

Supplementary Estimates memorandum (2019-20) for a Water Services Regulation Authority

1 Overview

1.1 Objectives

The Water Services Regulation Authority (Ofwat) support the regulation of the water industry in England and Wales as principally set out in the Water Industry Act 1991, Water Act 2003, and Water Act 2014. Ofwat is a competition authority principally under the Competition Act 1998 and the Enterprise Act 2002 relating to commercial activities connected with water or sewerage services in England and Wales. These are continuing functions from previous years and no new functions have been added.

Ofwat is funded through licence fees received from the water and sewerage companies and we consult annually in our Forward Programme with our stakeholders on our budgets for the upcoming year.

1.2 Spending controls

Ofwat's net spending is broken down into a several different spending totals, for which Parliament's approval is sought.

The spending totals which Parliament votes are:

- Resource Departmental Expenditure Limit ("**Resource DEL**")- a net limit comprising day-to-day running costs, less income from licence fees
- Capital Departmental Expenditure Limit ("**Capital DEL**")- investment in capital equipment such as ICT hardware

In addition, Parliament votes a net cash requirement, designed to cover the elements of the above budgets which require Ofwat to pay out cash in year.

1.3 Comparison of net spending totals sought

The table below shows how the net spending totals sought for Ofwat compares with last year:

Spending total Amounts sought this year (Supplementary Estimate 2019-20)		Difference (+ / -) compared to original budget last year. (Main Estimate 2019-20)		Difference (+ / -) compared to outturn last year. (Outturn 2018-19)	
		£ m	%	£ m	%
Resource DEL	£0.15m	£0.15m	0%	-£0.89m	-693%
Capital DEL	£0.22m	£0.22m	0%	£0.12m	83%

A breakdown of spending and income within the net total is shown in section 2.1.

1.4 Key drivers of spending changes since original budget this year

The net Resource DEL is unchanged from the original budget.

Within this, expected licence income, and the gross expenditure this covers, are both expected to decrease from £36.5m to £35.4m (-3%). This is a result of mobilisation of the water Regulators' Alliance for Progressing Infrastructure Development (RAPID) programme commencing part way through the year and therefore we do not require the full funding for the year. The RAPID team will ensure a smooth regulatory path for strategic water transfers and joint infrastructure projects. Further detail is given in section 2.1

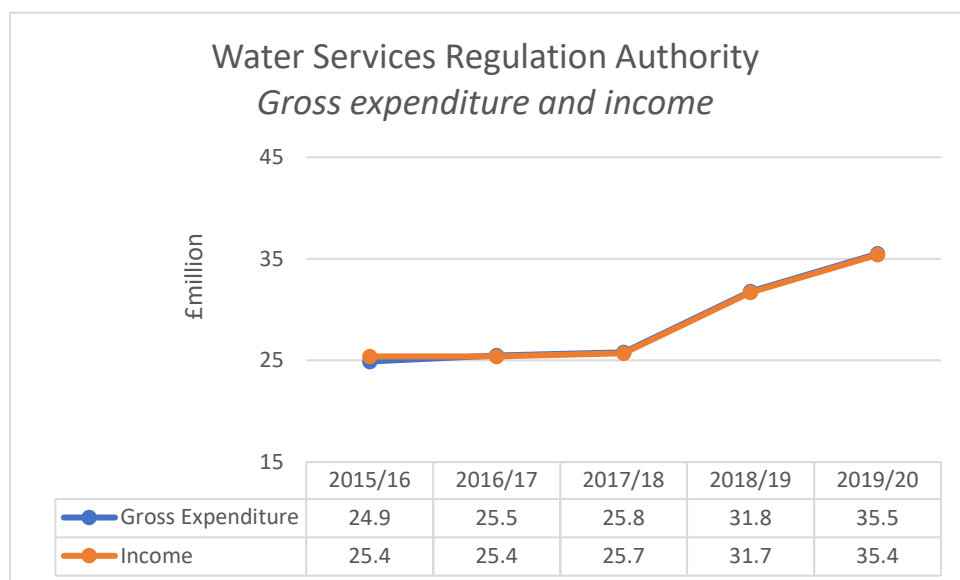
The net capital DEL proposed has not changed significantly from last year. The £0.22 million capital budget this year is an allowance for potential capital works and IT upgrades.

1.5 New policies and programmes

The Regulator was given permission to increase the spending cap for 2019/20 to recover additional licence fees to set-up a new cross regulatory unit (RAPID) focused on facilitating the development of large-scale regional and national water resources infrastructure projects.

1.6 Spending and income trends

The charts below show overall resource DEL spending and income trends for the last five years and current future spending plans. Our budget increased over the last two years reflecting the work undertaken to deliver the price review- this is consistent with the profile of our work over a 5 year price control period.



1.7 Administration costs and efficiency plans

Spending total Amounts sought this year (Supplementary Estimate 2019-20)		Difference (+ / -) compared to original budget last year. (Main Estimate 2019-20)		Difference (+ / -) compared to outturn last year. (Outturn 2018-19)	
		£ m	%	£ m	%
Administration costs	£0.15m	£0.15m	0%	-£0.89m	-693%

The £0.15m administration budget related to the part of the pension costs of the former Directors General of the Office of Water Services ('Directors General') which cannot be charged to the water industry as it relates to their services with other government departments.

1.8 Funding: Spending Review and Budgets

The regulator received no funding through the last Spending Review. Expenditure is funded through:

- Income generated from fees levied on water and/ or sewerage companies and is subject to cost control.

1.9 Other funding announcements

Spending announcements made during the year related to the establishment of the RAPID programme of work- [Regulators collaborate to support strategic water transfers and joint infrastructure projects - Ofwat](#)

2 Spending and income detail

2.1 Explanations of changes in spending and income

Resource DEL

The table below shows how spending plans for Resource DEL compare with last year.

	Resource DEL				
	<i>This year (2019-20 Supplementary Estimates budget sought)</i>	<i>This year (2019-20 Main Estimates budget sought)</i>	change from last year		See explanation, note number
subhead	£ million			%	
Gross expenditure	35.5	36.6	1.1	-3%	1
A Fees from licensees	35.4	36.5	1.1	-3%	1
A Net expenditure	0.1	0.1	0.0	0.0%	

Note 1. Gross expenditure is decreasing to reflect mobilisation of the water Regulators' Alliance for Progressing Infrastructure Development (RAPID) programme commencing part way through the year and therefore we do not require the full funding for the year.

2.3 Ring fenced budgets

Within the totals, the following elements are ring fenced i.e. savings in these budgets may not be used to fund pressures on other budgets

Resource DEL

Spending total Amounts sought this year (Supplementary Estimate 2019-20)		Difference (+ / -) compared to original budget last year. (Main Estimate 2019-20)		Difference (+ / -) compared to outturn last year. (Outturn 2018-19)	
		£ m	%	£ m	%
Depreciation	£0.36m	£0.36m	0%	£0.25m	31%

2.4 changes to contingent liabilities

Ofwat does not have any contingent liabilities

3. Priorities and performance

3.1 Measures of performance against each priority

The regulator's Forward Programme (see [Ofwat 2019-20 Forward Programme](#)) sets out the following high-level objectives, and measures of performance, for the regulator for the current financial year.

3.4 Major projects

The Regulator has not under taken any major capital projects.

4. Other information

4.1 Additional specific information required by the select committee

No additional information has been requested by the Committee

5. Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

The information in this Estimates Memorandum has been approved by myself as Departmental Accounting Officer.

Rachel Fletcher

Accounting Officer

Water Services Regulation Authority