
Supplementary Estimates Memorandum (2024-25): Water Services Regulation Authority

1 Overview

1.1 Objectives

The Water Services Regulation Authority (Ofwat) is the economic regulator of the water industry in England and Wales as principally set out in the Water Industry Act 1991, and as amended by the Water Act 2003 and Water Act 2014. Ofwat is a concurrent competition authority 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.

For its core role 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 several 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 Estimates 2024-25)		Compared to original budget this year (Main Estimate 2024-25)		Compared to original budget last year (Supplementary Estimate 2023-24)	
	£ m	£ m	%	£ m	%
Resource DEL	0.161	0.160	1%	0.161	0%
Capital DEL	0.650	0.650	0%	0.936	-31%

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

1.4 Key drivers of spending changes since last year

There was no change in net spending totals for Resource DEL in 2024-25 compared to the original budget in 2023-24.

Following consultation, we set an expenditure budget of £56m for 2024-25 and set this out in our final Forward Programme in March 2024, with a further potential £6m for additional monitoring with respect to company financial and operational resilience. Consistent with our general approach in relation to work specific to certain water companies, Ofwat may recover the directly attributable costs associated with its oversight and engagement from the company concerned where we consider it would be unreasonable for other water companies to contribute towards these costs. Ofwat would also expect that any such costs are not ultimately funded by customers.

During 2024-25 there was an increase of £2m for oversight and engagement on company financial and operational resilience and £2m additional cost pressures resulting from changes in demand from government and the sector.

The net spending totals for Capital DEL in 2024-25 has decreased by 31% compared to the original budget in 2023-24. Last year represented IT hardware upgrades and refurbishment of our Birmingham office, reflecting the growth of Ofwat and increase in staff to deliver the strategic ambitions within the water sector.

Ofwat receives the majority of its funding from the Water industry but cannot charge capital costs to industry therefore HM Treasury fund Ofwat's capital spend.

1.5 New policies and programmes

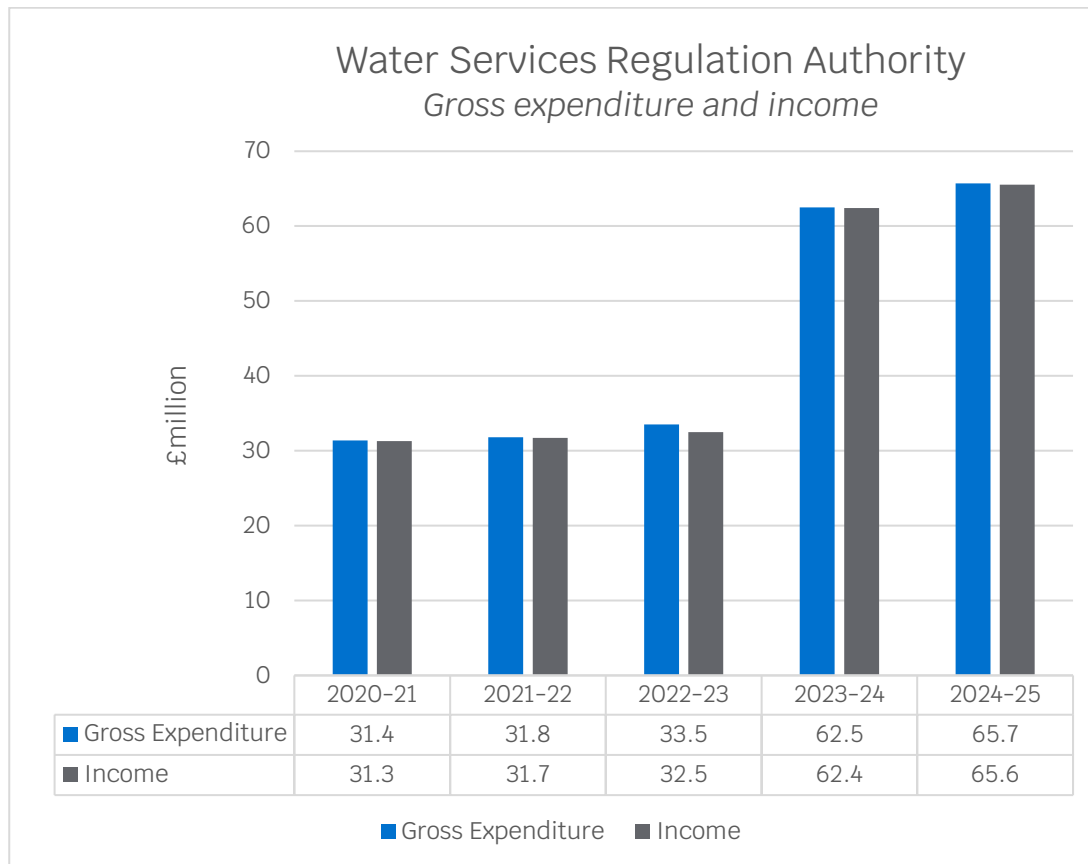
The regulator’s existing strategy is attached [here](#), and the [2024-25 Forward Programme](#).

1.6 Spending and income trends

The charts below show overall Resource DEL spending and income trends for the last five years. The 2023-24 increase was for the Ofwat strategy refresh to improve water companies’ performance and prepare the sector for longer-term challenges, reflecting the strategic priorities set by the UK and Welsh Governments.

The additional funding for Ofwat is focused on building resources to help drive transformation in company performance, addressing long term infrastructure delivery, as well as delivering a significant boost to the regulator's enforcement capacity. We are conscious of the importance of demonstrating value for money for Ofwat and agreed a range of key performance indicators with HM Treasury to demonstrate the link between costs and outcomes.

This is the associated press release: [Enforcement capacity bolstered with £11m funding increase - Ofwat](#).



Following consultation, we set a budget of £56m for 2024-25 and set this out in our final Forward Programme in March 2024. With a further £6m for monitoring company financial and operational resilience. Consistent with our general approach in relation to work specific to certain water companies, Ofwat may elect to recover the directly attributable costs associated with its oversight and engagement from the company concerned where we consider it would be unreasonable for other water companies to contribute towards these costs. Recovery is directly from the company and this will not be funded by customers.

During 2024-25 there was an increase of £2m for oversight and engagement on company financial and operational resilience and £2m additional cost pressures resulting from changes in demand from government and the sector.

1.7 Administration costs and efficiency plans

	Spending total amounts sought this year (Supplementary Estimates 2024-25)		Compared to original budget this year (Main Estimate 2024-25)		Compared to outturn last year (Outturn 2023-24)	
	£ m		£ m	%	£ m	%
Administration costs	0.161		0.160	1%	(2.077)	108%

The £0.16m administration budget in 2024-25 relates to 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 material funding through the last Spending Review. Expenditure is largely funded through income generated from fees levied on water and/or sewerage companies and is subject to cost control.

1.9 Other funding announcements

No other funding announcements in relation to Ofwat's budget were made in the year.

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 in year.

	Resource DEL		Change in year		Explanation for change
	This year (2024-25 Supplementary Estimates budget sought)	This year (2024-25 Main Estimates budget)			
	£m	£m	£m	%	
Gross expenditure	65.711	62.110	3.601	6%	Note 1 and 2
Fees from licencees	65.550	61.950	3.600	6%	Note 1
Net expenditure	0.161	0.160	0.001	1%	Note 2

Note 1: £1.7m increased costs for oversight and engagement on company financial and operational resilience.

£1.9m additional cost pressures resulting from changes in demand from government and the sector.

Note 2: £1k token increase to enable Parliament to vote Supplementary Estimate.

2.2 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.

	Ringfenced budget amount sought this year (Supplementary Estimate 2024-25)	Compared to original budget this year (Main Estimate 2024-25)		Compared to outturn last year (Outturn 2023-24)	
	£ m	£ m	%	£ m	%
Depreciation	1.125	1.125	0%	0.973	16%

The depreciation proposed has remained static compared to the original Main Estimate budget.

The increase in depreciation since 2023-24 represents the full year costs of IT hardware upgrades and refurbishment of our Birmingham office, reflecting the growth of Ofwat and increase in staff to deliver the strategic ambitions within the water sector.

2.3 Changes to contingent liabilities

Ofwat does not have any contingent liabilities

3. Priorities and performance

3.1 Measures of performance against each priority

Ofwat's Forward Programme (see [2024/25 Forward Programme](#)) sets out the high-level objectives, and measures of performance, for the regulator for the current financial year.

3.2 Major projects

The Regulator has not undertaken any major capital projects nor are any planned.

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.

A handwritten signature in black ink, appearing to read 'D Black', is positioned above a vertical line that separates the signature from the text below.

David Black

Accounting Officer

Water Services Regulation Authority

31 January 2025