Supplementary Estimate Memorandum for 2018-19
Water Services Regulation Authority (Ofwat)

Overview

The Water Services Regulation Authority (Ofwat) Supplementary Estimate for 2018-19 seeks the necessary resources to 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.

The purpose of this memorandum is to provide the select committee with an explanation of how the resources and cash sought in the supplementary Estimate will be applied to achieve the objectives of Ofwat. This includes information on comparisons with the resources provided in earlier years’ Estimates.

Summary of the main spending control figures in the Estimate:

<table>
<thead>
<tr>
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<th>2018-19</th>
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</thead>
<tbody>
<tr>
<td>Resource Departmental Expenditure Limit (RDEL)</td>
<td>£m</td>
</tr>
<tr>
<td>Administration Budget (DEL)</td>
<td>0.1</td>
</tr>
<tr>
<td>Capital Expenditure (CDEL)</td>
<td>0.2</td>
</tr>
<tr>
<td>Annually Managed Expenditure (AME)</td>
<td>0.0</td>
</tr>
<tr>
<td>Net Cash Requirement (NCR)</td>
<td>2.3</td>
</tr>
</tbody>
</table>
Budgetary Limits (DEL or AME)

<table>
<thead>
<tr>
<th></th>
<th>Outturn</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016-17</td>
<td>2017-18</td>
</tr>
<tr>
<td>Resource DEL (RDEL)</td>
<td>(0.7)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Resource AME (RAME)</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Capital DEL (CEL)</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Net cash requirement (NCR)</td>
<td>1.2</td>
<td>1.3</td>
</tr>
</tbody>
</table>

**Explanation of significant changes compared to previous year**

**Resource DEL**

Ofwat’s Resource DEL (RDEL) is the net difference between RDEL expenditure (£31.8m) and income (£31.7m) generated through licence fees received from the water and sewerage companies. The difference of £0.1m represents the interest chargeable for the retired Directors General of the Office of Water Services pension scheme that cannot be charged to the water industry.

There is no significant change compared to previous year.

**Resource AME**

Under Clear Line of Sight (CLoS) Ofwat is not required to record provisions or related income under this category.

**Capital DEL**

Ofwat’s capital requirement in 2018-19 (£0.2m) reflects the sum received as part of our agreed Spending Review 2015 submission and was requested in relation to asset renewals and developmental capital expenditure to support Ofwat’s Business Improvement programme.

There is no significant change compared to previous year.

**Net Cash Requirement**

The cash provision (£2.3m) includes:
• the part of the pension costs of the former Directors General of the Office of Water Services which cannot be charged to the water industry as it relates to their services with other government departments (£0.1m);
• capital expenditure (£0.2m); and
• forecast reduction in working capital balances during the year (£2.0m).

The net cash requirement is £0.8m (53%) greater in 2018-19 than in 2017-18. The increase in net cash requirement from 2017-18 represents a revised forecast of cash required to reduce working capital balances incurred during the final quarter of the 2017-18 financial year.

Contingent liabilities

Ofwat does not have any contingent liabilities.

Changes to departmental ambit

There is no change to Ofwat’s ambit coverage for 2018-19.

Key points, activities and priorities

The 2018-19 Supplementary Estimate is sought to enable delivery of planned work which includes the activities supporting our priorities for 2018-19:

• Delivering more for less for customers including through innovation, by regulating monopolies and developing markets.
• Holding companies to account for good customer outcomes – by taking action when things go wrong, improving transparency and requiring companies to put customer interests at the heart of all they do.
• Taking a long-term view of the sector, the impact of continuing environmental change, the development of the economy and customers’ changing expectations, to see how regulation, and Ofwat as regulator, can evolve.
• Ensuring Ofwat is fit for the future, with the right culture, skills, governance, systems and processes.


Approval of Memorandum

This memorandum has been prepared with reference to the guidance in the Estimates Manual provided by HM Treasury. The information in this memorandum has been approved by the Chief Executive and Accounting Officer for the Water Services Regulation Authority.
Appendix 1 – Glossary of key terms

Administration budget – An HM Treasury control on resources consumed directly by departments that forms part of the Departmental Expenditure Limit (DEL). Includes expenditure items such as staff costs, accommodation etc.

Annual Managed Expenditure (AME) – AME is spending included within the Total Managed Expenditure, which does not fall within Departmental Expenditure Limits (DEL). Expenditure is AME is generally less predictable and controllable than expenditure in DEL.

Departmental Expenditure Limit (DEL) – An HM Treasury budgetary control, DEL spending forms part of Total Managed Expenditure and includes that expenditure which is generally within the departments control and can be managed with multi-year limits. Some elements may be largely demand led.

Capital Expenditure (DEL) – Related to the purchase or sale of assets. The value must be a certain capitalisation threshold and the asset must be expected to be used for a period of at least one year. It includes the purchase of IT equipment, software, furniture, fixtures and fittings and leasehold improvements. The threshold is set by each department; items valued below the threshold are not counted as capital assets, even if they do have a productive life of more than one year.

Net cash requirement (NCR) – the limit voted by Parliament reflecting the maximum amount of cash that can be released from the Consolidated Fund to a department in support of expenditure in its Estimate. In the case of a negative net cash requirement, the department must generate a surplus of at least that amount.

Ambit – A description of the services or purposes to which expenditure and income is to be used in respect of each of the relevant control limits. A department cannot recover income or incur expenditure that is not covered by the scope of the departmental ambit.

Contingent Liability – Potential liability that is uncertain but recognises that future expenditure may arise if certain conditions are met or certain events happen.