to the companies we regulate. 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. While our revenue funding comes directly from water companies, our budget settlement is subject to negotiation with HM Treasury through the spending review process. The core regulation operating budget set at the start of the year and included within our Main Estimate was £21.16 million. This was funded in full by the recovery of general licence fees under licence condition N.

The underspend against the core regulation budget at 31 March 2016 was 14%. This underspend related to a combination of significant accommodation savings created by the rationalisation of our estate, some delays in recruitment, an underspend on professional services and the fact that risks for which we held prudent contingency did not materialise during the year. As a result, £2.7 million of licence fees were returned to the companies by credit note in March 2016, reducing our total income received.

As of 1 April 2016, Ofwat's budgets are subject to the outcome of the Comprehensive Spending Review settlement of November 2015. Our core budget for 2016-17 has been confirmed at £22.45 million.

Retail Market Opening Programme

A temporary licence condition governs our work to support the opening of the retail market for businesses, charities and public sector organisations in England. Condition R1 of the relevant companies' licences governs this work, and allows us to raise fees to cover work on this programme.

In 2015-16, the majority of work under this licence condition was carried out within Ofwat. This followed the transition to Ofwat from OWML, a company limited by guarantee established to progress preparations for market opening. OWML is a public body and as such is consolidated into our accounts. Ofwat collected £1.624 million of the licence fees, of which £1.153 million was used to fund OWML's work directly.

The remainder of the income funded work we completed internally on the Open Water programme to prevent any cross-subsidisation of our work delivered under condition N of companies' licences. At the end of the year, we returned £500,000 by credit note to the companies paying the licence fee for work on this programme, reducing our total income received.

Thames Tideway project

The regulation of the Thames Tideway project is funded under a separate licence paid by Thames Water and Bazalgette Tunnel Limited, the infrastructure provider. The programme budget for 2015-16 was estimated at £2 million. The programme had a final outturn of £850,000, a variance related to contingency cover for legal risks that did not materialise. £1.5 million was collected from Thames Water Utilities and Bazalgette Tunnel Limited under the special licence fee. At the end of the year, we returned £870,000 to Thames Water Utilities and Bazalgette Tunnel Limited by credit note.

Capital expenditure

Capital expenditure is funded by budget cover agreed with HM Treasury, which is recorded in our Main and Supplementary Estimate. The underspend against our capital budget is £27,000 (9%). Much of the variance between budget and outturn relates to the disposal of assets with a book value of £20,000. Government accounting requires departments to record this as a benefit to capital budgets.

We have £122,000 held in capital commitments at 31 March 2015 (31 March 2014: £254,000).

Accommodation lease exit costs

London Office

In January 2016, Ofwat entered a new Memorandum of Terms of Occupation (MOTO) arrangement with the Department for Culture, Media and Sport (DCMS) for a reduced footprint at our existing London premises. We surrendered about 50% of the originally leased space with a lease exit fee of £276,000 becoming payable. We reached the value of the lease exit fee by mutual agreement with DCMS, based on returning the value of unutilised rent-free benefit from the surrendered space.

As a result of the revised MOTO arrangement, surplus office furniture with a market value of £38,344 was transferred to the Oil and Gas Authority in exchange for a token consideration of £1. This is in line with government policy to reuse office furniture across the government estate.

Deferred income of £604,000, previously recorded in recognition of the rent-free period in the original leases, has been released in 2015-16.

The new lease has halved our current accommodation footprint in London. It has the potential to contribute a net overall saving of £3.2 million to our accommodation budget over its seven-year term.

Birmingham Office

In early April 2015, we completed the exchange on a new property operating lease. The aim was to re-gear two of the four floors occupied at our existing premises in Birmingham. As a result, an £808,000 contractual lease exit charge appeared as a provision in our 2014-15 accounts and was paid to our landlords in September 2015, at which point the provision was utilised.

The new lease has halved our accommodation footprint in Birmingham. It has the potential to contribute a net overall saving of £3.5 million to our accommodation budget over its seven-year term.

Compensation payments and premature departure

A provision of £54,000 was made in 2015-16 to cover the costs of a compensation payment due for a departure under voluntary exit terms.

We continued to draw on provisions made in 2009-10 to cover redundancy and early retirement costs.

Details of our movements in provisions are detailed in note 12.1 to the accounts.

Reconciliation of resource expenditure between Estimates, Accounts and Budgets

We prepare resource accounts under section 5 of the Government Resources and Accounts Act 2000. Parliament gives us authority to incur expenditure through the public expenditure process. We are required to include a reconciliation of resource expenditure between Estimates, Budgets and Accounts.

Table 1: Reconciliation of resource expenditure between Estimates, Accounts and Budgets

	2015-16 £000	2014-15 £000
Net Resource Outturn (Estimates)	132	125
Total Resource Outturn (Budgets) of which:	(499)	(542)
Departmental Expenditure Limits (DEL)	(499)	(542)
Adjustments include:		
Actuarial Loss/(Gain)	(130)	161
Net operating cost (Accounts)	(629)	(381)

Cathryn Ross
Accounting Officer

15 June 2016

Sustainability

We have adopted an operational control approach to identify which of our activities generate carbon emissions. Our carbon footprint has been calculated using the relevant requirements of the Greenhouse Gas Protocol Corporate standard and details both absolute and normalised emissions.

Our carbon emissions for the period were 237 tonnes of carbon dioxide equivalent (CO₂e). The largest source of our emissions is electricity consumption, which accounts for 142.6 tonnes of CO₂e (60% of the total). Business travel is responsible for 46.5 tonnes of CO₂e (20% of the total). We do not have any direct (Scope 1) emissions.

Table 2: Breakdown of annual greenhouse gas emissions by activity type for 2015-16

Type of emissions	Activity	Units	(tCO ₂ e)	% of total
Indirect energy (scope 2)	Purchased electricity (kWh)	308,515.2	142.6	60.2%
	Subtotal	308,515.2	142.6	60.2%
Other indirect emissions (scope 3)	Business travel (miles)	443,258.4	46.5	19.6%
	Flights (miles)	37,798.0	12.5	5.3%
	Rail (miles)	386,198.2	28.0	11.8%
	Taxi (miles)	1,857.1	0.7	0.3%
	Cars (miles)	17,405.1	5.2	2.2%
	Waste and water		5.6	2.4%
	Water use (m ³)	234.8	0.2	0.1%
	Waste (tonnes)	35.2	5.4	2.3%
	Additional upstream activities		42.3	17.8%
	Electricity T&D (kWh)*		11.8	5.0%
	WTT**		30.5	12.9%
	Subtotal			94.4
Total emissions (tCO₂e)			237.0	

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

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

Carbon emissions

Our total carbon emissions have decreased by 119 tonnes of CO₂e (33%) compared to 2014-15. This is largely a result of the rationalisation of our office space; we have cut the footprint of our Birmingham office by 50% from June 2015 and our London office by 50% from February 2016.

Table 3: Year on year analysis of greenhouse gas emissions

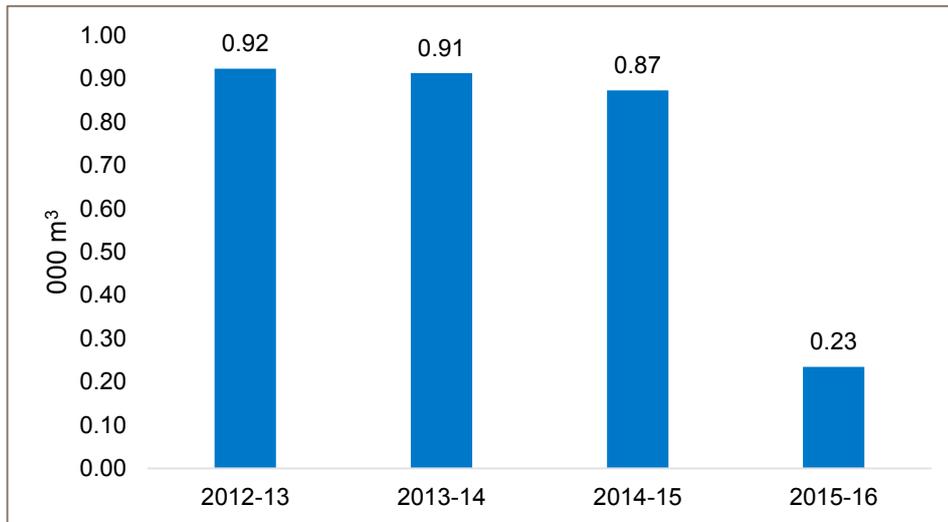
		2012-13	2013-14	2014-15	2015-16
Type of emissions	Activity	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)	(tCO ₂ e)
Indirect energy (scope 2)	Purchased electricity (kWh)	233.1	210.5	225.5	142.6
	Subtotal	233.1	210.5	225.5	142.6
Other indirect emissions (scope 3)	Business travel (miles)	56.3	70.2	57.1	46.5
	Flights (miles)	16.1	28.8	8.7	12.5
	Rail (miles)	34.2	34.6	43.2	28.0
	Taxi (miles)	1.1	1.5	0.8	0.7
	Cars (miles)	5.0	5.3	4.5	5.2
	Waste and water	5.7	3.9	8.5	5.6
	Water use (m ³)	1.0	1.0	0.9	0.2
	Waste (tonnes)	4.7	2.9	7.6	5.4
	Additional upstream activities	62.9	59.0	64.9	42.3
	Electricity T&D (kWh)*	18.2	16.3	18.6	11.8
	WTT**	44.7	42.7	46.2	30.5
	Subtotal	124.9	133.1	130.5	94.4
Total emissions (tCO₂e)		358.0	343.5	356.0	237.0
	Average FTE across reporting period	179.7	188.2	169.4	156.3
	Normalised emissions (tonnes of CO₂e per FTE*)	2.0	1.8	2.1	1.5

*Staff numbers (FTE) are used as a benchmark to monitor emissions over time.

Water

We used 235 m³ of water in our kitchen and toilet facilities in 2015-16, equivalent to emissions of 0.25 tonnes of CO_{2e}. The reduction in our water consumption is largely attributable to the reduction in our office space. But we also installed water-efficient fittings where this was feasible and cost-effective.

Figure 1: Water consumption for the past four years

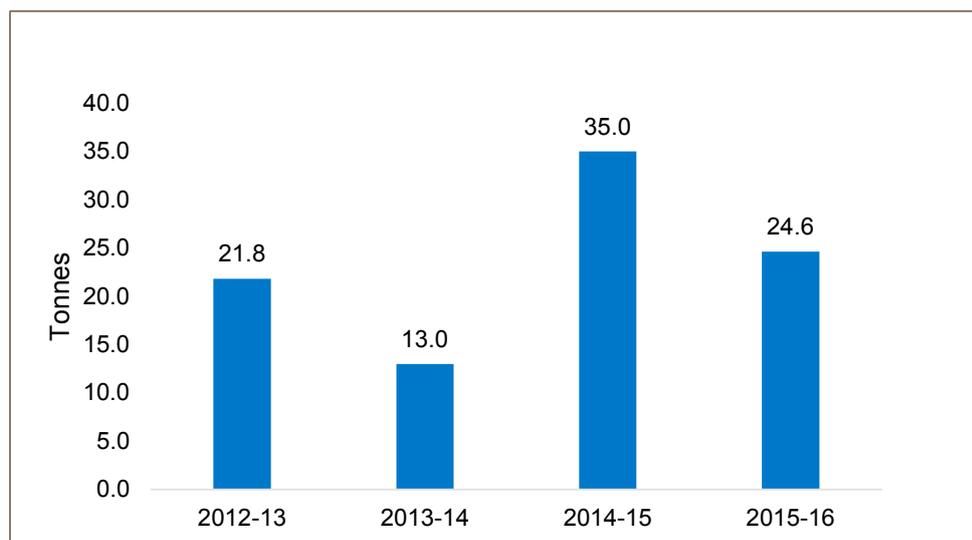


Waste

We segregate all general waste for recycling or landfill disposal. We are unable to measure landfill waste as it is disposed of via a central collection point in our multi-tenanted buildings. As such, we have estimated that 70% of total waste is recycled.

Recycled waste amounted to 25 tonnes, equivalent to emissions of 0.52 tonnes of CO_{2e} in 2015-16. The spike in recycled waste in 2014-15 (Figure 2) related to the refurbishment of the Birmingham offices.

Figure 2: Recycled waste for the past four years



Part 2: Our accountability report

Corporate governance report

Directors' report

Roles and responsibilities

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

The Board recognises the importance of leadership to create an environment where performance and risk management are effective. In line with the principles of the UK Corporate Governance Code, Ofwat's Board has a majority of independent non-executives with a non-executive Chairman. During 2015-16, the Board comprised six Non-Executive Directors and five Executive Directors, including the Chief Executive.

The Board's Rules of Procedure are updated periodically and published on the Ofwat website. The Board regularly reviews its effectiveness, most recently discussing the Board evaluation process in November 2015. The Board will carry out a full survey in the first quarter of 2016-17, recognising that up to five new executive and non-executive members will be joining the Board in this period. The Board's membership provides the necessary balance of experience and expertise, covering Ofwat's duties and strategy. The General Counsel, Elizabeth Hillman, attends and is accountable to the Board for providing legal advice.

There were no examples of company appointments, consultancy arrangements, or other significant interests held by Board members giving rise to a potential conflict with their responsibilities as members of the Board.

The register of Board members' disclosable interests can be found in our Board Rules of Procedure on our website.

Non-Executive Directors' terms of appointment and committee attendance

Table 4: Non-Executive Directors' attendance at Board and five sub-committee meetings from April 2015 to March 2016

Board members		Board meetings	Audit and Risk Assurance Committee meetings	Remuneration and People Committee meetings	Casework Committee meetings	Nominations Committee meetings	Thames Tideway Committee meetings
Jonson Cox Chairman	10/10 (Chair)	---	5/5	---	---	1/1 (Chair)	3/5 (Chair)
	Term started	Term 2 ends**					
01/11/2012	31/10/2020						
Wendy Barnes Non-Executive Director	8/10 (Contract ended March 2016)	5/5 (Chair)	---	---	---	---	---
	Term started	Term ends					
07/02/2012	31/03/2016						
Robin Paynter Bryant Non-Executive Director	7/8* (Contract ended January 2016)	4/4 (Contract ended January 2016)	---	---	---	---	4/5
	Term started	Terms ended					
24/01/2012	23/01/2016						
Martin Lawrence Non-Executive Director	9/10	---	5/5 (Chair)	4/5	1/1	---	

Board members		Board meetings	Audit and Risk Assurance Committee meetings	Remuneration and People Committee meetings	Casework Committee meetings	Nominations Committee meetings	Thames Tideway Committee meetings
Term started	Term ends						
01/05/2013	31/08/2016						
Chris Burchell Non-Executive Director		10/10	---	5/5	---	1/1	5/5
Term started	Term ends						
01/05/2013	30/04/2016						
Catherine Waddams Non-Executive Director		8/10	---	---	5/5 (Chair)	---	---
Term started	Term ends						
01/05/2013	31/08/2016						
Christine Farnish Non-Executive Director		10/10	5/5	---	---	---	---
Term started	Term ends						
01/01/2014	31/12/2016						
Cathryn Ross Chief Executive		9/10	5/5	5/5	1/5 ¹	1/1	5/5
Term started	Term ends						

Board members		Board meetings	Audit and Risk Assurance Committee meetings	Remuneration and People Committee meetings	Casework Committee meetings	Nominations Committee meetings	Thames Tideway Committee meetings
14/10/2013	13/10/2016						
Keith Mason Senior Director Thames Tideway		10/10	---	---	---	---	5/5
Term started	Term 2 ends						
01/10/1993	31/03/2016						
Sonia Brown Chief Regulation Officer		0/7*	---	---	---	---	---
Term started	Left Ofwat						
01/03/2012	13/11/2015						
Richard Khaldi Senior Director of Customers and Casework		10/10	---	---	5/5	---	---
Term started	Term ends						
06/01/2014	05/01/2017						
Vanessa Howlison Independent Member		---	5/5	---	---	---	---
Term started	Term ends						
01/01/2015	31/12/2018						

Board members		Board meetings	Audit and Risk Assurance Committee meetings	Remuneration and People Committee meetings	Casework Committee meetings	Nominations Committee meetings	Thames Tideway Committee meetings
John Swift QC		---	---	---	5/5	---	---
Independent Member							
Term started							
11/2014	Ongoing						

***Robin Paynter Bryant**: Contract ended on 23 January 2016; attended January Board and Thames Tideway Committee meeting outside of his contract – attendance noted in the total meetings attended

***Sonia Brown**: Left Ofwat in November 2015

**Reappointed

A number of Non-Executive Directors' terms came to an end late in 2015-16 or are due to come to an end in early 2016-17. The recruitment process to replace them concluded in April 2016 and will stagger the terms of new Non-Executive Directors to provide greater continuity, particularly through the 2019 price review. A transition plan, which addresses the appointments that end during 2015-16, is in place.

Ofwat's 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 for Environment, Food and Rural Affairs.

Independent Members

To strengthen the knowledge and skills mix of committee membership, Ofwat has Independent Members who sit on our Audit and Risk Assurance and Casework Committees.

John Swift QC – Independent Member of Casework Committee.

Vanessa Howlison – Independent Member of Audit and Risk Assurance Committee.

Other appointments include: Finance Director of Department for Transport.

Supplier payment performance

During 2015-16, we finished re-engineering our financial system to enable programme-based budgeting. This change in our systems and embedding of new processes resulted in a slight dip in our payment performance for the year, with 88.32% of agreed invoices being paid within 30 days. The corresponding figure for 2014-15 was 95.64%, and our target was 100%.

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 were no incidents during the year (2014-15: nil).

Company membership

OWML is a company limited by guarantee, of which Ofwat is a member. Where Ofwat exercises powers as a regulatory member, these are limited to our existing legislative powers as denoted in OWML's Articles of Association. Ofwat holds a £1 liability that would become payable should the company become insolvent.

In September 2014, HM Treasury designated OWML as a public body. In January 2015, a Statutory Instrument instructed that OWML be consolidated into Ofwat's Estimate and annual accounts from the 2014-15 financial year. OWML ceased trading on 31 August 2015 and on 3 May 2016, Companies House published a notice announcing its intention to strike the company from the register.

Financial instruments

We do not have borrowings; we rely primarily on licence fee income, claims on the reserve and Contingency Fund repayable advances for our cash requirements. We are not, therefore, exposed to significant liquidity risks. Further details are provided in notes 8 and 10 to the accounts.

Internal audit

Grant Thornton provides Ofwat's internal audit service. This independently measures and audits 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. The 2015-16 internal audit was performed in accordance with the Public Sector Internal Audit Standards (PSIAS).

In November 2015, the Audit and Risk Assurance Committee considered a review of the internal audit's effectiveness. This found that the function performed very well, had knowledgeable and capable staff, and reported audit findings clearly to support effective action by management.

External audit

Our external auditor is the Comptroller and Auditor General (C&AG), who is appointed under statute and is required to audit our financial statements under the Government Resources and Accounts Act 2000, and report to Parliament on this examination. The notional cost of providing audit services in respect of the Resource Accounts was £45,000. There was no auditor remuneration (actual or notional) for non-audit work.

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 £45,000 (2014-15: £45,000).

Cathryn Ross
Accounting Officer

15 June 2016

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000 (GRAA), HM Treasury has directed Ofwat to prepare – for each financial year – consolidated resource accounts detailing the resources acquired, held or disposed of and the use of resources during the year by the department and its sponsored public body, Open Water Market Limited (OWML), designated by order made under the GRAA by Statutory Instrument 2014/3314. Together, the department and OWML are known as the 'departmental group'.

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

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- ensure that the department has in place appropriate and reliable systems and procedures to carry out the consolidation process;
- make judgements and estimates on a reasonable basis, including those judgements involved in consolidating the accounting information provided by sponsored public bodies;
- state whether applicable accounting standards (as set out in the Government Financial Reporting Manual) have been followed, and disclose and explain any material departures in the accounts;
- take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable; and
- prepare the accounts on a going concern basis.

HM Treasury has appointed Cathryn Ross, Chief Executive, as Accounting Officer of Ofwat.

The Accounting Officer of the department has also appointed an Accounting Officer within OWML by seconding Keith Mason, Ofwat's Senior Director, Thames Tideway, on a part-time basis. The Accounting Officer of the department is responsible for making sure that appropriate systems and controls are in place to ensure that any income collected on behalf of and passed to OWML is applied for the purposes

intended, and that such expenditure and the other income and expenditure of OWML is properly accounted for, for the purposes of consolidation within the resource accounts.

Under their terms of appointment, the Accounting Officer of OWML is accountable for the use, including the regularity and propriety, of the income received from the department and the other income and expenditure of that entity.

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

Governance statement

Scope of responsibility

The Accounting Officer and Ofwat Board are responsible for maintaining corporate governance that supports the achievement of Ofwat's strategy, 'Trust in water', while safeguarding public funds and departmental assets. This is in accordance with the responsibilities set out in 'Managing public money'. The Accounting Officer is accountable to Parliament for all aspects of Ofwat's work. This includes the management of risk and opportunity.

As a non-Ministerial Government Department, Ofwat's duties are laid down by legislation, in particular the Water Industry Act 1991, Water Act 2003 and Water Act 2014.

The purpose of the governance framework

Ofwat adheres closely to the principles set out in the 'UK Corporate Governance Code 2010, 2012 and 2014' (the Code) and the principles of 'Corporate Governance in central government departments: code of good practice 2011' (the Corporate Governance Code). Ofwat complies with the Code, except in some areas where our composition as a Non-Ministerial Department means certain provisions do not apply. For example, our Director of Finance is not a member of the Board but attends for all relevant items; while the Senior Director, Business Improvement manages the finance function and attends Board meetings.

The governance statement sets out:

- a review of Ofwat's effectiveness in 2015-16;
- a summary of the key elements of our governance framework; and
- the Accounting Officer's statement.

Ofwat's effectiveness

Achievements in 2015-16

We have made major strides this year in the delivery of our ambitious strategy, 'Trust in water'. This progress is set out in more detail in the annual report. Building on this success, we face a number of significant risks and opportunities as we enter 2016-17.

The forward-looking risk and opportunities environment

We have an ambitious strategy on behalf of water customers – and an important role in helping to manage the risks and opportunities stemming from the reforms provided for by the Water Act 2014, the new water strategy for Wales and the Strategic Policy Statements of the UK and Welsh Governments.

We have been very open about the fact that we cannot deliver this strategy alone. Successfully building and maintaining trust and confidence in water and wastewater services depends not only on what Ofwat does, but on what those in the sector do and on the contributions of wider stakeholders such as customer bodies, non-governmental organisations (NGOs) and of course the UK and Welsh Governments. The policy context is fast-moving; a number of government reviews are relevant to our work, and work is ongoing to build on positive discussions with the Government through the 'Star Chamber' process in February 2016. We will be reviewing the implications of the result of the EU referendum as part of the Board's review of the strategic risk environment.

The fundamental challenge the sector faces is one of efficiency – delivering more for less. Only if the sector achieves this will customers and society continue to receive the vital public services on which they depend, in a way that is both resilient and affordable. This challenge is particularly acute in the face of population change, wider demographic changes and climate change.

To deliver against this challenge requires nothing less than a culture change in the sector. But there are huge opportunities to bring this about – and in particular to make better use of markets to make way for new and better choices about how resources are used and about different ways of doing things. We see a future in which the sector is less dominated by traditional 'source to tap' integrated water companies or 'sewer to environment' water or wastewater companies, and is more plural. Different players will provide services at different stages in the value chain, enabling efficiency through specialisation and improved understanding and

management of risk. Particularly complex, challenging and critical areas of work to develop a more pluralistic sector include:

- developing future markets, including delivering the reforms to water trading and abstraction set out in the Water Act 2014;
- developing and opening a market that allows all business, charity and public sector customers in England – and those eligible in Wales – to choose their supplier for water and wastewater retail services from April 2017;
- assessing the potential costs and benefits of extending competition into the residential retail market in England;
- helping companies develop and demonstrate service, financial and corporate resilience and ensuring changes in ownership are in the best interests of customers;
- establishing and operating the regulatory framework for the Thames Tideway Tunnel in the best interests of customers, the environment and society; and
- using our determination, dispute resolution and enforcement tools to protect customers, hold companies to account and make markets in the sector work better.

The major internal risks and opportunities we face in leading this important, complex and challenging agenda are as follows.

- **Reputation and credibility:** we need our reputation and credibility if we are to influence the sector and wider stakeholders effectively, in such a way that others will wish to work with us. Change runs the risk of undermining customer and investor confidence in the sector and our regulation of it. But of course, without change there is risk to the sector's legitimacy, its attractiveness to investors, and its ability to deliver over the long term. It is therefore critical that we and the sector maintain the confidence of customers and investors through this period of change.
- **Stakeholder engagement and collaboration:** our ambitious strategy depends on the sector and a wider network of stakeholders stepping up and playing their part in delivering our shared vision for the sector. Our reliance on contributions from a range of stakeholders makes it essential that we exploit the opportunities and manage the risks associated with leading, challenging, and influencing stakeholders and the sector. Effective deployment of our regulatory toolkit will be critical. This involves developing robust assurance frameworks to help us determine when to step back and allow the more pluralistic sector to innovate, and when to step in to protect customers, society and the environment.
- **Portfolio delivery:** we need to develop our portfolio view of programmes and their interdependencies, and improve the systems and processes that underpin delivery across our programmes to ensure the portfolio is fully aligned with our

strategy and that the whole is greater than the sum of its parts. Given the constraints on our procurement and our desire to reduce our reliance on interim staff and external support, we need to get better at planning for our future workload and ensuring we have access to the right skills and experience, internally or externally, to deliver it.

- **Values, behaviours and culture:** we have made great strides in this area but we must not be complacent. It is imperative we develop a culture that enables and supports all of our people to make the very best contribution they can to delivering our strategy and the benefits it will bring for customers and society, and that our values and behaviours are not compromised as we deliver under pressure.
- **Corporate governance and organisational capability:** our transformation programme is not yet complete, and in 2016-17 we will be focusing on its 'people' pillar. Given the constraints we face – on pay, on our ability to offer training beyond the Civil Service Learning framework, and on our budget overall – we need to think creatively about what we offer our people so that we remain an attractive, fulfilling place to work. We will be working in particular on our learning and development offer and completing our workforce planning project. This will mean we are prepared for the transition to the 2019 price review and beyond. We expect to be in this state by the end of 2016-17. We also face significant risks and opportunities associated with developing potential alternative ways for our corporate enabling functions to deliver alongside UKRN partners.

All of the risks and opportunities come together as we begin to plan for Ofwat's journey beyond 2020. The success of our strategy means that the sector we regulate is changing.

By 2020 we will be regulating a sector that not only has competition in the retail market for business customers in England, but also has vibrant markets in water resources, sludge treatment and disposal, and new models of infrastructure provision. This will create new interfaces between incumbents and entrants (who may be incumbent water companies providing services beyond their traditional boundaries), which in turn will create new challenges for us as the regulator. We will need to think how best to inform, enable and encourage those interfaces to work smoothly in the best interests of customers and society.

Although our programme- and project-based operating model is agile enough to endure, we recognise that these developments will significantly change the work we do and how we do it. We need to plan for this now: to recruit, retain and train those we need to deliver this changing portfolio; and to develop the external relationships we need to support it.

But as we do so, we need to be aware that there are significant uncertainties over that time period. We await Defra's 25-year environment plan, and new strategic policy statements from both the UK and Welsh Governments; following the Water Act 2014 we are now required to act in accordance with these. Linked to this, we are closely following the UK Government's progress on abstraction reform, which will support our work on water trading.

We are aware of and sympathetic to the UK Government's desire to streamline regulation. We are keen to help continue the focus on effective and efficient regulation, including in the follow up to our 'Star Chamber' session earlier this year. We are also very mindful of our continuing need to improve our own efficiency and that our current Comprehensive Spending Review settlement expires in 2020.

As we move forward, it will be critical to focus on:

- doing our best to help the sector deliver for customers and society;
- facilitating the contributions of others; and
- improved planning, prioritisation and management of risks and opportunities in our work.

Reviewing Ofwat's effectiveness

The Accounting Officer and Board are responsible for reviewing the effectiveness of our performance management and internal control system, informed by the internal and external audit and the operation of the internal control framework. The Board and Audit and Risk Assurance Committee have advised the Accounting Officer about the implications of her review of the effectiveness of the system of internal control. The Non-Executive Directors also provide the Accounting Officer with an independent view of our performance.

Ofwat's strategy provides the basis for our annual priorities, which are set out and consulted on in the forward programme each year. This forward programme drives programme and project plans and, ultimately, each of our people's objectives. Directors, project managers and team leaders regularly review progress on programme and project plans. The Senior Leadership Team and Board review progress across our portfolio each quarter.

Our resource requirements are assessed regularly in the context of our rolling business plan and annual operational plan. During 2016-17, we will further embed programme budgeting by moving to more agile and strategically aligned resource management through formal quarterly reviews of budgets and allocation of our

people across our portfolio. This should also help mitigate risks associated with workloads and the challenge of balancing these with the resources available to us.

Our internal auditors in 2015-16, Grant Thornton, reviewed and advised on our risk management processes and internal controls; and reviewed our finance, information rights, business planning, casework, people development and governance systems and procedures.

Our own internal compliance and assurance checks have highlighted areas where we addressed shortcomings in internal processes and controls around recruitment.

We reviewed our financial control environment after April 2015, when we implemented programme budgeting and a reconfigured financial system. This highlighted some areas where the control environment needed strengthening. A subsequent internal audit review did not identify any recommendations that were not already included in our action plan. It found that good progress was being made toward implementing the plan.

Key elements of the governance framework

The Board

The Chairman and non-executives have played a full part in Board business by attending and contributing to Board and Board committee meetings. The Board met in Wales in May 2015, using the occasion to meet informally with key Welsh stakeholders. Minutes of the Board's meetings are published on the Ofwat website.

Committees of the Board

The Board has five standing committees, each of which is chaired by a Non-Executive Director. The Chair of each committee reports to the Board after each meeting.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee's role is to support the Board on issues of risk, internal control, governance and associated assurance. During 2015-16 the Committee was chaired by Wendy Barnes. To strengthen oversight, our Audit and Risk Assurance Committee includes an Independent Member, Vanessa Howlison, who is neither a Board member nor an Ofwat employee.

The Committee reviews the reliability, integrity and comprehensiveness of assurances and provides an opinion on how well the Board and Accounting Officer are supported in decision making and discharging their accountability obligations.

The Committee met five times during 2015-16. In May 2016 the Committee submitted its annual report to the Board. This received final approval at the June meeting of the 2016 Audit and Risk Assurance Committee.

In addition to its review of the annual report and accounts, matters discussed by the Committee in 2015-16 included:

- the refreshed risk and opportunities strategy;
- Ofwat's governance framework;
- risk management reviews on the casework programme, Water 2020, Finance and Governance and Retail Market Opening programmes, and strategic risk owner reviews covering four of our ten strategic risks and opportunities.

The Committee agreed the internal audit plan for 2015-16 at its 18 May 2015 meeting. All of the scheduled internal audit reviews were completed, subject to the Committee's approval. The 2015-16 internal audit findings were satisfactory – one audit provided substantial assurance and five provided moderate assurance. The Open Water budget review was an assurance assignment which did not provide an audit rating.

Remuneration and People Committee

The Remuneration and People Committee's role is to consider matters relating to Ofwat employees' pay and conditions of employment. During 2015-16, Martin Lawrence chaired the Committee. Issues discussed during the year included staff survey results, resourcing and pay issues. During 2016-17, the Committee will focus on strategic workforce planning, pay, and the people pillar of the Business Transformation Programme.

Casework Committee

In July 2013, the Board established the Casework Committee to make certain final decisions in strategic cases. During 2015-16, Catherine Waddams chaired the Committee. John Swift QC is an Independent Member of the Committee. During the year, the Committee made five decisions relating to strategic cases.

Thames Tideway Committee

The Thames Tideway Committee makes certain decisions related to the Thames Tideway Tunnel programme, as well as challenging, supporting and advising the programme. During 2015-16, Jonson Cox chaired the Committee, which met on five occasions. Its key decisions were to:

- issue a project licence application confirmation letter to bidders in the infrastructure provider procurement;
- consult on granting the project licence to the winning bidder, Bazalgette Tunnel Limited;
- issue a draft waiver notice to the infrastructure provider for consultation with reference to the award of a Project Management Contract; and
- grant Bazalgette Tunnel Limited a project licence and issue it with a waiver notice.

Nominations and Governance Committee

The Board established the Nominations and Governance Committee in July 2013. The Committee is chaired by Jonson Cox, except when it is dealing with matters relating to the chairmanship of the Board. The Committee's role is to:

- review, and make recommendations about, the structure, size, and composition of the Board (including identifying and nominating candidates to fill certain Board vacancies);
- review succession planning for the Board, the Senior Leadership Team and other senior roles;
- be engaged in the appointment of any member of the Senior Leadership Team; and
- monitor and make recommendations to the Board on Board governance issues.

Where Independent Members are appointed to Board committees, any remuneration for these roles is set by the Chief Executive in consultation with the Chairman. Non-Executive Directors of the Board are recommended by the Chairman, and the Defra Minister responsible for Ofwat has power of veto over their appointments. The Nominations and Governance Committee met in June 2015 to discuss succession planning, recognising that the ends of two Board members' terms were upcoming in Quarter 4.

Senior Leadership Team

The Senior Leadership Team (SLT) comprises the executive members of the Board, the other senior directors and the General Counsel. The SLT meets frequently and advises the Chief Executive on key decisions about the management of the organisation, its portfolio of programmes and its resources – subject to the overall direction, reserved powers and control of the Board.

Its focus is strategic across Ofwat's portfolio, including horizon scanning and scrutinising operational, people, and risk and opportunity issues. It plays a key leadership role, particularly in terms of overseeing and exemplifying our values, behaviours and culture. Progress is fed back to each Board meeting in the Chief Executive's report.

During 2015-16, in light of the leadership required to deliver 'Trust in water', we restructured the SLT to put in place three additional posts. This should provide a sufficiently resilient leadership structure in time for the 2019 price review.

Risk management

In line with the principles of the Code, the Board, Audit and Risk Assurance Committee and Senior Leadership Team regularly review the strategic risk and opportunities register. In addition, the Audit and Risk Assurance Committee receives senior director overviews and risk review presentations from both the owners of strategic risk and opportunities and programme Senior Responsible Officers, all on a rolling basis. Risk and opportunity management is embedded into all of Ofwat's programmes and their component projects.

Our risk management framework is based on HM Treasury's standard guidance from the Orange Book. In September 2015, the Board held its annual risk and opportunities workshop and reviewed the risk and opportunities strategy. This resulted in some changes to our strategic risks and opportunities and to our risk appetite. In particular, our progress with our Compliance and Assurance programme enabled the Board to move from a 'minimalist' to a 'cautious' risk appetite for compliance risks. Risk ownership responsibilities have been clearly allocated from the Accounting Officer and Board to specific members of staff, with a senior director owning each of our ten strategic risks and opportunities.

During 2014-15, our maturity level against the Treasury's Risk Management Assessment Framework improved from Level 2 to Level 3. This was validated by internal audit.

Budget management

2015-16 was the first year in which our new governance framework, launched in March 2015, has operated. This supported our new target operating model and programme ways of working, and saw Ofwat move to full programme budgeting.

This transition has embedded programme budgeting more effectively within the organisation. We had a large underspend, which we returned to licensees via credit notes. This will offset 2016-17 licence fees. A significant element of the underspend related to in-year efficiency gains from halving our accommodation footprint. Other elements related to challenges filling vacant posts and contingency we were holding for risks which did not materialise.

The 2015 Comprehensive Spending Review settlement provided welcome additional flexibilities to handle major risks. This will allow us to take a less cautious approach to contingency, mitigating the risk of future underspend. We have adopted a less cautious approach to contingency going forward.

The Board has been fully engaged in the process of setting the 2016-17 budget, and receives quarterly formal budget reports and monthly budget updates via the Chief Executive's report.

Open Water Market Limited

Open Water Market Limited (OWML) was a company limited by guarantee, established for the specific purpose of progressing preparatory work for the opening of the retail market for business customers in England, which is due to take place in April 2017.

We had expected OWML to be classified as a private body, in line with similar organisations in other sectors, and to evolve into the eventual market operator. But it was classified as a public body after it had been set up and commenced operations.

To address the governance and procurement risks this classification introduced, the sector established Market Operator Services Limited (MOSL), a private company, to take forward the procurement of the central ICT systems (on the basis of a specification produced by OWML) from April 2015.

Specific controls to manage the governance and financial management issues were set up in October 2014, under a Memorandum of Understanding between Ofwat and OWML. Ofwat's Accounting Officer seconded Keith Mason, Senior Director, Thames Tideway, to OWML as its Accounting Officer on a part-time basis. The Memorandum

of Understanding and Accounting Officer role are still the primary sources of assurance.

In August 2014, we confirmed our intention to bring the Open Water programme into Ofwat as a ring-fenced programme. This transition took place in July 2015, and OWML ceased trading on 31 August 2015. On 3 May 2016, Companies House issued a notice announcing its intention to strike OWML from the Register of Companies. OWML's final set of audited accounts, from 1 April 2015 to 31 August 2015, has been consolidated into Ofwat's.

A new Retail Market Opening programme, this time within Ofwat, has been operating successfully since the transition, building on the foundations laid by OWML. Given the time-critical nature of the programme, an assurance framework was agreed in July 2015 between Ofwat, MOSL and Defra. This will provide assurance on the readiness of companies and the market to the Secretary of State for the Environment, Fisheries and Rural Affairs at regular intervals in the run-up to market opening. A series of letters of assurance will be submitted to the Secretary of State at key milestones.

Information security statement

Ofwat holds a range of information, the majority of which is 'policy and commercial' in nature, with a small number of personal information assets. We have an Information Risk Policy (IRP) and related procedures in place.

We have made progress in a number of areas, including a review and update of the corporate security risk register. We conduct security checks on our third party providers as part of the procurement process, use data sharing agreements to control access to Ofwat's data, have robust security on all of our devices, and carry out biannual network checks as part of the Public Sector Network accreditation.

We identified information security as a significant risk during 2014-15. An internal audit review of information assets provided limited assurance and highlighted specific issues associated with the management of information assets. We have made significant progress in this area, building on the very helpful baseline the audit provided. Information asset management has been an area of high priority within the Business Transformation Programme in 2015-16.

We have appointed a new Senior Information Risk Owner, Departmental Security Officer and ICT Security Officer, and Information Asset Owners for all of our programmes and pools. All but one have received appropriate training. As well as

securing Cyber Essentials accreditation, we have self-assessed against the Information Assurance Maturity Matrix and are working towards Level 1 maturity.

The past two years' governance statements have highlighted concerns about the frequency of meetings of the Security and Information Assurance Group (SIAG). The SIAG governs security, information risk and information assurance and follows up actions on behalf of the Senior Information Risk Owner. It has now been re-established, having failed to meet during 2014-15, and met three times during 2015-16.

Our progress in this area was reflected by a significant improvement in our internal audit, which provided 'substantial assurance'.

Our annual security return for 2015-16 was signed by the Senior Information Risk Owner, Beverley Messinger, Senior Director, Business Improvement, on 5 May 2016 and submitted to the Cabinet Office.

In 2015-16, there were no information risk incidents that had to be reported to the Information Commissioner. There was one security incident where the risk of data loss was low. Staff have been reminded of our policies and we have issued new guidance on handling market-sensitive information.

During 2015-16, we developed and agreed a comprehensive business continuity policy and procedures covering both of our sites.

Quality assurance of analytical models

The Macpherson Review requires our governance statement to confirm that we have an appropriate quality assurance framework for analytical models. Ofwat recognises the importance of quality assurance of our analytical models to ensure trust and confidence in our work. We are working to ensure that we comply with the Macpherson Review's recommendations.

In 2015-16, we made progress towards implementing a common standardised approach to building analytical models in Microsoft Excel. Twelve members of staff were trained in the FAST modelling standard in 2015-16, and we plan to train more in 2016-17. During 2016-17, we will finalise our approach to standardising Excel modelling, and it is likely that the FAST modelling standard will be at the core of this.

In 2016-17, we plan to establish a register of business-critical models. We also plan to establish processes for the verification and validation of analytical models. This

will draw on existing best practice such as the HM Treasury Aqua Book and relevant international quality standards.

Accounting Officer's statement

As Accounting Officer, I am personally responsible and accountable to Parliament for Ofwat as an organisation, its management, use of public money and stewardship of public assets. My review of the effectiveness of the system of internal control was informed by assurance statements from Senior Responsible Officers for all of our programmes and the Strategic Resource Managers who lead our resource pools. My review drew on independent assurance from internal and external audits and the Audit and Risk Assurance Committee. Based on my review of this evidence, I am assured that Ofwat has a strong system of internal control to support the delivery of our strategy.

Cathryn Ross
Accounting Officer

15 June 2016

Remuneration and staff report

Remuneration report

Senior Leadership Team

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

Senior Leadership Team member	Position
Cathryn Ross*°	Chief Executive
Keith Mason*°	Senior Director, Thames Tideway
Claire Forbes	Senior Director, Corporate Communications
Richard Khaldi*°	Senior Director, Customers and Casework
Beverley Messinger	Senior Director, Business Improvement
Elizabeth Hillman°	General Counsel
David Black*°	Senior Director, Water 2020 (from 1 March 2016) Temporary Senior Director (25 March 2015 - 29 February 2016)
Sonia Brown*°	Chief Regulation Officer (until 13 November 2015)
Nick Gammage	Interim Director of Communications (until 31 March 2016)

*Denotes Board member

°Denotes member of the Senior Civil Service

Service contracts

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

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. The notice period does not exceed six months for any member of the Senior Leadership Team.

More information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

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

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

Permanent members of the Senior Leadership Team who are not part of the Senior Civil Service are remunerated in line with Ofwat's staff remuneration policy.

Register of interests

Ofwat maintains a register of interests to help identify and address potential conflicts of interest in advance of Board discussions. Where potential conflicts exist, they are recorded in the Board minutes, along with any appropriate action taken to address them. The register of interests can be found within our Board Rules of Procedure, available on our website.

There were two significant company directorships to report during 2015-16.

Sonia Brown held an appointment as Non-Executive Director of Open Water Market Limited (OWML). She received no remuneration for this role.

Cathryn Ross held an appointment as Non-Executive Director of OWML from 20 May 2015. She received no remuneration for this role.

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

Staff remuneration policy

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

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

Non-Executive Directors' remuneration policy

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

Senior managers' remuneration

The following information was subject to audit.

Single total figure of remuneration	Salary		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pensions benefits (to nearest £1,000)		Total (£000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Cathryn Ross Chief Executive	160-165	155-160	15-20	-	7,200	6,100	78,000	44,000	285-270	205-210
Keith Mason Senior Director, Thames Tideway	115-120	115-120	-	-	-	-	29,000	20,000	145-150	135-140
Claire Forbes** Senior Director, Corporate Communications	95-100 (full year equivalent 100-105)	95-100	-	0-5	1,300	6,600	37,000	37,000	135-140	140-145
Richard Khami Senior Director, Customers and Casework	120-125	110-115	-	-	4,900	8,700	47,000	41,000	170-175	155-160
Beverley Messenger Senior Director, Business Improvement	120-125	120-125	-	0-5	4,200	1,600	48,000	45,000	170-175	165-170
Elizabeth Hillman** General Counsel (from 1 May 2015)	110-115 (full year equivalent 120-125)	105-110 (full year equivalent 115-120)	-	-	1,300	-	-	-	115-120	105-110
David Black* Senior Director, Water 2020 (from 1 March 2016)	120-125	-	-	-	1,300	-	47,000	-	165-170	-
Sonia Brown Chief Regulation Officer (until 13 November 2015)	115-120 (full year equivalent 130-135)	130-135	-	15-20	-	1,800	34,000	29,000	145-150	180-185

*David Black held a temporary Senior Director role from 23 March 2015, which operated as part of the Senior Leadership Team. The salary disclosed above includes his remuneration for the role of Director of Economics. Following a competitive recruitment process, he was awarded the permanent role of Senior Director, Water 2020 with effect from 1 March 2016. Pension data is not available for 2014-15.

**For Elizabeth Hillman and Claire Forbes, the difference between actual remuneration and full year equivalent reflects the impact of periods of leave.

Following a restructure of Ofwat's Senior Management Team in September 2015, Sonia Brown elected to leave Ofwat on voluntary exit terms. She received a compensation payment of £133,000 and an additional payment for compensation in lieu of notice of £19,000.

The total compensation exit package in relation to Sonia Brown's departure was £152,000, awarded under the standard provisions of the Civil Service Compensation Scheme. As the compensation package was in excess of the £95,000 department delegation limit, approval was first sought and received from the Cabinet Office.

Third party payments*

The following information was subject to audit.

	2015-16 Payment £000	2014-15 Payment £000
Capita Resourcing Ltd T/A Veredus Nick Gammage, Interim Director of Communications (28 May 2015 - 31 March 2016)	120-125	-

*Civil Service Pension rights are not applicable to members of the Senior Leadership Team while contracted through a third party.

Non-Executive Director's remuneration

The following information was subject to audit.

	Salary (£000)		Benefits in kind (to nearest £100)		Total (£000)	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
Jonson Cox Chairman	115-120	115-120	4,500	3,800	120-125	120-125
Christopher Burchell Non-executive Director	15-20	15-20	200	300	15-20	15-20
Martin Lawrence Non-executive Director	15-20	15-20	300	500	15-20	15-20
Catherine Waddams Non-executive Director	15-20	15-20	300	1,100	15-20	20-25
Christine Farnish Non-executive Director	15-20	15-20	100	100	15-20	15-20
Robin Paynter Bryant Non-executive Director (until 23 January 2016)	5-10 (full year equivalent 10-15)	10-15	600	600	5-10 (full year equivalent 10- 15)	10-15
Wendy Barnes Non-executive Director (until 31 March 2016)	15-20	15-20	1,800	4,400	15-20	20-25

Independent Members' remuneration

The following information was subject to audit.

	2015-16		2014-15	
	Salary	Benefits in kind (to nearest £100)	Salary	Benefits in kind (to nearest £100)
Richard Kennett Independent Member (Until 31 December 2014)	-	-	0-5 (full year equivalent 0-5)	100
John Swift* Independent Member	15-20	-	0-5	-
Vanessa Howlison** Independent Member	-	-	-	-

*John Swift is remunerated per attendance at committee meetings rather than provided an annual salary.

**Vanessa Howlison does not receive remuneration from Ofwat in respect of her appointment, but was granted time by the Department for Transport to attend these meetings.

Salary

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

Benefits in kind

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

Bonuses

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

Bonuses relate to performance in the year in which they become payable to the individual. The bonuses reported in 2015-16 relate to performance in 2014-15 and the comparative bonuses reported for 2014-15 relate to performance in 2013-14.

Pay multiples

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

The banded remuneration of the highest-paid director in Ofwat in the financial year 2015-16 was £185,000 to £190,000 (2014-15: £165,000 to £170,000). This was 4.2 times (2014-15: 4.0 times) the median remuneration of the workforce, which was £45,000 (2014-15: £42,274).

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

Senior managers' pension benefits*

The following information was subject to audit.

	Accrued pension at age 65 at 31 March 2016 and related lump sum £000	Real increase in pension and related lump sum at age 65 £000	CETV at 31 March 2016 £000	CETV at 31 March 2015 £000	Real increase in CETV £000
Cathryn Ross Chief Executive	30-35 lump sum: 80-85	0-2.5 lump sum: 2.5-5	452	370	33
Keith Mason Senior Director, Finance and Networks	30-35 lump sum: 95-100	0-2.5 lump sum: 2.5-5	744	665	28
Claire Forbes Senior Director, Corporate Communications	5-10 lump sum: -	0-2.5 lump sum: -	57	32	14
Richard Khaldi Senior Director, Customers and Casework	5-10 lump sum: -	2.5-5 lump sum: -	56	28	15
Beverley Messinger Senior Director, Operations	5-10 lump sum: -	2.5-5 lump sum: -	81	44	22
David Black Senior Director, Water 2020 (from 1 March 2016)	5-10 lump sum: -	2.5-5 lump sum: -	91	58	16
Sonia Brown Chief Regulation Officer (until 13 November 2015)	25-30 lump sum: 80-85	0-2.5 lump sum: 0-2.5	372	350	10

*CETV: Cash Equivalent Transfer Value; the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

Pension liabilities

The main pension scheme for Ofwat staff is the Principal Civil Service Pension Scheme (PCSPS). 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.

A full provision has been made in the accounts for liabilities arising in respect of the 'by-analogy' pension schemes for both former Directors General, as required by HM

Treasury (note 12.2). 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.

Principal Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme, or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**.

Before that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within ten years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and 13 years and five months from their normal pension age on 1 April 2012 will switch into **alpha** between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', and for those with earlier benefits in one of the final salary sections of the PCSPS, those benefits are based on their final salary when they leave **alpha**.

The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.

Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** and members of **alpha** who were

members of **classic** immediately before joining **alpha**; and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**.

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

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and between 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**.

The pension figures quoted for officials show pension earned in either the PCSPS or **alpha** as appropriate. Where the official has benefits in both the PCSPS and **alpha**, the figure quoted is the combined value of their benefits in the two schemes – but note that part of that pension may be payable from different ages.

Further details about the Civil Service pension arrangements can be found at www.civilservicepensionscheme.org.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, an arrangement to secure pension benefits in another pension scheme, or an arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

Real increase in CETV

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

Staff report

OWML did not have any on-payroll staff. This staff report relates to the core department only.

Table 5: Analysis of Ofwat's staff costs for 2015-16

	2015-16 £000				2014-15 £000
	Total	Permanently employed staff	Others	Non-exec directors	Total
Wages and salaries	8,262	7,916	104	242	8,902
Social security costs	757	732	-	25	802
Other pension costs	1,689	1,689	-	-	1,697
Other staff costs	133	133	-	-	1,960
Sub Total	10,841	10,470	104	267	13,361
Less recoveries in respect of outward secondments	(64)	(64)	-	-	-
Total net costs	10,777	10,406	104	267	13,361

Pension contributions

The PCSPS and the Civil Servant and Other Pension Scheme (CSOPS) – also known as **alpha** – are unfunded multi-employer defined benefit schemes. Ofwat is unable to identify its share of the underlying assets and liabilities. The scheme's actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation at www.civilservicepensionscheme.org.uk.

For 2015-16, employers' contributions of £1,652,698 were payable to the PCSPS (2014-15: £1,669,828) at one of four rates between 20% and 24.5% (2014-15: 16.7% to 24.3%) of pensionable pay, based on salary bands. The scheme's actuary usually reviews employer contributions every four years, following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires, 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 £39,740 (2014-15: £48,253) were paid to one or more of the panel of three appointed stakeholder pension providers. Employers' contributions are age-related and range from 3% to 12.5% (2014-15: 3% to 12.5%) of pensionable earnings up to 30 September 2015, and from 8% to 14.75% of pensionable earnings from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £1,423 (0.8%; 2014-15: £3,154, 0.8%) of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015 were

payable to the PCSPS to cover future lump sum benefits payable upon the death in service or ill-health retirement of these employees.

Contributions due to the **partnership** pension providers at the balance sheet date were £3,394. Contributions prepaid at that date were £nil.

Table 6: Average number of whole-time equivalents

	2015-16 number				2014-15 number
	Total	Permanently employed staff	Others	Non-exec directors	Total
2014 Price Review	-	-	-	-	70.30
Business Transformation	17.38	17.26	-	0.12	14.07
Casework	16.24	16.12	-	0.12	19.59
Choice and Trading Arrangements	-	-	-	-	7.00
Compliance and Assurance	30.89	30.76	-	0.13	37.31
Finance and Governance	13.45	13.33	-	0.12	10.27
Strategy and Planning	17.12	16.31	0.68	0.13	7.74
Water 2020	44.93	42.57	2.23	0.13	-
Retail Market Opening	11.79	11.66	-	0.13	-
Thames Tideway Project Regulation	4.49	4.37	-	0.12	3.16
Total	156.29	152.38	2.91	1.00	169.44

Civil Service and other compensation scheme exits

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in the year the obligation arose. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. All packages awarded in excess of £95,000 have received Cabinet Office approval.

Table 7: Analysis of Civil Service and other compensation exits by exit package total cost band

Exit package cost band	Core Department 2015-16			Core Department 2014-15
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)	Total number of exit packages by cost band (total cost)
<£10,000	-	-	-	5
£10,000 - £25,000	-	-	-	13
£25,001 - £50,000	-	-	-	19
£50,001 - £100,000	-	1	1	10
£100,001 - £150,000	-	-	-	2
£150,001 - £200,000	-	1	1	2
Total number of exit packages	-	2	2	51
Total resource cost (£000)		206	206	2,167

Off-payroll engagements

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

All of Ofwat's existing off-payroll engagements have at some point been subject to a risk-based assessment to determine whether we should seek assurance that the individual is paying the right amount of tax. Where necessary, that assurance has been sought.

Table 8: Off-payroll engagements for more than £220 per day and lasting for longer than six months, as of 31 March 2016

	Core Department Number of arrangements	Departmental Group Number of arrangements
Existing at 31 March 2016	4	4
existed for less than one year at the time of reporting	4	4

Table 9: New off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months

	Core Department 1 April 2015 to 31 March 2016	Departmental Group 1 April 2015 to 31 March 2016
Number of new engagements for more than £220 per day and that last longer than 6 months	6	7
Number of new engagements which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	6	7
The number for whom assurance has been requested	6	7
The number for whom assurance has been requested and received	6	7
The number for whom assurance has been requested and not received	-	-
The number that have been terminated as a result of assurance not being received	-	-

Table 10: Off-payroll engagements of Board members and/or senior officials with significant financial responsibility between 1 April 2015 and 31 March 2016

	Core Department Number of arrangements	Departmental Group Number of arrangements
Number of off-payroll engagements of Board members and/or senior officials with significant financial responsibility during the financial year	-	2
Total number of individuals, both on payroll and off-payroll, deemed "Board members and/or senior officials with significant financial responsibility" during the financial year	13	15

The interim Chair of OWML remained off-payroll, as his role was originally expected to be short-term when OWML was anticipated to be classified as a private sector body. Its classification as a public body led to the role lasting longer than anticipated, and the Accounting Officer for OWML approved the off-payroll appointment until completion of OWML's transition into Ofwat.

The Accounting Officer of OWML exceptionally approved the contract of the Chief Operating Officer for a contract lasting less than six months.

Sickness absence

Our policy is to reduce employee absence. We rely on our people managers to conduct a return to work interview after each period of absence. People managers are supported by systems which help to identify when the following trigger points have been reached, allowing them to consider whether further support or action is required.

- Three periods of absence in a rolling period of six months.
- Four periods of absence in a rolling period of 12 months.

Our Employee Assistance Programme, provided by CiC, offers voluntary and confidential support, information and counselling to help employees and their immediate family members resolve personal problems and concerns.

Table 11: Sickness absence statistics (reported to the Ofwat Board quarterly)

	2015-16			2014-15		
	Short term	Long term	Total	Short term	Long term	Total
Days lost	295	618	913	350	528	878
Average working days lost per person			5.4			5.6

A long-term absence is any absence running over a consecutive period of 21 working days or more. Ofwat's sickness absence figures are below the Civil Service average of 7.4 working days lost per person.

Employee involvement

Our ambition is to become a learning organisation. During the past year, as part of our Business Transformation Programme, we have started to make this our reality. We devolved learning and development budgets to our resource pools so that they could identify and deliver learning needs relevant to their technical and professional requirements. We developed and delivered people skills training and by the end of the year, 154 people had received our bespoke 'Giving and Receiving Feedback' training. In addition, we joined with four other regulators to create a mentor network, working with our Senior Leadership Team to develop their learning programme, and revised our refreshed induction programme.

Equal opportunities policy

We recruit staff on merit through fair and open competition, in line with the Civil Service Commission's recruitment principles. This ensures equal opportunity for employment, regardless of:

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

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

During the year, we carried out 32 separate recruitments, which in some cases sought more than one member of staff.

Staff composition

Details of Ofwat's staff composition by gender and ethnic group is available in Appendix 7, on page 148.

Cathryn Ross
Accounting Officer

15 June 2016

Parliamentary accountability and audit report

Statement of Parliamentary Supply

for the 12 months ended 31 March 2016

Table 12: Summary of resource and capital outturn 2015-16

£000	2015-16						2014-15	
	Estimate			Outturn			Voted outturn compared with Estimate: saving/(excess)	Outturn
	Note	Voted	Non-voted	Total	Voted	Non-voted	Total	Total
Departmental Expenditure Limit								
- Resource	SOPS1.1	132	-	132	(499)	-	(499)	631 (542)
- Capital	SOPS1.2	288	-	288	261	-	261	27 226
Annually Managed Expenditure								
- Resource		-	-	-	-	-	-	-
- Capital		-	-	-	-	-	-	-
Total Budget		420	-	420	(238)	-	(238)	658 (316)
Total Resource		132	-	132	(499)	-	(499)	631 (542)
Total Capital		288	-	288	261	-	261	27 226
Total		420	-	420	(238)	-	(238)	658 (316)

The variance between outturn and estimate on our resource departmental expenditure limit (DEL) mainly relates to unutilised contingency budget.

Capital DEL represents Parliamentary supply provided to Ofwat for capital items. The variance between capital DEL outturn and estimate arose because of the disposal of an asset which had not been budgeted for. Where an asset is disposed of, in accordance with the consolidated budgeting guidance, Ofwat receives a benefit to its capital budget of the remaining net book value of the asset.

Details of the main variances between Ofwat's budgets and outturn can be found in the financial commentary on page 35.

Table 13: Net cash requirement 2015-16

£000	2015-16			2014-15
	Note	Estimate	Outturn	Outturn compared with Estimate: saving/ (excess)
	SOPS3	1,477	63	1,414
				(3,642)

The variance between outturn and estimated net cash requirement is £1.4 million. Licence fees received in the period were enough to cover the previous year's working capital balances as a result of budget efficiencies achieved. As a result there was no need to draw cash from the Consolidated Fund during the year.

Table 14: Administrative costs 2015-16

£000	2015-16	2015-16	2014-15
	Estimate	Outturn	Outturn
	132	(499)	(542)

The £132,000 estimate represents Parliamentary supply provided to Ofwat in relation to the retired Directors General pension scheme, for which we cannot charge the industry. The variance between outturn and estimate relates to income received in excess of expenditure during the period.

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

The notes on pages 98 to 118 form part of these accounts.

SOPS1: net outturn

for the 12 months ended 31 March 2016

SOPS1.1: Analysis of net resource outturn by section

£000	2015-16											2014-15 Total
	Outturn							Estimate				
	Administration			Programme				Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements		
Gross	Income	Net	Gross	Income	Net	Total						
Spending in Departmental Expenditure Limit												
Voted:												
A	22,277	(22,776)	(499)	-	-	-	(499)	131	630	630	(542)	
B	-	-	-	-	-	-	-	1	1	1	-	
Total	22,277	(22,776)	(499)	-	-	-	(499)	132	631	631	(542)	

Section A - Water Services Regulation Authority.
Section B - Open Water Market Limited.

SOPS1.2: Analysis of capital outturn by section

£000	2015-16							2014-15 Total
	Outturn				Estimate			
	Administration			Net total	Net total compared to Estimate	Net total compared to Estimate, adjusted for virements		
Gross	Income	Net						
Spending in Departmental Expenditure Limit								
Voted:								
A	281	(20)	261	288	27	27	226	
B	-	-	-	-	-	-	-	
Total	281	(20)	261	288	27	27	226	

Section A - Water Services Regulation Authority.
Section B - Open Water Market Limited.

The notes on pages 98 to 118 form part of these accounts.

SOPS2: Reconciliation of outturn to net operating expenditure

for the 12 months ended 31 March 2016

SOPS2.1: Reconciliation of net resource outturn to net operating expenditure

		2015-16 £000	2014-15 £000
Note		Outturn	Outturn
Total resource outturn in Statement of Parliamentary Supply	SOSP1.1	(499)	(542)
Net operating expenditure in Consolidated Statement of Comprehensive Net Expenditure		(499)	(542)

The notes on pages 98 to 118 form part of these accounts.

SOPS3: Reconciliation of net resource outturn to net cash requirement

for the 12 months ended 31 March 2016

SOPS 3.1: Reconciliation of net resource outturn to net cash requirement

		2015-16 £000		
	Note	Estimate	Outturn	Net total outturn compared with estimate; saving (excess)
Resource Outturn	SOPS1.1	132	(499)	631
Capital Outturn	SOPS1.2	288	261	27
Accruals to cash adjustments:		1,057	301	756
of which:				
Adjustments to remove non-cash items:				
Depreciation	4	(359)	(261)	(98)
New provisions and adjustments to previous provisions	4	(130)	(146)	16
Other non-cash items	4	(45)	(294)	249
Adjustment for NDPBs:				
Remove voted resource		(1)	-	(1)
Adjustments to reflect movements in working balances:				
Increase/(decrease) in receivables	10	-	(30)	30
(Increase)/decrease in payables	11	434	(288)	722
Use of provisions	12.1, 12.2	1,158	1,320	(162)
Net cash requirement		1,477	63	1,414

The notes on pages 98 to 118 form part of these accounts.

SOPS4: Income payable to the Consolidated Fund

for the 12 months ended 31 March 2016

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

	Note	2015-16 £000		2014-15 £000	
		Outturn		Outturn	
		Income	Receipts	Income	Receipts
Excess cash surrenderable to the Consolidated Fund	9	576	576	3,778	3,778
Other amounts collectable on behalf of the Consolidated Fund		576	576	3,778	3,778
		-	-	-	-
Total income payable to the Consolidated Fund		576	576	3,778	3,778

The notes on pages 98 to 118 form part of these accounts.

Other areas of Parliamentary Accountability

The following areas are not applicable to Ofwat:

- losses and special payments;
- fees and charges disclosures;
- remote contingency liabilities; and
- long-term expenditure trends.

The notes on pages 98 to 118 form part of these accounts.

Cathryn Ross
Accounting Officer

15 June 2016

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 Regulation Authority (Ofwat) and of its departmental group for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The department consists of the core department. The departmental group consists of the department and the bodies designated for inclusion under the Government Resources and Accounts Act 2000 (Estimates and Accounts) Order 2015. The financial statements comprise: the department's and departmental group's Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures 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, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with the 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 department's and the departmental group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Accounting Officer; and

- the overall presentation of the financial statements.

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are departmental expenditure limits (resource and capital), annually managed expenditure (resource and capital), non-budget (resource) and net cash requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament, and that the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the department's and the departmental group's affairs as at 31 March 2016 and of the department's net operating cost and the departmental group's net operating cost 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office 157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

28 June 2016

Part 3: Financial statements

Consolidated statement of comprehensive net expenditure

for the 12 months ended 31 March 2016

	Note	2015-16 £000		2014-15 £000	
		Core Department	Departmental Group	Core Department	Departmental Group
Licence fees		(22,656)	(25,299)	(29,532)	(32,797)
Donations		-	-	-	(780)
Miscellaneous		(120)	(62)	(144)	(804)
Total operating income		(22,776)	(25,361)	(29,676)	(34,381)
Staff costs	3	10,841	10,841	13,361	13,361
Purchase of goods and services	4	9,926	12,500	12,651	17,294
Rental costs	4	789	800	1,556	1,578
Depreciation and impairment charges	4	510	510	383	383
Other non cash	4	211	211	1,183	1,223
Total operating expenditure		22,277	24,862	29,134	33,839
Net income for the year ended 31 March 2016		(499)	(499)	(542)	(542)
Other comprehensive net expenditure					
Items which will not be reclassified to net operating costs:					
Actuarial (gain)/loss on pension scheme liabilities	12	(130)	(130)	161	161
Comprehensive net expenditure for the year ended 31 March 2016		(629)	(629)	(381)	(381)

The notes on pages 98 to 118 form part of these accounts.

Consolidated statement of financial position

for the 12 months ended 31 March 2016

Note	31 March 2016 £000		31 March 2015 £000	
	Core Department	Departmental Group	Core Department	Departmental Group
Non-current assets:				
Property, plant and equipment	5	720	853	853
Intangible assets	6	86	202	202
Trade & other receivables	10	2	2	2
Total non-current assets		808	1,057	1,057
Current assets:				
Trade & other receivables	10	686	716	694
Cash and cash equivalents	9	576	3,778	4,993
Total current assets		1,262	4,494	5,687
Total assets		2,070	5,551	6,744
Current liabilities:				
Trade and other payables	11	(8,401)	(11,314)	(12,467)
Provisions	12.1	(114)	(1,185)	(1,225)
Total current liabilities		(8,515)	(12,499)	(13,692)
Total assets less current liabilities		(6,445)	(6,948)	(6,948)
Non-current liabilities:				
Provisions	12.1	(16)	(37)	(37)
Pension liabilities	12.2	(2,672)	(2,884)	(2,884)
Other payables	11	(1)	(2)	(2)
Total non-current liabilities		(2,689)	(2,923)	(2,923)
Total assets less total liabilities		(9,134)	(9,871)	(9,871)
Taxpayers' equity and other reserves:				
General Fund		(9,134)	(9,873)	(9,873)
Revaluation Reserve		-	2	2
Total equity		(9,134)	(9,871)	(9,871)

Cathryn Ross
Accounting Officer

15 June 2016

The notes on pages 98 to 118 form part of these accounts.

Consolidated statement of cash flow

for the 12 months ended 31 March 2016

	Note	2015-16 £000		2014-15 £000	
		Core Department	Departmental Group	Core Department	Departmental Group
Cash flows from operating activities					
Net operating cost/(income)	SOSP3	499	499	542	542
Adjustments for non-cash transactions	4	721	721	1,566	1,606
(Increase)/decrease in trade and other receivables	10	30	8	(111)	(89)
Less movements in receivables relating to items not passing through the Comprehensive Statement of Net Expenditure		-	-	-	-
Increase/(decrease) in trade payables	11	(2,914)	(4,067)	5,863	7,016
Less movements in payables relating to items not passing through the Comprehensive Statement of Net Expenditure		-	-	-	-
Use of provisions	12	3,170	3,170	(2,874)	(2,874)
		(1,320)	(1,360)	(1,112)	(1,112)
Net cash (inflow)/outflow from operating activities		186	(1,029)	3,874	5,089
Cash flows from investing activities					
Purchase of property, plant and equipment		(279)	(279)	(170)	(170)
Purchase of intangible assets		(2)	(2)	(56)	(56)
Proceeds of disposal of property, plant and equipment		-	-	-	-
Net movement in capital receivables (payables)		29	29	(9)	(9)
Net cash outflow/(inflow) from investing activities		(252)	(252)	(235)	(235)
Cash flows from financing activities					
From the Consolidated Fund (Supply) - current year		639	639	136	136
Net financing from the Contingencies Fund		-	-	-	-
Capital element of payments in respect of finance leases		3	3	3	3
Net financing		642	642	139	139
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund					
		576	(639)	3,778	4,993
Receipts due to the Consolidated Fund which are outside the scope of the Departments activities		-	-	-	-
Payment of amounts due to the Consolidated Fund		(3,778)	(3,778)	(898)	(898)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		(3,202)	(4,417)	2,880	4,095
Cash and cash equivalents at the beginning of the period	9	3,778	4,993	898	898
Cash and cash equivalents at the end of the period	9	576	576	3,778	4,993

The notes on pages 98 to 118 form part of these accounts.

Consolidated statement of changes in taxpayers' equity

for the 12 months ended 31 March 2016

Note	Core Department General Fund £000	Core Department Revaluation Reserve £000	Core Department Total Reserves £000	Departmental Group General Fund £000	Departmental Group Revaluation Reserve £000	Departmental Group Total Reserves £000
Balance at 1 April 2014	(6,657)	2	(6,655)	(6,657)	2	(6,655)
Changes in taxpayers' equity for 2014-15						
Net Parliamentary Funding	136	-	136	136	-	136
Comprehensive Net Expenditure for the year	381	-	381	381	-	381
Notional Auditors' Remuneration 4	45	-	45	45	-	45
Excess cash receipts 9	(3,778)	-	(3,778)	(3,778)	-	(3,778)
Balance at 31 March 2015	(9,873)	2	(9,871)	(9,873)	2	(9,871)
Changes in taxpayers' equity for 2015-16						
Net Parliamentary Funding	639	-	639	639	-	639
Comprehensive Net Expenditure for the year	631	(2)	629	631	(2)	629
Notional Auditors' Remuneration 4	45	-	45	45	-	45
Excess cash receipts 9	(576)	-	(576)	(576)	-	(576)
Balance at 31 March 2016	(9,134)	-	(9,134)	(9,134)	-	(9,134)

The notes on pages 98 to 118 form part of these accounts.

Notes to the departmental accounts

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, we have selected the policy we judge to be most appropriate to our particular circumstances for the purposes of giving a true and fair view. The particular policies adopted by Ofwat are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

As well as the primary statements prepared under IFRS, the FReM also requires Ofwat to prepare one additional primary statement. The Statement of Parliamentary Supply and supporting notes compare outturn against estimate in terms of the net resource requirement and net cash requirement.

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 Basis of consolidation

These accounts comprise a consolidation of the core department and those entities which fall within the departmental boundary as defined in the FReM, being those entities listed in the Designation and Amendment Orders presented to Parliament. The entities within the departmental boundary are:

- the core department, Ofwat; and
- Open Water Market Limited.

The department and all entities included in the consolidation are domiciled in the UK. Transactions and balances between the included entities are eliminated on consolidation.

1.3 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 damaged equipment is disposed of. Items include furniture and fittings, office machinery and telecommunications equipment, leasehold improvements and ICT equipment.

All individual items must exceed a capitalisation threshold of £2,500 for inclusion as property, plant and equipment. Where items operate co-dependently with one another and are unable to operate individually, they are treated as a single asset. Ofwat policy is to pool purchases of property, plant and equipment assets when the total purchase value is in excess of £500,000 for capitalisation purposes.

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

Table 15: Estimated useful lives of property, plant and equipment classes

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

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

1.4 Intangible assets

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

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 term of the licence or the useful economic life from the date the asset is brought into service, whichever is shorter.

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

1.6 Financing

The departmental group is primarily resourced by licence fees. Licence fees are charged to companies that Ofwat regulates in the water and wastewater sectors. The licence fees levied for Ofwat's core work are subject to a cap governed by condition N of the Water Industry Act 1991. Additional licence fees exist and are paid by relevant companies for specific work on the Thames Tideway Tunnel and for the Open Water programme, each of which has its own cap.

1.7 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.

Core department

Since all Ofwat's costs are recovered through the licence fees and invoiced in advance based on estimated costs, any licence fee income that exceeds the level of operating costs is surrendered to the Consolidated Fund.

1.8 Cash

Core department

Cash is primarily generated through licence fees and the activities outlined in note 1.6. At the end of a financial year, any cash remaining in Ofwat's bank account (Government Banking Service) is paid over to the Consolidated Fund (see SOPS4). As Ofwat does not receive income from companies at the start of the financial year, a sum is borrowed from the Contingencies Fund and repaid later.

1.9 Trade receivables

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

1.10 Fines and penalty income

Core department

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

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

1.11 Leases

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

1.12 Pensions

Core department

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

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

1.13 Value-added tax

Core department

Most of Ofwat's activities are outside the scope of value-added tax (VAT). In general, output tax does not apply and input tax on purchases is not recoverable.

Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of assets. Where output tax is charged or input tax is recoverable, the amounts are stated net of VAT.

1.14 Provisions

Legal or constructive obligations which are of uncertain timing or amount at the date of the statement of financial position are provided for on the basis of the best estimate of the expenditure required to settle the obligation.

Core department

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 for pension liabilities changed from to 1.3% real per annum to 1.37% real per annum net of CPI with effect from 31 March 2016.

1.15 Contingent liabilities

Core department

As well as 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 is noted separately. Contingent liabilities that are not required to be disclosed by IAS37 are stated at the amounts reported to Parliament.

1.16 Going concern

The statement of financial position at 31 March 2016 shows negative taxpayers' equity of £9.1 million. In common with other government departments, the future financing of liabilities will be 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. Accordingly, we consider it appropriate to adopt a going concern basis for the preparation of these financial statements.

Under the Government Resources and Accounts Act 2000, no money may be drawn from the Consolidated Fund except what is required for the service of the specified year or retained excess of the need. All unspent monies, including those derived from our income, are to be surrendered to the Fund.

1.17 Staff costs

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

1.18 Accounting estimates

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

1.19 Operating costs

Ofwat operates a time recording system, capturing staff hours against our programmes. The percentage of staff time per programme is apportioned against payroll costs. From 1 April 2015, expenditure was charged directly to programmes.

In generating the 2014-15 comparative figure, the percentage of staff time per programme was apportioned against all administration costs, excluding consultancy services. Professional services contracts were allocated individually to the appropriate programme.

2. Statement of operating costs by programme

Description of Programme	2015-16	2014-15
	£000	£000
2014 Price Review	-	13,277
Business Transformation	3,966	4,411
Casework	1,419	1,700
Choice and Trading Arrangements	-	842
Compliance and Assurance	4,233	4,959
Finance and Governance	1,297	1,181
Strategy and Planning	1,619	984
Water 2020	5,673	-
Retail Market Opening	3,217	-
Thames Tideway Project Regulation	853	1,780
Open Water Market Limited	2,585	4,705
Total Expenditure	24,862	33,839
Total Income	(25,361)	(34,381)
Net income	(499)	(542)

3. Staff costs

	Core Department Outturn	2015-16	Core Department Outturn	2014-15
		£000 Departmental Group Outturn		£000 Departmental Group Outturn
Staff costs:				
Wages and salaries	8,262	8,262	8,902	8,902
Social security costs	757	757	802	802
Other pension costs	1,689	1,689	1,697	1,697
Other staff costs	133	133	1,960	1,960
Total	10,841	10,841	13,361	13,361

4. Expenditure

		2015-16 £000		2014-15 £000
	Core Department Outturn	Departmental Group Outturn	Core Department Outturn	Departmental Group Outturn
Purchase of goods and services:				
Consultancy services	4,932	7,000	6,824	10,417
Contingent labour	2,317	2,804	3,067	3,976
Training	180	180	108	108
Travel and subsistence	415	415	439	439
Taxation charges	21	21	40	40
Rates	224	224	406	406
Information technology	599	607	748	767
Other hire and maintenance	16	16	68	68
Seminars, meetings and conferences	39	49	101	130
Publications, books and periodicals	118	123	58	78
Telecommunications	189	189	161	161
Recruitment costs	275	275	48	90
Office consumables	219	219	236	236
Accommodation expenses	148	149	135	135
Internal Audit fees	77	77	70	78
External Audit fees	1	13	-	24
Other	156	139	142	141
	9,926	12,500	12,651	17,294
Rentals under operating leases:				
Accommodation	745	756	1,543	1,565
Office equipment	44	44	13	13
	789	800	1,556	1,578
Non cash items:				
Depreciation	178	178	238	238
Amortisation	83	83	69	69
Loss on disposal of assets	20	20	50	50
Addition/(release) of provision	(7)	(7)	(89)	(89)
Restructuring provisions	54	54	251	291
Lease exit costs provision	-	-	809	809
Other finance costs	99	99	117	117
External Auditors' remuneration	45	45	45	45
Impairment of assets	249	249	76	76
	721	721	1,566	1,606
Total	11,436	14,021	15,773	20,478

5. Property, plant and equipment

Open Water Market Limited does not hold any non-current assets. These notes to the accounts relate to the core department only. Property, plant and equipment consists of furniture and fittings, office machinery and telecommunications, leasehold improvements and ICT equipment.

	£000	£000	£000	£000	£000	£000
	Payments on account	Furniture & fittings	Office machinery & telecomms	Leasehold improvements	Information technology	Total
Cost or valuation						
At 1 April 2015	161	65	71	821	1,637	2,755
Additions	12	-	-	254	13	279
Disposals	-	(40)	(18)	(152)	(1,192)	(1,402)
Impairments	-	-	-	(282)	-	(282)
Reclassifications	(161)	66	-	47	48	-
At 31 March 2016	12	91	53	688	506	1,350
Depreciation						
At 1 April 2015	-	32	54	259	1,557	1,902
Charged in year	-	8	9	97	64	178
Disposals	-	(23)	(18)	(149)	(1,192)	(1,382)
Impairments	-	-	-	(68)	-	(68)
At 31 March 2016	-	17	45	139	429	630
Carrying amount at 31 March 2016	12	74	8	549	77	720
Carrying amount at 31 March 2015	161	33	17	562	80	853
Asset financing:						
Owned	12	74	6	549	77	718
Finance leased	-	-	2	-	-	2
Carrying amount at 31 March 2016	12	74	8	549	77	720

	£000	£000	£000	£000	£000	£000
	Payments on account	Furniture & fittings	Office machinery & telecomms	Leasehold improvements	Information technology	Total
Cost or valuation						
At 1 April 2014	14	65	71	1,193	1,614	2,957
Additions	161	-	-	-	9	170
Disposals	-	-	-	(263)	-	(263)
Impairments	-	-	-	(109)	-	(109)
Reclassifications	(14)	-	-	-	14	-
At 31 March 2015	161	65	71	821	1,637	2,755
Depreciation						
At 1 April 2014	-	26	43	373	1,468	1,910
Charged in year	-	6	11	132	89	238
Disposals	-	-	-	(213)	-	(213)
Impairments	-	-	-	(33)	-	(33)
At 31 March 2015	-	32	54	259	1,557	1,902
Carrying amount at 31 March 2015	161	33	17	562	80	853
Carrying amount at 31 March 2014	14	39	28	820	146	1,047
Asset financing:						
Owned	161	33	12	562	80	848
Finance leased	-	-	5	-	-	5
Carrying amount at 31 March 2015	161	33	17	562	80	853

6. Intangible assets

Open Water Market Limited does not hold any intangible assets. These notes to the accounts relate to the core department only. Intangible assets consist of purchased software licences.

	£000	£000	£000
	Purchased software licences	Assets Under Development	Total
Cost or valuation			
At 1 April 2015	481	69	550
Additions	2	-	2
Disposals	(51)	-	(51)
Impairments	(84)	-	(84)
Reclassifications	69	(69)	-
At 31 March 2016	417	-	417
Amortisation			
At 1 April 2015	348	-	348
Charged in year	83	-	83
Disposals	(51)	-	(51)
Impairments	(49)	-	(49)
At 31 March 2016	331	-	331
Carrying amount at 31 March 2016	86	-	86
Carrying amount at 31 March 2015	133	69	202

	£000	£000	£000
	Purchased software licences	Assets Under Development	Total
Cost or valuation			
At 1 April 2014	481	13	494
Additions	-	56	56
At 31 March 2015	481	69	550
Amortisation			
At 1 April 2014	279	-	279
Charged in year	69	-	69
At 31 March 2015	348	-	348
Carrying amount at 31 March 2015	133	69	202
Carrying amount at 31 March 2014	202	13	215

7. Capital and other commitments

7.1 Operating leases

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

	2015-16 £000 Core Department	2014-15 £000 Core Department
Obligations under operating leases comprise:		
Buildings		
Not later than one year	847	1,164
Later than one year and not later than five years	3,531	4,468
Later than five years	1,425	2,920
Total	5,803	8,552
Other		
Not later than one year	42	41
Later than one year and not later than five years	56	101
Later than five years	-	-
Total	98	142

7.2 Capital commitments

	2015-16 £000 Core Department	2014-15 £000 Core Department
Contracted capital commitments at 31 March not otherwise included in these financial statements		
Property, plant and equipment	122	249
Intangible assets	-	5
	122	254

Of the £122,000 disclosed as a capital commitment at 31 March 2016, £94,000 relates to contracts awarded by the Oil and Gas Authority (OGA) as part of a joint procurement exercise for leasehold improvement works at our London offices. Ofwat has agreed to settle any costs incurred under these contracts directly with the OGA on completion of the works.

8. Financial instruments

The departmental group is not exposed to the same degree of financial risk as commercial entities because of the largely non-trading nature of its activities and the

way in which government departments are financed. Ofwat has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the office in undertaking its activities.

8.1 Liquidity risk

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

8.2 Interest rates and foreign currency risks

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

8.3 Fair values

There is no material difference between the book values and the fair values of the departmental group's financial assets and liabilities at 31 March 2016.

9. Cash and cash equivalents

		2015-16 £000		2014-15 £000	
	Core Department	Departmental Group	Core Department	Departmental Group	
Balance at 1 April 2015	3,778	4,993	898	898	
Net change in cash and cash equivalent balances	(3,202)	(4,417)	2,880	4,095	
Balance at 31 March 2016	576	576	3,778	4,993	
The following balances at 31 March 2016 were held at:					
Government Banking Services (GBS)	576	576	3,778	3,778	
Commercial banks and cash in hand	-	-	-	1,215	
Total	576	576	3,778	4,993	

Any cash held at 31 March by the core department is surrenderable to the Consolidated Fund per note 1.8.

10. Trade receivables and other current assets

		2015-16 £000		2014-15 £000	
	Core Department	Departmental Group	Core Department	Departmental Group	
Amounts falling due within one year					
Trade receivables	162	162	223	201	
Deposits and advances	28	28	31	31	
Other receivables	-	-	45	45	
HM Revenue and Customs (VAT)	238	238	73	73	
Prepayments and accrued income	258	258	344	344	
Total	686	686	716	694	
Amounts falling due after more than one year:					
Prepayments and accrued income	2	2	2	2	
Total	2	2	2	2	

11. Trade payables and other current liabilities

	2015-16 £000		2014-15 £000	
	Core Department	Departmental Group	Core Department	Departmental Group
Amounts falling due within one year				
Trade payables	4,737	4,737	2,847	3,714
Other payables	204	204	443	443
Other taxation and social security	275	275	290	290
Accruals	2,517	2,517	3,190	3,448
Deferred income	91	91	763	791
Licence Fee income in advance	-	-	-	-
Current part of finance leases	1	1	3	3
Amounts due to the Contingencies Fund	-	-	-	-
Excess cash due to be paid to the Consolidated Fund	576	576	3,778	3,778
Total	8,401	8,401	11,314	12,467
Amounts falling due after more than one year				
Finance leases	1	1	2	2
Total	1	1	2	2

12. Provisions for liabilities and charges

12.1 Provisions

	2015-16 £000 Core Department			2015-16 £000 Departmental Group			Core Department Total	2014-15 £000 Departmental Group Total
	Lease exit costs	Restructure costs	Total	Lease exit costs	Restructure costs	Total		
Balance at 1 April 2015	809	413	1,222	809	453	1,262	1,184	1,184
Provided in the year	-	54	54	-	54	54	1,060	1,100
Provisions utilised in the year	(809)	(330)	(1,139)	(809)	(370)	(1,179)	(933)	(933)
Provisions not required written back	-	(7)	(7)	-	(7)	(7)	(89)	(89)
Balance at 31 March 2016	-	130	130	-	130	130	1,222	1,262

Analysis by type	2015-16 £000 Core Department			2015-16 £000 Departmental Group			Core Department Total	2014-15 £000 Departmental Group Total
	Lease exit costs	Restructure costs	Total	Lease exit costs	Restructure costs	Total		
Amounts falling due within one year	-	114	114	-	114	114	1,185	1,225
	-	114	114	-	114	114	1,185	1,225
Amounts falling due after more than one year	-	16	16	-	16	16	37	37
	-	16	16	-	16	16	37	37
Total	-	130	130	-	130	130	1,222	1,262

Analysis of expected timing of discounted flows	2015-16 £000 Core Department			2015-16 £000 Departmental Group			Core Department Total	2014-15 £000 Departmental Group Total
	Lease exit costs	Restructure costs	Total	Lease exit costs	Restructure costs	Total		
Not later than one year	-	114	114	-	114	114	1,185	1,225
Later than one year and not later than five years	-	16	16	-	16	16	37	37
Later than five years	-	-	-	-	-	-	-	-
Balance at 31 March 2016	-	130	130	-	130	130	1,222	1,262

12.2 Pensions liabilities

Open Water Market Limited does not operate a pension scheme. This note to the accounts relates to the core department only.

	2015-16 £000 Core Department	2014-15 £000 Core Department
Balance at 1 April 2015	2,884	2,785
Analysis of the amount charged to the Statement of Comprehensive Net Expenditure		
Interest costs	99	117
Benefits paid		
Benefits paid	(181)	(179)
Analysis of the amount recognised in the Statement of Changes in Taxpayers' Equity		
Experience (gain)/loss	(20)	4
Actuarial (gain)/loss	(110)	157
Balance at 31 March 2016	2,672	2,884

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 2016.

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

- Mortality improvements to 2014 are based on historic population experience for those years. Improvements since 2014 are based on improvements underlying 2014-based UK principal population projections by the Office for National Statistics.
- All members are assumed to have a spouse or eligible partner from the date their pension is assumed to be paid. Male members are assumed to be three years older than their partners and female members are assumed to be two years younger than their partners.

The main financial assumptions used to assess liabilities at 31 March 2016 are as follows.

- The gross discount rate is assumed to be 3.6% a year (31 March 2015: 3.55%).
- The consumer price index (CPI) is assumed to be 2.2% (31 March 2015: 2.2%).
- Net (of CPI) discount rate is assumed to be 1.37% (31 March 2015: 1.3%).

A cumulative actuarial loss of £2 million has been incurred by the scheme since 1 April 2004.

12.3 Sensitivity analysis of main actuarial assumptions

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

- Increasing the discount rate by 0.5% would result in a corresponding decrease in liabilities of approximately 5.5%, or £142,000.
- Increasing the CPI inflation assumption by 0.5% would result in a corresponding decrease in liabilities of approximately 5.5%, or £142,000.
- Increasing assumed life expectancies in retirement to equal those of people one year younger would result in a corresponding increase in liabilities of approximately 4.5%, or £122,000.

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

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

12.4 Analysis of actuarial loss

	2015-16 £000 Core Department	2014-15 £000 Core Department	2013-14 £000 Core Department
Experience (gains)/losses arising on the scheme liabilities	(20)	4	61
Changes in assumptions underlying the present value of scheme liabilities	(110)	157	143
Per Statement of Changes in Taxpayers' Equity	(130)	161	204

12.5 History of experience losses

	2015-16 Core Department	2014-15 Core Department	2013-14 Core Department	2012-13 Core Department	2011-12 Core Department
Experience (gains)/losses arising on the scheme liabilities					
Amount (£000)	(20)	4	61	24	71
Percentage of the present value of the scheme liabilities	(0.7)%	0.1%	2.2%	0.9%	2.7%
Total amount recognised in Statement of Taxpayers' Equity					
Amount (£000)	(130)	161	204	99	110
Percentage of the present value of the scheme liabilities	(4.9)%	5.6%	7.3%	3.7%	4.2%

13. Contingent liabilities disclosed under IAS37

On occasion the departmental group 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: the outcome of current proceedings is unknown, and therefore the nature and extent of any subsequent liability is considerably uncertain.

14. Related party transactions

14.1 CCWater/Defra

Ofwat transferred £5.1 million to Defra in respect of CCWater's operating costs in 2015-16.

14.2 Alan Sutherland: Non-Executive Director of OWML/Chief Executive of WICS

OWML paid the Water Industry Commission for Scotland (WICS) £33,000 for Alan Sutherland's services to OWML during the year, plus travel and subsistence costs of £26,000.

Total expenditure on the provision of professional services by WICS to OWML during the year was £169,000.

14.3 Johanna Dow: Non-Executive Director of OWML/Chief Executive of Business Stream

Ofwat received £1,000 from Business Stream for its annual Water Supply Licence (WSL) fee for 2015-16.

14.4 Peter Simpson: Non-Executive Director of OWML/Chief Executive of Anglian Water Services

OWML paid £99,000 to Anglian Water Services for staff secondments in 2015-16.

The departmental group received total licence fee income of £2.7 million from Anglian Water during the year, with a year-end payable of £280,000. Of this, £154,000 was paid directly to OWML and £533,000 was for CCWater's operating costs.

Peter Simpson is on the Board of MOSL. There have been no transactions with this company. No other interests have been declared.

14.5 Heidi Mottram: Non-Executive Director of OWML/Chief Executive of Northumbrian Water

The departmental group received total licence fee income of £1.6 million from Northumbrian Water during the year, with a year-end payable of £174,000. Of this, £103,000 was paid directly to OWML and £334,000 was for CCWater's operating costs.

Heidi Mottram is on the Board of MOSL. There have been no transactions with this company.

14.6 Wendy Barnes: Non-Executive Director of Ofwat/John Barnes (husband): Non-Executive Director of South East Water from January 2016

The departmental group received total licence fee income of £400,000 from South East Water during the year, with a year-end payable of £57,000. Of this, £46,000 was paid directly to OWML and £93,000 was for CCWater's operating costs.

14.7 Catherine Waddams: Non-Executive Director of Ofwat/Member of the Centre for Competition Policy (CCP), University of East Anglia (UEA)

Ofwat paid a subscription of £6,000 to the Centre for Competition Policy during 2015-16. Neither Catherine Waddams nor her husband, who is the Director of the CCP, received any additional financial benefit from the UEA as a result of Ofwat's subscription.

14.8 Other

Ofwat also has a small number of immaterial transactions with other government departments. There are no undisclosed related party transactions between Ofwat and any of its Directors.

Balances and transactions between Ofwat and OWML have been eliminated on consolidation and are not therefore disclosed in this note.

15. Events after the reporting period

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

Part 4: Appendices

A1 Progress on projects described in ‘Ofwat’s forward programme 2015-16’

Below we highlight our progress against the projects we outlined in ‘Ofwat’s forward programme 2015-16’.

What we said	Evidence
April to June 2015	
Publish an assessment framework for monitoring progress against our visions for the sector and for Ofwat. (Strategy and planning)	Changed. Water UK is now leading the development of a water sector assessment framework. We are trialling an assessment framework for Ofwat internally and will publish it regularly during 2016-17.
Consult on the approach to our resilience duty. (Strategy and planning)	Complete. We consulted on our approach in July 2015.
Publish our new casework strategy for focusing on strategic cases. (Casework)	Complete. We published our new casework strategy in July 2015.
Publish the first of our bulletins to inform stakeholders about our casework. (Casework)	Complete. We published four editions of our new quarterly e-newsletter ‘On the Case’ and pro-actively developed a list of subscribers for the publication.
Share our developed approach on how we collect, store and share information, including how we will engage with the sector. (Finance and governance)	Complete. We set out our detailed requirements for companies’ annual performance reports in July 2015.
Publish an assessment of whether water companies and their holding companies have implemented our Board leadership, transparency and governance principles, and follow up on any issues. (Finance and governance)	Complete. We assessed companies against our ‘Board leadership, transparency and governance principles’ and updated our summary of compliance. Where we identified issues, we wrote to the companies concerned.
Publish the outcomes of our review of special administration. (Finance and governance)	Complete. We published ‘Our review of our processes and procedures for when a company may be in financial distress’ in October 2015.
Consult on our proposed approach to assessing mergers. (Finance and governance)	Complete. We consulted on our proposed approach to assessing mergers in May 2015. We set out our approach to mergers under the revised special merger regime (in the Water Act 2014) and our statement of methods in October 2015.
Publish updated guidance on customers eligible to choose their retail water and wastewater supplier. (Retail market opening)	Complete. We published ‘Guidance on assessing whether customers in England and Wales are eligible to switch their water and

What we said	Evidence
	wastewater retailer' on 19 August 2015. We are making some updates in 2016-17.
Complete the transition of programme management from Open Water Markets Limited (OWML) to Ofwat. (Retail market opening)	Complete. We published a detailed plan in May 2015 for transferring the responsibilities from OWML. The plan was completed in summer 2015.
Complete the first review of programme management ('gateway review'). (Retail market opening)	Complete. Ahead of the transfer of programme management to us, we asked independent reviewers to look at the Open Water programme arrangements (the 'baseline review'). We responded to their recommendations in June 2015 on behalf of Open Water. We plan further independent reviews in 2016-17.
Provide evidence to the Competition and Markets Authority (CMA)'s process for deciding Bristol Water's price controls for 2015-20. (Water 2020)	Complete. We provided evidence which fed into the CMA's final determination of 6 October 2015.
Consult on the award of a licence to the preferred bidder for the Infrastructure Provider. (Thames Tideway)	Complete. We consulted on awarding the licence between 17 July and 14 August 2015.
Amend Thames Water's licence to ensure that it works in parallel with the Infrastructure Provider's licence. (Thames Tideway)	Complete. We consulted on changes to Thames Water's licence between 16 February and 16 March 2015. The changed licence came into effect on 1 April 2015.
Implement an improved casework management system. (Business transformation)	Complete. We have successfully created a more streamlined and efficient case management system that makes it easier to extract management information and statistics to more effectively target our work.
Implement our leadership and management programme. (Business transformation)	Complete. We successfully launched our Associate Director programme to develop our leaders and support our succession planning. We will launch other leadership and management programmes in the first quarter of 2016-17 as part of a broader learning and development offer to all Ofwat people.
Implement our new internal governance framework and principles. (Business transformation)	Complete. We have implemented and embedded our new governance framework throughout the organisation. It sets the foundation for our programme-based approach to working.
July to September 2015	
Publish our five-year strategic business plan for 2015-16 to 2019-20. (Strategy and planning)	Complete. We launched our first five-year business plan in August 2015.
Publish guidance on our approach to using settlement in resolving individual cases. (Casework)	Complete. We included our approach to using settlement in our consultation on our new approach to enforcement, which we published in March 2016.

What we said	Evidence
Publish guidance on our service standards for cases, including indicative timeframes for the types of cases that we most usually handle. This guidance will also set out the roles and our expectations for water companies and other parties. (Casework)	Complete. We published improved information about our approach to cases on our website in March 2016.
Publish the findings of our analysis of water companies' and their holding companies' regulatory reporting. (Finance and governance)	Complete. We published 'Monitoring financial resilience – a snapshot' in October 2015.
Seek views and set up a working group to review water companies' licences. (Finance and governance)	Delayed. As part of our continuous prioritisation of our work, we decided to delay this until 2016-17.
Design the new retail water and wastewater licensing arrangements. (Retail market opening)	Complete. We carried out extensive design work and consultation to develop the new arrangements in during 2015-16. We published our conclusions in December 2015.
Consult on the supplier of last resort arrangements to support the UK Government's retail exit work. (Retail market opening)	Complete. We consulted on supplier of last resort arrangements ('interim supply') in October 2015. We published our conclusions in February 2016.
Capture the key learning from delivering the 2014 price review. (Water 2020)	Complete. We published 'Reflections on the price review – learning from PR14' in July 2015.
Consult on short- to medium-term challenges facing the sector, and the scope for addressing these challenges through the Water Act competition framework and regulating differently. (Water 2020)	Complete. We published 'Towards Water 2020 – meeting the challenges for water and wastewater services in England and Wales' in July 2015.
Consult on charging rules following guidance from the UK and Welsh Governments. (Water 2020)	Complete. We published our charges scheme rules for consultation in September 2015.
Publish the final 2014 price review reconciliation rulebook. (Water 2020)	Complete. We published our PR14 reconciliation rulebook document in July 2015.
Provide further evidence to the CMA's process for deciding Bristol Water's price controls for 2015-20. (Water 2020)	Complete. We provided evidence which fed into the CMA's final determination of 6 October 2015.
Award the licence to the preferred bidder for the Infrastructure Provider and make associated amendments to Thames Water's licence. (Thames Tideway)	Complete. We awarded the licence to Bazalgette Tunnel Limited ('Tideway') in August 2015.
Reduce our office space and implement a new open plan, flexible working space. (Business transformation)	Complete. Both our Birmingham and London office refits have seen a reduction in our office space of approximately 50%.
Implement a new corporate website. (Business transformation)	Complete. We launched our new corporate website in October 2015 alongside a refresh of our brand. This new and more modern platform allows us to communicate with our stakeholders more effectively and is more cost-effective.
October to December 2015	

What we said	Evidence
Consult on arrangements to protect eligible customers for the new non-household retail market, including new guaranteed service standards and deemed contract arrangements. (Strategy and planning)	Complete. We carried out extensive engagement and consultation on customer protection arrangements during 2015-16. This included: <ul style="list-style-type: none"> • a customer protection code of practice; • guaranteed standards of service; • supplier of first resort ('deemed contracts' and 'retail exit'); and • supplier of last resort ('interim supply').
Host the first cross-sector strategic discussion, using our new sector assessment framework. (Strategy and planning)	Complete. We held an event with stakeholders on 21 October 2015 on developing an assessment framework for the sector. Water UK is now leading this work.
Publish our findings on water companies' regulatory reporting and implementation of our Board leadership, transparency and governance principles. (Finance and governance)	Complete. We published comparative information on companies' 2014-15 performance. We also monitor financial performance to ensure resilience of both individual companies and the sector, and published our first comparative report, 'Monitoring financial resilience – a snapshot', in October 2015. This highlighted the need and our expectations for greater consistency and transparency in reporting. We published a targeted report, 'What progress are water companies making towards being transparent about their governance and performance?', in December 2015.
Share collection requirements for 2015-16 information. (Finance and governance)	Complete. We consulted on changes to our Regulatory Accounting Guidelines to align these more closely to current and proposed price controls. We set out our detailed requirements for the annual performance reports that companies will publish in July 2016, and worked with companies to clarify reporting against outcomes.
Consult on the full suite of documents for the operation of the new market. (Retail market opening)	Complete. We consulted extensively in 2015-16 on arrangements for the new market. This includes: <ul style="list-style-type: none"> • licensing; • customer protection; and • eligibility.
Consult on initial proposals for areas for regulatory change in the 2019 price review, showing how our approach to regulating water and wastewater services is expected to evolve over time. Carry out possible additional specific consultations on key areas if appropriate. (Water 2020)	Complete. We published 'Water 2020: Regulatory framework for wholesale markets and the 2019 price review' in December 2015.
Implement our approach to talent management, acquisition and retention. (Business transformation)	Ongoing. We have developed a strategic workforce model and plan to provide the management information we need to make sure

What we said	Evidence
	we have the right size, shape, and skills at the right time to deliver our strategy. We will launch new recruitment webpages in 2015-16 and a new learning and development offer to our staff. We will also carry out more targeted recruitment campaigns, making the most of the available marketing channels.
January to March 2016	
Publish our findings about customer vulnerability, including issues for the sector to take forward, and potentially changes to how we regulate. (Strategy and planning)	Complete. We published a report and practitioners' guide on customer vulnerability and held an event to share best practice in February 2016.
Publish the final approach to our resilience duty. (Strategy and planning)	Complete. We published our final approach to our resilience duty in December 2015.
Publish guidance for the water sector on competition law and, in particular, the challenges of the new non-household retail market. (Casework)	Ongoing. We have been developing the guidance during 2015-16. Because of our work on strategic cases, we now plan to issue the guidance in 2016-17.
Complete all current strategic cases by 31 March 2016. (Casework)	Ongoing. We completed all of our strategic cases with the exception of Tata Steel UK Ltd vs Dŵr Cymru (Welsh Water). This case has been delayed because we need to consider the extensive representations we received on our draft determination, which we published in July 2015.
Initiate and carry out a targeted review of a service area. (Finance and governance)	Complete. We published our targeted review on how companies report separate costs and revenues for sludge and water resources, to improve data quality in preparation for the introduction of wider competition under the Water Act 2014 and proposed price controls for PR19.
Finalise licences for service providers operating in the new market. (Retail market opening)	Complete. Following extensive consultation on licensing and other policy issues, we published the application form and guidance for companies wanting to apply for the new water supply and/or sewerage licence in March 2016.
Open the licence application process for new service providers. (Retail market opening)	Complete. We opened the application process for businesses to apply for the new water supply and/or sewerage licence in April 2016.
Publish a consultation on our proposed approach to setting non-household price controls from 2017. (Water 2020)	Complete. We published our draft statement of method and data table requirements in March 2016.
Publish charging rules taking account of guidance from the UK and Welsh Governments. (Water 2020)	Complete. We published our final charges scheme rules and summary of responses in November 2015, and have recently published informal consultations on both connections charging and wholesale charging.

What we said	Evidence
Implement a public portal to view the register of the Water Services Regulation Authority. (Business transformation)	Delayed. Because of constraints on resources and more urgent priorities, this project has been put on hold.

A2 Performance against stated levels of service

Every year, we respond to general public enquiries for information. We also investigate disputes between customers and their water companies.

We set out our performance for 2016-17 against our standards of service below.

General enquiries

We set out our performance in responding to enquiries, including phone calls and written correspondence, against our performance standard below.

Table 16: Performance against standard for general enquiries

Standard	2015-16*		2014-15		2013-14	
	Number received	Responded to within deadline	Number received	Responded to within deadline	Number received	Responded to within deadline
At least 95% of all general enquiries to be dealt with within ten days	1,300	84%	3,404	98.7%	5,300	98.3%

*The data for 2015-16 is estimated. Some data for 2015-16 was incomplete because of staffing issues. These issues have now been resolved.

Information requests

The Freedom of Information Act 2000 (FOIA) and the Environmental Information Regulations 2004 (EIR) provide a general right of access to all types of recorded information held by public authorities. They place a number of obligations on public authorities and also set out exemptions to rights of access.

The FOIA and the EIR apply to Ofwat because we are a public authority. We have a responsibility to respond to any written request, normally within 20 working days. There are some exceptions to this deadline; we are able to take more time to consider the public interest in the disclosure of information. We set out our performance in the table below.

Detailed information on the FOIA and EIR is available from the Ministry of Justice (MoJ) and the Information Commissioner's Office (ICO). The MoJ collects and publishes statistics on the handling of requests for information by more than 40 central government bodies, including Ofwat. You can view the performance of participating bodies on the MoJ website.

Table 17: Performance against standard for FOIA and EIR requests

Standard	2015-16		2014-15		2013-14	
	Number of requests*	Responded to within deadline	Number of requests	Responded to within deadline	Number of requests	Responded to within deadline
100% of all information requests responded to within deadline	172	80%	246	97.1%	265	97.35%

*The data for 2015-16 is estimated. Some data for 2015-16 was incomplete because of staffing issues. These issues have now been resolved.

Disputes and complaints about water and wastewater services

CCWater represents customers in the water sector. It deals with most customer service complaints that water companies themselves cannot resolve.

Where customers are still dissatisfied following CCWater's efforts to resolve their complaint, from 1 April 2015 they have the right to refer their complaint to the Water Redress Scheme (WATRS). WATRS is a voluntary alternative dispute resolution scheme to help address the very small number of customer complaints that remain unresolved. It is designed to provide an independent, impartial and easy to use alternative to going to court or a tribunal.

We are responsible for the following disputes and complaints:

- complaints about regulatory policy;
- allegations of breach of duty by a company;
- water supply and sewer connection charges;
- requisitioning of water mains, sewers and lateral drains;
- adoption and financial arrangements in respect of self-laid mains;
- sewer transfer appeals;
- refusals by the companies to install an optional meter;
- guaranteed standards scheme (GSS) payments;

- trade effluent appeals; and
- pipe-laying in streets and across private land.

The time it takes to resolve disputes and complaints depends on the nature and complexity of individual cases.

We have a number of performance measures to monitor and improve our performance. We continue to keep all aspects of our performance under review.

Initial response to disputes and complaints

We aim to respond to all disputes and complaints efficiently and effectively. We set out our performance against our standard below.

Table 18: Performance against standard for initial response to complaints

Standard	2015-16		2014-15		2013-14	
	Number received	Responded to within deadline	Number received	Responded to within deadline	Number received	Responded to within deadline
Initial response to 95% of all complaints within ten working days	159	97%	248	95%	221	94%

Initial assessment of disputes and complaints

Before we investigate a dispute or complaint, we carry out an initial assessment to decide whether:

- it falls within our jurisdiction; and
- we should investigate.

We set out the cases we closed in this initial assessment phase below.

Table 19: Cases closed in the initial assessment phase

2015-16		2014-15		2013-14	
Number received	Responded to within deadline	Number received	Responded to within deadline	Number received	Responded to within deadline
159	78%	248	88%	221	84%

Investigations we carry out

We aim to investigate as quickly and thoroughly as possible. Where we investigate a dispute or complaint, we estimate when we will resolve it (the 'case closure phase'). The complexity of some cases can change after we begin an investigation, so sometimes we are unable to resolve them in the case closure phase.

Table 20: Cases closed in the closure phase

2015-16		2014-15		2013-14	
Number	Closed within case closure phase	Number	Closed within case closure phase	Number	Closed within case closure phase
27	37%	40	68%	34	71%

The proportion of cases we closed within the closure phase is lower in 2015-16 than in previous years. This is because we closed a significant amount of legacy cases in this period, which affects our performance data. But resolving these cases is a good outcome for customers.

Resolved complaints

We set out our performance in resolving complaints below.

Table 21: Complaint resolution performance

2015-16			2014-15			2013-14		
Number resolved	Resolved within three months	Resolved within six months	Number resolved	Resolved within three months	Resolved within six months	Number resolved	Resolved within three months	Resolved within six months
159	85%	87%	248	86%	92%	223	87%	90%

Complaints to the Parliamentary and Health Service Ombudsman

If anyone is unhappy with how we have handled their dispute or complaint, we carry out an internal review to determine whether we handled it correctly. If the complainant is still dissatisfied with our handling of their complaint, they can ask the Parliamentary and Health Service Ombudsman (PHSO) to investigate.

We referred no complaints to the PHSO during 2015-16.

A3 How our work aligns with the UK and Welsh Governments' priorities and guidance

Under the Water Industry Act 1991, the Secretary of State for Environment, Food and Rural Affairs and the Welsh Government have powers to issue strategic priorities and objectives to the Water Services Regulation Authority (Ofwat). We are required to act in accordance with these priorities and objectives when discharging our legal functions.

Guidance from the Secretary of State

In May 2013, following consultation, the UK Government issued us with a strategic policy statement (SPS), including revised social and environmental guidance. It sets out ten priority areas the UK Government expects us to consider while carrying out our work.

The SPS requires:

- us to report how we have reflected these priorities in our regulatory decisions regularly to the Secretary of State;
- our Chairman to agree a reporting timetable with the Secretary of State – and review it every year;
- us to summarise what we have done to deliver the priorities in our annual report and accounts; and
- us to summarise how we propose to further the delivery of the priorities in our forward work programme each year.

As well as reporting about the ten priorities in our annual report and accounts, we normally publish specific reports each year on agreed priorities. We have agreed with the UK Government that we will not publish these additional reports for 2015-16. The UK Government plans to issue a new SPS during 2016-17.

Below, we summarise what action we have taken to support the delivery of the ten priorities in the current SPS.

Priority and contribution

1. Impacts of regulatory changes on sector investment prospects/ 3. Impacts of the regulatory framework on sector investment profile

Our 2014 price review took effect on 1 April 2015. It reflects companies' licences and our commitment to maintaining regulatory stability in key areas.

We have built on the successes of the 2014 price review and maintained a level playing field across the sector. This can be seen in our new casework strategy, which has supported the regulatory environment by providing reassurance that water and wastewater companies have delivered outcomes on behalf of customers and investors.

We have also continued to build trust and confidence among investors through our Water 2020 programme. For example, we have ensured that:

- there is an appropriate balance of risk and reward for service providers and investors;
- regulation is proportionate; and
- barriers to market entry by service providers and investors are removed, as long as this is the best option for customers.

Our work on protecting the regulatory capital value (RCV), and on the transition mechanism for the proposed change in indexation from RPI to CPI, has helped address investor concerns and maintained confidence in the sector – as has our engagement with investors.

Ensuring the legitimacy of the sector underpins its long-term investability. Adopting a better accepted and more frequently used measure of inflation for wholesale price controls will help to improve their legitimacy. Analysis we have commissioned and published has shown that a less volatile inflation measure will benefit investors as well as customers. Investor concerns about the perception of risk from a fast change (and the impact on the customer bill) have been managed through a variety of mechanisms (which are explained on pages 24 to 25).

We have also maintained investor confidence in our work on the opening of the business retail market in 2017. We informed investors of key changes, carried out workshops for key industry stakeholders and attended the industry working group meetings. This has sustained investor confidence through a period of change, and helped the sector for businesses, charities and public sector organisations to stay an attractive and sustainable investment opportunity.

Consistent with this, we have published our first snapshot of water and wastewater companies' financial resilience based on the available data for 2014-15. We have also agreed the information that water and wastewater companies will publish from 2015-16 onwards, which includes information on long-term financial stability. By publishing an annual summary of this information, we will help to build trust and confidence in this vital public service.

Our work on the Thames Tideway Tunnel demonstrated an evolutionary approach to procurement and regulation. Thames Tideway Tunnel's bespoke project licence for the Infrastructure Provider helped secure bidders in the competitive procurement process and provided a significant investment opportunity.

2. Proportionality of the regulatory framework

Our strategy, 'Trust in water', demonstrates the key principle of proportionate and targeted regulation. While embedding our strategy, we have focused on building trust and confidence in the sector. We have done this by ensuring that companies are accountable to their customers for the service they provide, and that our regulatory toolkit allows for innovation and collaborative working.

For example, our development of the codes, licences and customer protections for opening the retail market will provide the required protections for small businesses without placing an excessive regulatory burden on small retailers. Our work has also considered the proportionality of different levels of customer protection across different types of businesses, and has ensured that micro-business customers have greater protections.

Other examples of this can be seen in our monitoring and assuring delivery strategy, which reduces the regulatory burden for companies interacting with Ofwat, and increases their transparency and engagement with customers. We introduced a range of proportionate tools for targeted action, from informal requests for information to targeted reviews. Our company monitoring framework assesses this information alongside customer engagement and applies a range of assurance requirements to companies. These depend on how much trust and confidence customers and other stakeholders have in a company's information.

4. Contribution to the UK Government's sustainable development objectives

Our work this year has protected customers, the environment and wider society and contributed to the UK Government's sustainable development objectives.

For example, our December consultation on Water 2020 proposals considered how to encourage long-term planning in the sector and reflect the needs of future customers in our regulation. We also considered how, in relation to sludge treatment and water resources, markets can be used to inform, enable and encourage more sustainable and efficient approaches in the best interests of customers and the environment. This work also set out our approach to ensuring high-quality customer engagement on long-term issues, including recommending that customer challenge groups test the quality of company engagement specifically on issues including impacts on future bills, affordability and resilience.

Consistent with this, we developed the Abstraction Incentive Mechanism (AIM) to encourage companies to abstract from sources with higher flows, to recognise the value of environmental sustainability and resilience.

We have also worked with the sector as it develops an assessment framework, which will contribute to the UK Government's sustainable development objectives.

Through horizon scanning and working collaboratively with the sector, we have identified:

- barriers and opportunities to the delivery of sustainable development objectives; and
- barriers to long-term planning or innovation as a result of our regulatory approach.

5. Impacts of the regulatory approach on the sector's preparation for long-term challenges, such as climate change/

6. Impacts of the regulatory approach on company innovation, such as catchment management/

7. Impacts of the regulatory approach on sector resilience and sustainable water resource management

Our work this year has focused on companies developing sustainable approaches customers can rely on.

For example, in July 2015, we published a discussion document considering the impact of longer-term pressures such as climate change and population growth on water and wastewater services in England and Wales, and how Ofwat can help the sector address these challenges.

The challenges of water scarcity, the environment and resilience were at the centre of our December 2015 Water 2020 proposals. The proposals included markets that

facilitate water trading and drive the efficient allocation of water resources between companies and new entrants. We also included tests for long-term planning and alignment of the water resource management planning timetable in our programme of work for the next price review.

The proposals also encouraged service providers to focus on their customers over the longer term, rather than focusing their effort around periodic price reviews. The proposals considered whether companies should commit to multi-period outcomes and related incentives. It also set out our approach to ensuring high-quality customer engagement, including the recommendation that customer challenge groups test the quality of company engagement specifically on long-term issues and on resilience.

Our December position statement on resilience also set out how we will inform, enable and encourage companies to manage risk and secure resilient systems and services – including ecosystems and financial and corporate systems. It also emphasises socio-economic and environmental matters alongside our other duties, including sustainable development.

As our approach evolves, we have committed to ensuring our regulatory framework can take account of, and encourage, further innovation – including greater use of partnership approaches that benefit customers, the environment and wider society. Our December consultation proposals to facilitate markets (in relation to sludge treatment and disposal and water resources) will drive further innovation.

In addition to this, our work on the new retail market for businesses, charities and public sector organisations will give customers a choice over their supplier and services. This will allow for greater flexibility, as customer demand for solutions, including water efficiency, may become an important part of the supplier offer beyond price and service standards. It is also reasonable to expect innovation in the services offered to customers – where customers may benefit from environmental and sustainability benefits, as well as improvements to bill accuracy and consolidation.

Throughout all of our work, we have engaged with the sector – including through the marketplace of ideas and the independent Resilience Task and Finish Group – to challenge ourselves and the sector on resilience, and ensure that resilience is commonly understood and recognised. In line with our primary duty to promote resilience, we have worked internally with our programmes to embed resilience in all that we do and ensure it is considered in the development of our policies and decisions.

8. Sufficiency of company action to help customers struggling to pay bills

Customers are central to Ofwat's work. We have continued to protect customers' interests and reflect the vital nature of water and wastewater services.

During the year, we published reports on vulnerability and affordability in the sector. This encouraged companies to identify and understand the needs of customers in circumstances which may make them vulnerable, including those with affordability issues. Our work has informed and encouraged the sector to meet customer expectations. Our programmes have worked to increase our own understanding of how our policies can consider customers in situations of vulnerability.

For example, in our December Water 2020 proposals, we encouraged customer challenge groups to provide assurance that companies have engaged with their customers on the affordability of potential impacts on their bills, including any arising from the profiling of expenditure over time. In December, we also consulted on a set of principles for good quality customer engagement. These emphasised the importance of companies understanding and responding to the potentially distinct needs of their customers, including customers whose circumstances make them vulnerable.

The development of our methodology for the 2019 price review should ensure service providers place customers, and therefore affordability, at the heart of their investment plans; and encourage productivity growth to promote the long-term affordability of water bills.

In addition to this, our new charging rules, which came into effect in November 2015 and take into account the charging guidance set by UK Government, have promoted stability and transparency around companies' social tariffs and how customers apply for them.

9. Progress on competition, to ensure this is in step with the Water White Paper and UK Government boundaries

We have continued to engage constructively with Defra and government officials to ensure that the regulatory framework facilitates competition for water and wastewater retail services to businesses, charities and public sector organisations. We have also ensured that the framework is equipped for the reform of upstream segments of the water and wastewater value chains for companies wholly or mainly in England, consistent with the provisions of the Water Act 2014.

In our December proposals we set out how we will encourage new wholesale markets for water resources and sludge treatment, transport and disposal. We also considered a regulatory framework that supports these markets. We have begun work on the residential retail review and welcome the opportunity to report to the Government on the benefits of providing competition for retail water services to residential customers of companies wholly or mainly in England.

In parallel with this, the Thames Tideway Tunnel programme's procurement processes provided opportunities that maximised competitive pressures in the water sector in a way that the regulatory framework could not achieve. We can learn from and use this process in developing future policy.

10. Effectiveness of the 2014 price review in delivering outcomes sought by customers and other stakeholders

In July 2015, we published key reflections on our 2014 price review programme along with our next steps. There was real evidence of companies listening and delivering the outcomes their customers wanted. The customer challenge groups challenged companies to deliver more for customers. The outcomes framework aligned the interests of investors with those of customers through the outcome delivery incentives.

We are now building on the success of the 2014 price review. For example, in our December proposals, we encouraged customer challenge groups to challenge companies to provide assurance of their customer engagement in their business plan.

Consistent with this, we have also set expectations for each company to report against its outcome commitments in its annual performance report. This includes reporting the reasons for any under-performance. We have also set expectations for reporting against other price review indicators such as companies' total expenditure approach.

Guidance from the Welsh Government

In December 2013, following consultation, the Welsh Government laid before the Assembly new social and environmental guidance (SEG) for us. This included the priority areas they expect us to consider while carrying out our work. In February 2014, the SEG was confirmed by the Assembly. It includes an expectation that we will feed back on our management of these overarching priorities as part of our annual reporting process.

We have written to Welsh Ministers to explain how we have done this. We also summarise the actions we have taken below.

Priority and contribution

1. Regulatory proposals: assess impacts of regulatory changes on consumers and investors

Our work throughout the year has built on the successes of our 2014 price review. This can be seen in our work with the sector to develop an assessment framework. This framework, which will assess the sector's performance against our vision of trust and confidence, will increase transparency and information about the sector's performance.

Consistent with this, we have also been horizon scanning and working with the sector through our new regulatory approach. We have identified opportunities to contribute to the sustainable development objectives, including the inter-related social and environmental needs of Welsh customers, and barriers to long-term planning or innovation as a result of the regulatory approach. Our work in the Water 2020 programme will facilitate long-term planning and innovation in the sector and is therefore consistent with the sustainable development objective.

In July 2015, we published our consultation on our Water 2020 proposals, including the high-level principles for the 2019 price review. In developing our proposals, we listened to stakeholder views, including those of customers and investors, and took account of lessons we learned from our 2014 price review (PR14). The members of the Welsh PR14 Forum contributed useful views to this exercise, which informed our methodology for the 2019 price review. For example, we have improved the way we plan and, in conjunction with the Welsh Government and Natural Resources Wales, have developed a timetable that will enable the price review and water resources management plan (WRMP) processes to work together.

Alongside our December consultation, we published a draft impact assessment of our proposals. We will develop this in the future to ensure that the impact of our proposals is thoroughly evaluated for English and Welsh customers. The assessment will take account of available research, including quantification of both the costs and the benefits of our proposals.

Our casework programme also helps to build trust and confidence in this vital public service by considering the impact of regulatory change and/or significant changes in the sector on customer service, informed by our competition powers.

2. Environmental and statutory obligations: facilitate compliance with domestic and European legislation/ 8. Drinking water quality: ensure compliance with drinking water quality obligations

The 2014 price review took effect on 1 April 2015. It reflected companies' licences and our commitment to comply with domestic and European legislation.

The regulatory framework put in place by the 2014 price review gave companies what they needed to deliver on their statutory obligations and responsibilities – allowing them to agree outcomes with their customers and plan their investment holistically (via total expenditure) to achieve them, within the bounds of what their customers were prepared to pay. In addition, companies committed to performance levels that represented an improvement on past performance, and stretched these to achieve upper quartile performance in areas that mattered to their customers.

We ensured that companies only received additional incentive payments if they went further, or faster, than their statutory obligations required. Penalties were also attached.

We will check that service providers deliver their 2015-20 commitments and hold them to account for the associated penalties and rewards. Our 2019 methodology will ensure they meet future drinking water quality obligations.

Following on from this, we developed reporting requirements on the outcomes for water and wastewater companies in 2015-16. Companies will provide assurance on their statutory obligations and report on the outcomes agreed with their customers for the first time in July 2016.

In addition to this, our casework programme has helped to build trust and confidence in the sector by ensuring that we work collaboratively with our partner regulators – such as Natural Resources Wales (NRW) and the Drinking Water Inspectorate (DWI)

– to determine who is best placed to achieve the best overall resolution in any given investigation.

3. Sustainable development: contribute to the Welsh Government's sustainable development objectives

Our work this year has protected customers, the environment and wider society and contributed to the Welsh Government's sustainable development objectives.

Our work on the sector assessment framework contributed to the Welsh Government's sustainable development objectives.

By horizon scanning and working with the sector, we have identified:

- barriers and opportunities to the delivery of sustainable development objectives; and
- barriers to long-term planning or innovation that result from our regulatory approach.

In our December consultation, we said that as part of any special cost factor claims, we would expect companies to provide strong evidence that they have considered water resources in the broadest and most strategic way and taken a long-term strategic approach to planning and providing wastewater services. We also said our risk-based review assessment for the next price review should assess to what extent business plans form part of a coherent longer-term plan for both water and wastewater services.

Our casework investigations concerning Wales have recognised that companies are required to deliver services to customers in a sustainable and resilient way.

Consistent with this, our December position statement on resilience set out how we will enable and encourage companies to manage risk and secure resilient systems and services, including ecosystems and financial and corporate systems. It also emphasises socio-economic and environmental matters alongside our other duties, including sustainable development, and will underpin companies contributing to the Welsh Government's Wellbeing Goals.

4. Affordability: take account of affordability issues in Wales

We have published a report on affordability which considers customers in Wales and England. The report encouraged companies to identify and understand customers' affordability issues. We have also published a report on identifying customers in

circumstances which may make them vulnerable, including those with affordability issues, taking learning from elsewhere. We have worked closely across our programmes to increase our own understanding of how our policies can consider customers in vulnerable situations.

Alongside this, we have set charging rules for Welsh companies which allow for innovative charges within a broad framework of rules, taking into account the charging principles set by Welsh Government. Because of our charging rules, we no longer approve companies' charges schemes. Both of the large Welsh companies have changed their tariffs from 2016/17, and Dee Valley has introduced a new social tariff.

Our methodology for the 2019 price review should ensure service providers place customers, and therefore affordability, at the heart of their investment plans; and encourage productivity growth by the sector to promote the long-term affordability of water bills.

In our December price review consultation, we proposed that customer challenge groups should provide assurance that companies have engaged with (and responded to) their customers about the affordability of potential impacts on their bills, including any arising from the profiling of expenditure over time. In December, we also consulted on a set of principles for good quality customer engagement. These emphasise the importance of companies understanding and responding to the potentially distinct needs of their customers, including customers whose circumstances make them vulnerable.

Among other things, our new charging rules, which came into effect in November 2015, promote stability and transparency around companies' social tariffs and how customers can apply for them.

5. Efficiency and cost-effective solutions: drive innovation within the boundaries set by the Welsh Government to ensure improvements in efficiency

Our company monitoring framework has encouraged companies to engage with customers on the information they want to see – helping companies to perform effectively and provide information that customers and other stakeholders can trust.

We also ensured that companies wholly or mainly in Wales delivered their obligations under the Water Industry Act (1991). There were no specific instances of concern requiring us to investigate matters of efficiency this year.

The regulatory framework put in place by the 2014 price review adopted a total expenditure approach with a focus on outcomes, rather than infrastructure provision. This helped companies develop sustainable and innovative approaches in discussion with their customers. These included innovation in catchment management for drinking water safeguarding and nutrient offsetting, reducing the need to invest in costly, energy-intensive water and wastewater treatment.

As our approach evolves, we have committed to ensuring our regulatory framework can take account of (and encourage) further innovation, including greater use of partnership approaches that benefit customers, the environment and wider society. Our December consultation proposals to facilitate markets and direct procurement from independent providers for all discrete, large-scale enhancement projects will drive further innovation.

6. Resilience and joined up outcome-based solutions: enable resilience against natural and other hazards

We have worked with the sector – including through the independent Resilience Task and Finish Group we set up to challenge us and the sector on resilience – to ensure that resilience is commonly understood and recognised across the sector, and to clarify our role in ensuring a resilient sector. In line with our primary duty to promote resilience, we have worked internally with our programmes to embed resilience in all that we do and ensure we consider it when developing policies and decisions.

This work has enabled us to drive planning in the sector to benefit future generations, and to consider all pressures on current and future expenditure and the resilience of services and systems – including ecosystems and financial and corporate systems. Our work to create the right regulatory framework will enable and encourage service providers to put resilience at the heart of their business planning.

Our December position statement on resilience encouraged the sector to really understand the risks to resilience in their areas and to manage these risks for their customers and the environment. Our December consultation on the 2019 price review set out proposals for encouraging service providers to focus on their customers over the longer term – rather than focusing their effort around periodic price reviews. The consultation considered whether they should commit to longer-term and multi-period outcomes and related incentives. It also set out our approach to ensuring high-quality customer engagement on long-term issues, including recommending that customer challenge groups test the quality of company engagement specifically on long-term issues and resilience.

In the background to our work programme, we recognised that companies have to provide the required standards of services to customers in a sustainable and resilient way, and that their operational planning must account for longer-term issues and external challenges such as climate change. In assessing a company's approach to a disputed issue, we gave due regard to its longer-term responsibilities on the issue – such as sewer flooding and water supply infrastructure development, for example – reflecting the approach in the Wales Water Strategy.

7. Research and evidence-based decisions and policy making: take account of research and costs in making decisions

Our expectation that companies will publish annual performance reports will make more information available to customers and other stakeholders – and we expect companies to explain their performance. Our approach to stepping in begins with asking for more information, and we have commissioned detailed research for our targeted review of markets to inform future decisions. Our work on improving information and modelling standards will help us to use information we receive from companies more effectively.

The development of the non-household retail market has involved detailed work with stakeholders, including the Welsh Government and Welsh companies, to ensure that costs and benefits of proposals are fully taken into account and Welsh customers are protected.

We have been open in developing our key revised policies during the year; we have sought input via consultations and meetings with sector representatives, and acted in accordance with guidance from Welsh Government. Where we judged that significant issues may require a wider audience, we published draft determinations for comment. We have used the latest available information on costs and research, and sought updated information when we considered it necessary. In terms of sign-posting and expressing our intent on regulation, we have published all our final determinations, providing clear information about how we considered the evidence and why we reached the final decision.

9. Integrated water management solutions: encourage sustainable and innovative water management solutions/

10. Future resource management: encourage integrated long term planning and solutions

Our December Water 2020 consultation considered:

- how to better focus the sector on the long term;

- how the needs of future customers can best be reflected in our regulation; and
- how markets (for example, in relation to water resources and to sludge treatment, transport and disposal) can be best used to inform, enable and encourage more sustainable, efficient approaches in the best interests of customers, the environment and wider society.

This involved considering whether companies should commit to longer-term and multi-period outcomes and related incentives. The December consultation also set out our approach to ensuring high-quality customer engagement on long-term issues, including recommending that customer challenge groups test the quality of company engagement specifically on long-term issues, such as impacts on future bills, long-term affordability and resilience.

In our December consultation, we also said that as part of any special cost factor claims, we would expect companies to provide strong evidence that they have considered water resources in the broadest and most strategic way and taken a long-term strategic approach to planning and providing wastewater services. We also said our risk-based review assessment for the next price review should assess to what extent business plans form part of a coherent longer-term plan for both water and wastewater services.

Our December position statement on resilience encouraged the sector to really understand the risks to resilience in their areas and to manage these risks for their customers and the environment.

We have worked with the sector – including through the independent Resilience Task and Finish Group we set up to challenge us and the sector on resilience – to ensure that resilience is commonly understood and recognised across the sector, and to clarify our role in ensuring a resilient sector. In line with our primary duty to promote resilience, we have worked internally with our programmes to embed resilience in all that we do and ensure we consider it when developing our policies and decisions.

This has enabled us to drive long-term planning in the sector to benefit future generations, and to consider all pressures on current and future expenditure and on the resilience of services and systems – including ecosystems and financial and corporate systems. Our work to create the right regulatory framework will enable and encourage service providers to put resilience at the heart of their business planning.

A4 List of impact assessments carried out during 2015-16

Water 2020: Regulatory framework for wholesale markets and the 2019 price review, Appendix 6: Draft impact assessment, 10 December 2015

Customer protection in a retail market: Guaranteed Standards Scheme – preliminary impact assessment, 4 September 2015

A5 Review of Board effectiveness

The Board regularly reviews its effectiveness, most recently by discussing the Board evaluation process in November 2015. The Board will carry out a full survey in Quarter 1 (April to June) of 2016-17. Up to five new executive and non-executive Board members will join the Board in this period.

Jonson Cox
Chairman

A6 Progress in reducing regulatory burdens

Background

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

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

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

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

Report on progress

Our most significant area of work was on our initial proposals for future markets and price limit setting for 2020 ('Water 2020'), which we published in December 2015. We carried out a detailed impact assessment of the changes we proposed. Our proposals were based on evidence relating to specific issues and problems that need to be addressed. In each case, we have sought to develop options for addressing these issues.

For example, in relation to promoting markets, we proposed focusing our efforts on two specific areas (sludge treatment, transport and disposal; and water resources) rather than all wholesale services. Our proposals in these two areas targeted the specific underlying issues we are seeking to address. For example, our market reform proposals will affect new investment, leaving investment from before the year 2020 protected.

During the year, we confirmed changes to the way we regulate the charges of licensed monopoly water only and water and wastewater companies in England and Wales. We moved from an approval process to a rules-based approach to regulating charges schemes. The change means that companies no longer have to submit their charges scheme – a document setting out their charges and associated terms (such

as times and methods of payment) for a particular year – to us for approval. Instead, they must make sure their charges scheme complies with all their legal obligations, including our charging rules. The change to a rules-based approach will enable greater company ownership of and innovation in tariff setting. It also gives us a more effective way to set out the principles we consider important for customers.

We took a more targeted and proportionate approach to our requirements for monopoly companies to assure the information they publish for customers and others. Our company monitoring framework assigns companies to one of three categories of assurance, depending on the integrity of the information they have provided to us previously. Where a company demonstrates that it can provide appropriate assurance, we reduce the level of prescription in the process it must carry out to decide how to provide assurance. If a company provides information in a way that reduces the trust and confidence we, customers and other stakeholders can place in it, we increase the prescription to protect customers and hold the company to account.

This will encourage all companies to gain customers' and others' trust and confidence in their performance.

A7 Staff composition 2015-16

Staff recruitment (by gender and ethnic group)

Level and salary range	Full-time equivalent staff appointed	2015-16		2014-15		2013-14			
		Proportion of women (%)	Proportion from ethnic minorities (%)	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)	Full-time equivalent staff appointed	Proportion of women (%)	Proportion from ethnic minorities (%)
Band 1 – £15,623 to £22,220	0	0	0	0	0	1	0	100	
Band 2 – £22,221 to £31,448	13	62	23	8	63	13	3	67	0
Band 3 – £31,449 to £47,146	23	39	1	6	33	17	12	25	0
Band 4 – £47,147 to £72,114	20	35	10	5	80	60	7	57	0
Band 5 – £72,115 to £108,171	6	0	0	3	33	0	4	50	0
Total	62	38	8	22	55	23	27	48	4

All figures rounded to the nearest whole number.

Staff in post

Type	31 March 2016	31 March 2015	31 March 2014
Employed staff head count	171	147	199
Agency staff and consultants head count	34	7	20

Employed staff information

Area	31 March 2016	31 March 2015	31 March 2014
Full-time equivalent staff	157	136	191
Proportion of women (%)	45	70	48
Proportion from ethnic minorities (%)	14	30	12
Proportion disabled (%)	1	1	3
Members of the Senior Civil Service	8	8**	8
Number of fixed-term and casual contracts	17	11	13
Number of staff working part-time	26	20	28
Staff turnover (%)	11*	10*	12

*Does not include end of fixed-term contracts, death in service or leavers via voluntary exit or voluntary redundancy.

**Restated in 2015-16.

Staff training attendance (by ethnic group)

Ethnic group	2015-16 ¹		2014-15 ¹		2013-14	
	Number of training days ²	% ³	Number of training days ²	% ³	Number of training days ²	% ³
White	–	–	–	–	318	78

Other ethnic groups	–	–	–	–	48	12
Unknown	1,361	100	132.5	100	42	10
Total number of training days	1,361	100	132.5	100	407	100

1. We did not collect information on training days by ethnic group in 2014-15 and 2015-16.
2. Rounded up.
3. Rounded to the nearest whole number.

Staff by gender

Area	31 March 2016	31 March 2015
Employed staff head count	171	147
Number of women	78	67
Number of men	93	80

Senior Directors by gender

Area	31 March 2016	31 March 2015
Employed head count	6	7
Number of women	3	5
Number of men	3	2

Members of Senior Civil Service by gender

Area	31 March 2016	31 March 2015
Employed head count	8	7
Number of women	2	3
Number of men	6	4

A8 Ofwat's compliance with the public sector equality duty

Background

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

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

The equality duty is supported by specific duties set out in regulations, which came into force on 10 September 2011. The specific duties require public bodies, such as Ofwat, to publish relevant, proportionate information demonstrating compliance with the equality duty and to set specific equality objectives.

External

As an economic regulator, Ofwat rarely works directly with individuals but carries out its functions through the way we regulate water companies. So our work to promote equality is largely through our general regulatory approach. We seek to ensure these approaches do not have unintended or disproportionate impacts.

On s 130 to 143, we summarise the actions we have taken in 2015-16 in relation to the UK Government's strategic policy statement to us, including its social and environmental guidance, and the Welsh Government's social and environmental guidance.

In December 2015 we published our 2014-15 affordability and debt report. The purpose of this report is to help policy and decision-makers across the sector and in the Government to address water affordability issues and water debt for household customers in England and Wales. The report also contained recommendations and good practice to address challenges identified by water companies.

Not all customers are the same, and the things that drive debt can be varied and complex. So it is for companies to understand the different issues that drive debt in their regions. They are best placed to introduce measures to help those who are

genuinely struggling to pay their bills, while at the same time pursuing the money owed to them as effectively as possible.

We have emphasised the importance of companies taking responsibility for the issues identified in this report. This is in line with the approach that we took during the 2014 price review, when we set price limits that encouraged companies to deliver outcomes for customers. While our regulatory framework focuses on companies delivering customer priorities, we recognise that we still have an important role to play. We monitor performance and prompt companies not to build up debt, which would be a cost other customers would have to pick up.

Building on our 2014-15 affordability and debt report, we published our vulnerability focus report and an accompanying practitioners' pack in February 2016. The focus report aimed to stimulate interest in, and inform the debate around, customer vulnerability. It sought to improve understanding of what vulnerability means in the context of our sector, bearing in mind that customer vulnerability is not a rigid concept, and to:

- help the sector identify and support customers in circumstances that make them vulnerable; and
- provide practical guidance on where companies could look and what they could think about when shaping their strategies and policies for customers in circumstances that make them vulnerable.

We want water companies to understand what vulnerability means in general, for their customers and for the companies themselves. The main points of learning will help companies to offer a tailored and inclusive service for all customers, including those whose circumstances make them vulnerable.

As an organisation, we help advance equality of opportunity through access to information. For example, we make publications available in large print and braille formats on request. And in October 2016 we launched a new website that complies with government guidance on accessibility, including a responsive design which adapts itself to a range of devices. We continue to provide transcripts or subtitles for multimedia content.

We also have a Welsh language scheme and use a scoring system to objectively identify which material needs to be published in Welsh or bilingually. When someone writes to us in Welsh, we reply in Welsh. We will also, if practicable, reply in the same language to correspondence we receive in languages other than Welsh or English.

During the year, we developed a set of branding guidelines covering our use of things like fonts, colours and logos. This took into account the needs of people with disabilities such as dyslexia and colour vision deficiency ('colour blindness'). For example, we chose:

- fonts that were easy to read well on screen and in print; and
- a palette of colours that were easy to distinguish from each other and from black, particularly when viewed by someone with colour blindness.

Internal

In 2013, we put in place a People Strategy, setting out strong people management practices to make us an employer of choice: one that is attractive to existing employees and prospective candidates because our work, culture, environment and rewards make it a great place to be. We also want a working environment that, among other things, provides a welcoming culture, free from discrimination, that values diversity and opinions.

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

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

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

In 2015-16, we provided diversity training to new staff and refresher training to existing staff. This is part of our commitment to ensure our staff understand and fulfil their obligations under the Equality Act, thereby contributing to a welcoming and diverse working environment.

One of our equality objectives is to put our values at the forefront of everything we do. During the year, almost everyone at Ofwat participated in conversations about our values and behaviours. This resulted in a new set of values (support, ambition, integrity, learning, ownership and respect). One way we measure our performance is by our staff survey results. For example, by the end of 2016, we want at least 70% of our people to think that colleagues demonstrate our values, and for there to be an improvement in our staff survey responses. Our 2015 People Survey results indicated that people were more likely to think that we put our values at the forefront of our work (57%) than in 2014 (32%).

Table 22: Equality objectives for 2014-18

Objectives	Measured by	Due date
To put our values at the forefront of everything we do.	<p>There are year-on-year improvements against our key performance indicators.</p> <p>Turnover measures show increases in movement for career progression.</p> <p>At least 70% of our people think colleagues demonstrate our values.</p> <p>There is an improvement in our staff survey responses.</p>	By the end of 2016
To provide a working environment that is welcoming, diverse, and supports effective working.	<p>We are recognised as an employer of choice and people seek out opportunities to work here.</p> <p>At least 80% of our people are willing to recommend Ofwat to friends as a good place to work.</p> <p>At least 80% of our people are proud to say they work at Ofwat.</p> <p>We fare well against benchmarked organisations.</p>	By the end of 2018

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

Photo © Getty Images

ISBN 978-1-4741-3103-2



9 781474 131032