

Water today, water tomorrow

# Ofwat forward programme 2013-14 to 2015-16

## About this document

This document sets out our forward work programme for the coming financial year. We focus on the projects we plan to carry out rather than routine activities. We also provide indicative information on work we will be carrying out in 2014-15 and 2015-16.

This document reflects changes since, and as a result of, the consultation on our draft forward programme for 2013-14 to 2015-16. We held the consultation between 29 November 2012 and 31 January 2013.

Under the Water Industry Act 1991 (as amended by the Water Act 2003) we have a duty to consult on, and publish, our forward programme of work ahead of the coming financial year.

We would like to alert stakeholders to the fact that we may revisit this work programme in the coming year, should that be necessary following a refresh of the Ofwat strategy, which is scheduled to take place in early summer.

Where this document uses the term 'the Government', this refers to both the UK and Welsh Governments as appropriate, unless otherwise stated.

Further information about what we do can be found on our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

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## Strategic assessment (2013-14 to 2015-16)

In our strategy, we highlighted the need for the water and sewerage sectors in England and Wales to change collectively to meet the challenges of the future. Climate change, population growth, demographic changes, increasing customer expectations and pressure on water resources create a new and more unpredictable environment. Together, we need to find practical solutions to these challenges, at both strategic and operational levels.

To play our part, in 2010 we launched our [future regulation programme of projects](#) to develop fresh ideas for regulating the sectors that build on past successes. Over the past year, as the first of our projects have come to an end, our future regulatory framework has begun to take shape. For example, with help and contributions from our stakeholders, we:

- delivered a risk-based approach to regulation that will enable us to be flexible in responding to emerging or changing risks, and – where necessary – take swift and decisive action to protect consumers (our regulatory compliance project);
- developed the high-level principles that will guide our approach to

future price setting to help us play our part in delivering sustainable water and sewerage sectors (our future price limits project); and

- identified areas where customers may need more protection and the range of tools we could use to empower, engage and protect them (our consumer protection project).

Over the coming year, we will continue to deliver a number of key strategic areas of work. We will:

- use our future price limits principles to develop and implement our approach to setting price controls in 2014 for all water and sewerage and water only companies in England and Wales for each year between 2015 and 2020 (our implementing price limits project);
- work with Government and other stakeholders to plan how we will implement the UK Government's proposals to introduce more competition and choice in England – should the Draft Water Bill become law (our choice and trading arrangements project); and
- consider how pricing can help deliver water and sewerage services more efficiently (our charging project).



We will also use the results of our consumer protection project to better empower, engage and protect consumers. And we will continue to deliver better regulation and value for money – for example, by implementing a performance framework to improve transparency about how we do our job.

We operate within the overall policy framework that the UK and Welsh Governments set for the sectors. And over the coming year a number of factors could change our plans.

- Our Board is revising and refreshing our strategy. This follows the appointment of a new Chairman and the imminent appointment of new non-executive Board members.
- The UK Government published its Draft Water Bill in July 2012 for pre-legislative scrutiny. This will introduce significant reforms to the sectors and changes to our role. Subject to decisions by Parliament, this legislation could become law in 2014-15.
- The UK Government has published a final strategic policy statement that clarifies the outcomes it expects from the sectors, and

updates social and environmental guidance to us.

- The UK Government is making changes to consumer representation in regulated industries – and merging the Competition Commission and Office of Fair Trading into a Competition and Markets Authority.
- At the time of writing, the Welsh Government is expected to publish its water strategy for Wales in early 2013, along with updated social and environmental guidance for us. A new, single environmental body for Wales – Natural Resources Wales – will also be established from April 2013.

Should these changes affect our work plan, we will communicate this clearly to our stakeholders.

We would like to thank those stakeholders that responded to our draft forward programme consultation. We set out a summary of the main issues they raised on page 27 and our response. We will consider comments we received on specific pieces of work as we deliver our work programme.



# Our strategy – a summary

<p>This is our long-term aspiration.</p>	<p><b>Vision</b></p> <p>A sustainable water cycle in which we are able to meet our needs for water and sewerage services while enabling future generations to meet their own needs (<b>'Sustainable water'</b>).</p>
<p>Our mission and goals set out how we will contribute towards delivering our vision.</p>	<p><b>Our mission and goals</b></p> <p>To ensure customers continue to receive safe, reliable, efficient and affordable water and sewerage services that promote positive social, economic and environmental impacts today, tomorrow and over the long term (<b>'Water today, water tomorrow'</b>).</p> <ul style="list-style-type: none"> <li>• Ensuring a fair deal for customers</li> <li>• Keeping companies accountable</li> <li>• Making monopolies improve</li> <li>• Harnessing market forces</li> <li>• Contributing to sustainable development</li> <li>• Delivering better regulation</li> </ul>
<p>Our values describe how our organisation, and individuals in it, will behave in delivering all aspects of our work.</p>	<p><b>Responsibility</b></p> <p>We have values that underpin our vision, mission and goals. We will operate to the highest standards of public office and conduct our business in a responsible and ethical way.</p> <ul style="list-style-type: none"> <li>• Excellence</li> <li>• Leadership</li> <li>• Respect</li> <li>• Integrity</li> </ul>
<p>Our vision, mission and goals provide the basis of our annual priorities, which we set out in our forward programme each year.</p> <p>These annual priorities form the basis of our senior management team's objectives. These in turn cascade down the organisation to the objectives of all Ofwat staff.</p> <p>This ensures actions required to deliver our strategy are allocated and aligned with individual responsibilities.</p>	<p><b>Delivery</b></p>  <pre> graph TD     A[Vision] --&gt; B[Mission]     B --&gt; C[Goals]     C --&gt; D[Annual Ofwat priorities]     D --&gt; E[Annual team priorities]     E --&gt; F[Annual individual priorities]     </pre>
<p>Our annual report and accounts show what we have delivered each year and report on progress in delivering our strategy.</p>	<p><b>Progress and accountability</b></p> <p>Each year, we review how well we have done in delivering our work programme, and report on the efficiency and effectiveness of our organisation in our annual report and accounts. This document is laid before Parliament.</p>

## Our future regulation programme in context

The diagram (opposite) provides high-level context to our work programme. It highlights the:

- main driving forces – and their effects – for carrying out our future regulation programme ('challenges to the sectors');
- external factors that will shape our work ('external drivers for change');
- strategic projects that will inform our regulatory approach (implementing price limits, choice and trading arrangements, and charging);
- important projects and other work that will allow us to deliver our strategic projects ('enabling projects');
- projects that have finished and are already informing our regulatory approach and our other projects ('completed projects'); and
- benefits that our approach will deliver ('benefits for customers, the environment, the companies and investors').

**Challenges to the sectors:** climate change | affordability risks | rising environmental standards | rising consumer expectations | population growth and lifestyle changes

**Enabling projects:**

- Licence simplification
- Thames Tideway
- Performance management and transparency

**Strategic projects:**

- Implementing price limits
- Choice and trading arrangements
- Charging

**Completed projects:**

- Consumer protection
- Future price limits
- Regulatory compliance

Challenges to the sectors

Strategic projects

Enabling projects

Completed projects

**Future regulation**

Benefits

External drivers for change

**Benefits for customers, the environment, the companies and investors:**

- Safe, reliable and sustainable water, sewerage and drainage services
- More efficient use of water resources
- More customer-focused services and plans
- Empowered and engaged consumers
- Fair and transparent charges
- Flexible and dynamic businesses
- Continued investment opportunities
- Innovation in the financing and delivery of services
- Proportionate and targeted regulation

**External drivers for change:** UK Government's Draft Water Bill | UK Government's strategic policy statement | Government policy on competition and consumers | Welsh Government's Water Strategy and Social and Environmental Guidance | EU Blueprint for Water | stakeholders' views



## Our projects – a summary

### Implementing price limits

We will be setting out, and implementing, our process for setting price controls in 2014.

We will be:

- making decisions on our policies;
- setting out what companies need to submit to us to allow us to set price controls;
- engaging with all stakeholders;
- reviewing the companies' business plans; and
- setting price controls.

We will publish our final methodology for the 2014 price review in early summer 2013. This will reflect the outcomes from the consultations on our draft methodology and our expectations for companies' business plans.

As part of this project we will:

- take account of the environment;
- challenge the companies to manage their assets efficiently and effectively; and
- implement modifications to companies' licences. We consulted on these changes in 2012-13.

### Choice and trading arrangements

We are working with Government and other stakeholders to plan how we will implement the proposals – in the UK Government's [Draft Water Bill](#) – to introduce more competition and choice in England. This is in order to deliver benefits for customers and help ensure scarce resources are used efficiently. We are carrying out preparations to help markets open quickly and effectively should the proposed legislation become law. We will also take account of any changes the Welsh Government might propose for Wales.

We are focusing on work that will ensure there is:

- no undue discrimination to the market;
- a set of rules and codes to govern the market processes; and
- new licences and licensing processes to achieve the aims of the Draft Water Bill.

We will also be working on measures and incentives to encourage water companies to trade water – where this is the most efficient option – to balance the supply and demand for water.

### Charging

We are considering how pricing can help deliver water and sewerage services more efficiently. We are focusing on the charges that would:

- support entrants supplying water resources;
- support entrants supplying retail services;
- improve the charging for new connections; and
- support the framework for new appointments and variations.

We are exploring charging-related issues associated with our future approach to price setting, and the wider reforms proposed by the UK Government in its Water White Paper and Draft Water Bill. We will consider any further issues that the Welsh Government raises in its water strategy.

Subject to the passage of the Draft Water Bill through Parliament, we intend to consult on charging issues related to the implementation of market reforms in 2014-15.



## Thames Tideway

The Thames Tideway is a large, complex investment project to reduce overflows of untreated sewage into the River Thames.

We will:

- ensure the cost of the Thames Tideway scheme is no more than it has to be and that Thames Water's customers receive the best value for money possible; and
- use lessons learned from this to develop future regulation and financing approaches for large-scale infrastructure projects (since this is the biggest scheme that a water company has delivered since privatisation).

We will feed into the consultations and decisions by the UK Government, Thames Water and others.

## Performance management and transparency

We are making changes to improve our governance and performance management processes. In particular, we propose implementing new, more transparent annual reporting processes. These will tell our stakeholders how we are performing in delivering our work and using our resources.

We consulted on our proposed framework alongside the draft forward programme. We will publish our final framework in early 2013-14. We will then trial a reduced version of our framework during the rest of 2013-14, before implementing it in full in 2014-15.

## Licence simplification

We want to improve the regulated companies' licences by:

- making them clear and concise; and
- ensuring consistency with changes to our overall regulatory framework.

We also want to introduce minimum standards of service that the companies need to deliver for:

- developers;
- self-lay organisations; and
- landowners.

We will make the licence simplification work we have done available during 2013 – and seek to progress this work after the 2014 price review. Also, we will publish a consultation on minimum service standards in early 2013-14.



## Key dates in 2013-14

<b>Quarter 1 (April to June)</b>	<p>Consultation on business planning expectations for the 2014 price review (implementing price limits)</p> <p>Changes to companies' licences (implementing price limits)</p> <p>Discussion document on establishing a level playing field in water and sewerage markets (choice and trading arrangements)</p> <p>Guidance to companies on negotiating bulk supplies (choice and trading arrangements)</p> <p>Consultation on standards of service for developers, self-lay organisations and landowners (licence simplification)</p> <p>Consultation on market governance (choice and trading arrangements)</p> <p>Final performance framework (performance management and transparency)</p> <p>Final methodology and business planning expectations for the 2014 price review (implementing price limits)</p>
<b>Quarter 2 July to September)</b>	<p>Market governance conclusion (choice and trading arrangements)</p> <p>Each company publishes a draft water resources management plan (implementing price limits)</p>
<b>Quarter 3 (October to December)</b>	<p>Developing licences for new entrants (choice and trading arrangements)</p> <p>Standards of service for developers, self-lay organisations and landowners (licence simplification)</p>
<b>Quarter 4 (January to March)</b>	<p>Consultation on the development of licences for new entrants (choice and trading arrangements)</p> <p>Analysis of companies' business plans (implementing price limits)</p> <p>Customer challenge groups submit their reports on companies' customer engagement (implementing price limits)</p>



## Ensuring a fair deal for customers



### In our strategy, we said this meant:

- making sure that all customers receive the services they expect at a price that treats them and others fairly, is transparent and gives them choice and some control over the charges they pay;
- in the absence of customer choice, challenging monopolies to improve on all aspects of service and price they offer. And where there is choice, making sure that markets deliver benefits to customers and the environment;
- making sure that customers now and in the future contribute their fair share – and no more – towards sustainable water; and
- making sure that our work takes account of customers' priorities, including those who need additional help and those on low incomes.

## Our charging project

### What we aim to deliver

- Charging frameworks that help to deliver water and sewerage services more efficiently, particularly in relation to the provision of:
  - water resources;
  - retailing activities;
  - services at new developments; and
  - new appointments and variations.

### How we will do it

- Work closely with the UK and Welsh Governments and other stakeholders to develop and test charging frameworks that would help to deliver water and sewerage services more efficiently.
- Consult on charging issues associated with price setting as part of the consultation on our methodology for setting price controls in 2014.
- Dependent upon legislation, consult on other charging issues (from one appointed water company to another).



## We will also:

- empower customers to ensure a fair deal and adequate service standards by:
  - considering the system(s) of redress that will serve customers best in putting things right when they have problems with their water or sewerage supplier. And we will review whether any changes are necessary and work with stakeholders to explore how to deliver improvements (2013-14 and 2014-15);
  - encouraging the companies to provide improved information to their customers, so that those customers are able to make better decisions and understand the services they are entitled to receive (2013-14);
  - contributing to the development of consumer protection arrangements for non-household customers after the introduction of competition, including specific arrangements for the smallest businesses (2013-14, 2014-15 and 2015-16); and
  - implementing changes to our policies to ensure customers are treated fairly when companies have billed them incorrectly (2013-14);
- where necessary, challenge the water and sewerage companies to ensure that any costs associated with the transfer of private sewers are economic and efficient, and reflect the actual costs that companies incur (2013-14); and
- publish final policy principles for charging for new connections. This will set out the principles we will follow when making decisions in cases where water companies and third parties disagree on the charges the companies make for providing connections to their water and sewerage networks (2013-14).



## Keeping companies accountable



### In our strategy, we said this meant:

- making sure the companies deliver the services they promise at the price they agreed and meet their legal obligations;
- making sure that monopoly suppliers listen to their customers, deliver their priorities and are honest about their performance. And, where there are open markets, ensuring that the companies operating in them do not break the market rules;
- making sure that the companies meet their wider social, economic and environmental obligations; and
- where companies fail, taking fair and appropriate action against them to protect customers, put things right and deter them from further failures.

## Our licence simplification project

### What we aim to deliver

- Company licences that:
  - are clear, concise and as consistent as possible;
  - are effective and appropriate to our evolving regulatory framework (as influenced by the Water White Paper and Draft Water Bill); and
  - include minimum standards of service that the companies must deliver.

### How we will do it

- Continue working with the companies to agree changes to those elements of their licences that are now obsolete, or that need to be amended as a result of changes in our overall regulatory framework.
- Work with Defra, the companies, developers, self-lay organisations and landowners to develop minimum levels of service.

### Key dates in 2013-14

A consultation on the standards of service that we expect companies to deliver to developers, self-lay organisations and landowners – and a charter setting out how we expect companies and others to interact (quarter 1, 2013-14).

Standards of service for developers, self-lay organisations and landowners (quarter 3, 2013-14).

## Our implementing price limits project

### What we aim to deliver

- Changes to water companies' licences that enable us to set price limits that reflect changing circumstances.

### How we will do it

- Implement agreed changes to companies' licences (2013-14).

### Key dates in 2013-14

Changes to companies' licences (quarter 1, 2013-14).

### We will also:

- continue to implement our risk-based approach to regulation by using performance information from a range of sources to confirm that companies are delivering for their customers and reporting on any action we may have taken on behalf of customers – to ensure that companies put things right (2013-14);
- investigate and resolve disputes between companies and customers in cases where a customer alleges their company has failed to deliver a particular service (2013-14 and 2014-15);
- subject to legislation, put in place alternative arrangements for resolving disputes so that the parties involved can do this quickly and cost effectively (2013-14 and 2014-15); and
- improve transparency about the way we investigate and resolve disputes, and be more open about how we prioritise our investigations. We will do this by regularly updating the information on our website and producing guidance for stakeholders on what they need to provide when asking us to make a determination. We will also publish expected timescales for different types of cases (2013-14).



## Making monopolies improve



### In our strategy, we said this meant:

- challenging the monopoly companies to improve in all aspects of their performance, delivering their customers' priorities as well as their other legal obligations;
- making sure that the way that monopolies operate does not interfere with efficient and effective markets – and that they are encouraged to learn, adapt and behave in ways that mimic competitive markets wherever possible;
- making sure that monopoly companies help ensure water security and meet their wider social, economic and environmental obligations effectively and efficiently; and
- making sure that our system of regulation provides the right incentives to ensure that monopolies innovate to improve all aspects of their services.

## Our implementing price limits project

### What we aim to deliver

- A process for setting price controls in 2014 that:
  - encourages companies to take greater ownership of their business plans;
  - ensures customers have a say in shaping company business plans; and
  - is targeted, proportionate, and delivers better regulation in practice.
- Price controls in 2014 for monopoly services that:
  - are consistent with the conclusions of our future price limits and regulatory compliance projects;
  - take account of the priorities of the UK and Welsh Governments for the sectors – and their wider policies; and
  - enable the companies to deliver what customers want in an efficient, sustainable and long-term way.

### How we will do it

- Consult on the information we require to set price controls (2013-14).
- Publish our final methodology for setting price controls for retail and wholesale services (2013-14), including (among other things):
  - identifying and assessing the strength of incentives (both rewards and penalties) that the companies should receive within price controls;
  - considering how risks should be shared between customers, the companies, investors and other stakeholders;
  - considering whether we should extend (or revise) our existing scheme for encouraging the companies to improve the services their customers experience (the service incentive mechanism); and

- where appropriate, developing frameworks for approaches to meeting company-defined outcomes or other targets or obligations, such as leakage and management of assets.
- Publish the final information we require to set price controls (2013-14).
- Drawing on the information available to us – including the views of each company's customer challenge group in particular – review and challenge the companies' business plans. We will focus our challenge on areas where there are the greatest risks, or where a plan is not of sufficient quality (2013-14).
- Consult on our draft determinations of the companies' price controls and, following representations from the companies and customers, make final determinations (2014-15).
- Review lessons learned from the 2014 price review (2015-16).

### Key dates in 2013-14

Consultation on business planning expectations for the 2014 price review (quarter 1, 2013-14).

Final methodology and business planning expectations for the 2014 price review (quarter 1, 2013-14).

Analysis of companies' business plans (quarter 4, 2013-14).

Customer challenge groups submit their assurance reports on companies' customer engagement (quarter 4, 2013-14).

## Our Thames Tideway project

### What we aim to deliver

- Customers only finance efficient and effective costs.
- Thames Water and any third party infrastructure providers are accountable to the company's customers.
- New approaches for delivering large projects that produce better outcomes for customers across England and Wales.

### How we will do it

- Work with Defra, the Environment Agency, Thames Water and other stakeholders to identify the most suitable implementation and financing model for the Thames Tideway scheme that ensures:
  - it is delivered effectively and efficiently;
  - it costs no more than necessary; and
  - customers get the best value for money possible (2013-14, 2014-15 and 2015-16).
- When the UK Government implements regulations contained in the Flood and Water Management Act 2010, we will consult on a licence for a third party infrastructure provider (2013-14) and subsequently help in the appointment of a successful infrastructure provider (2014-15).



# Harnessing market forces



## In our strategy, we said this meant:

- using regulated markets to reveal new information or new approaches to help deliver long-term water security;
- introducing regulated markets where there are clear long-term benefits to customers and the environment;
- monitoring markets to make sure they operate effectively and efficiently – and taking action where they do not; and
- designing markets – and the regulatory tools to harness them – in ways that promote positive social, economic and environmental benefits.

## Our choice and trading arrangements project

### What we aim to deliver

- Subject to UK Government legislation:
  - a market for retail water and sewerage services that gives non-household customers a choice of retail supplier; and
  - a wholesale water and sewerage market to increase the scope for entry and more efficient outcomes and innovation.
- An improved framework for water trading to help produce better outcomes for customers and the environment.

### How we will do it

We are working with the UK Government, regulators, companies and customers to prepare for delivering the reforms set out in the Draft Water Bill. In particular, we will:

- develop market arrangements that allow all non-household customers to choose their retail supplier, while at the same time ensuring they have effective protection;
- consult on the design of retail water licences, retail sewerage licences and retail market arrangements, including market governance and market codes (the rules and principles that suppliers must observe);
- consult on the design of wholesale water and sewerage licences, including market governance and market codes;
- engage with industry stakeholders on how we can achieve a level playing field for new entrants and avoid undue discrimination; and

- work with the Water Industry Commission for Scotland (WICS), the UK Government and the Scottish Government to take steps towards a possible joint England-Scotland market for retail water and sewerage services. This will include agreeing joint licensing arrangements.

### Key dates in 2013-14

A consultation on market governance to guide the sectors in the setting up of codes that will determine how the markets for wholesale and retail water and sewerage services will operate (quarter 1, 2013-14).

Discussion document on establishing a level playing field (in terms of price and non-price issues), which helps give customers effective choice (quarter 1, 2013-14).

Guidance to companies on negotiating bulk supplies (quarter 1, 2013-14).

Market governance conclusion (quarter 2, 2013-14).

Developing licences for new entrants (quarter 3, 2013-14).

Consultation on the development of licences for new entrants (quarter 4, 2013-14).



### We will also:

- continue to review our regulatory framework in the light of changes to the special merger framework in the water and sewerage sectors (2013-14). The UK Government consulted on this during 2012-13.



# Contributing to sustainable development



## In our strategy, we said this meant:

- making sure that customers continue to receive safe, reliable, efficient and affordable water and sewerage services that promote positive social and environmental impacts now and over the long term;
- making sure that the companies meet their customers' needs and deliver long-term water security effectively and efficiently;
- making sure the companies contribute towards wider social, economic and environmental objectives; and
- making sure that we make sustainable choices and our approach to regulation encourages others to do the same.

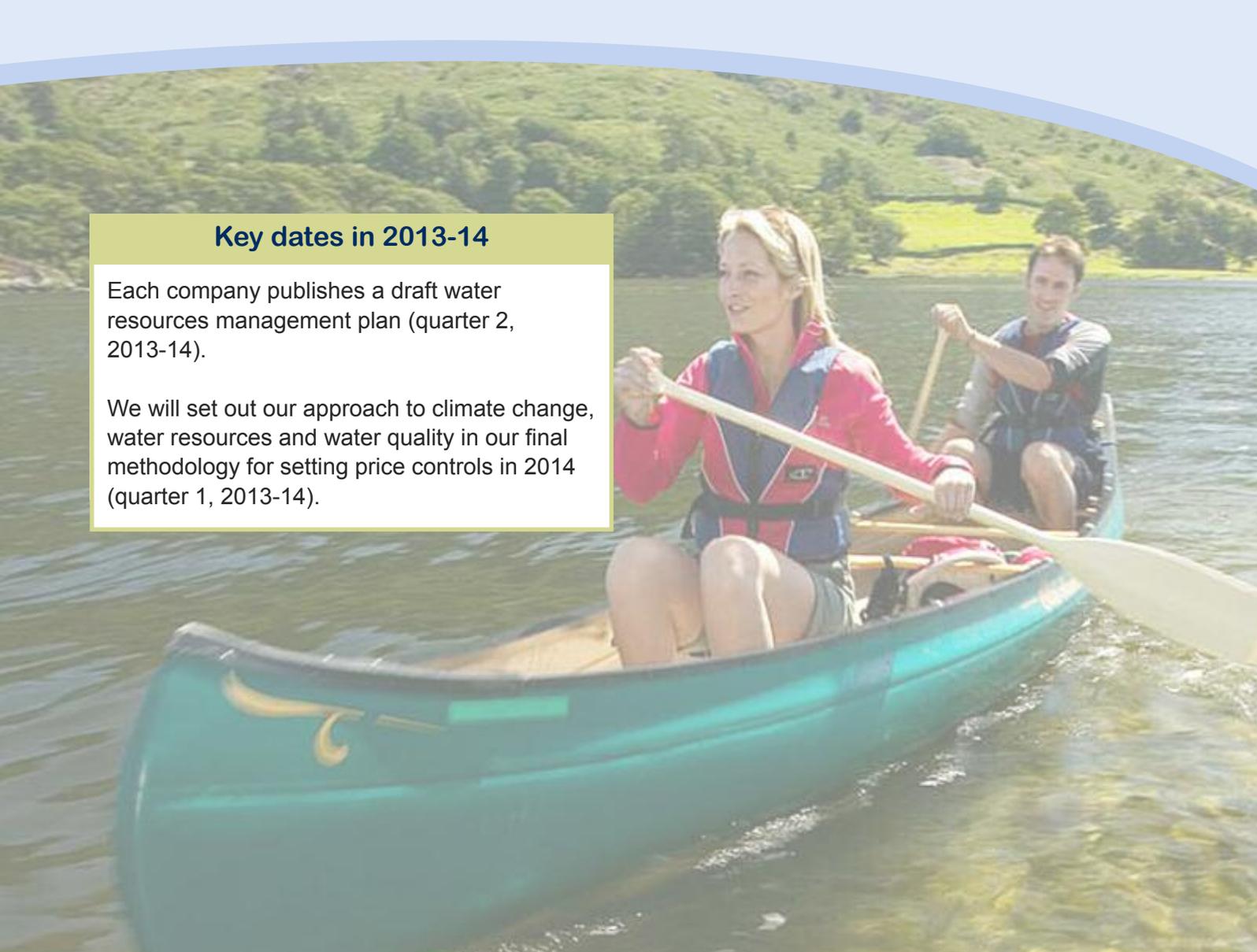
## Our implementing price limits project

### What we aim to deliver

- Companies that meet their environmental obligations and make other environmental improvements efficiently, and in accordance with what their customers want.

### How we will do it

- Help make abstraction more sustainable by working with Defra and the Environment Agency on long-term reform of the abstraction management framework (2013-14).
- Set out our approach to leakage for the next price review (2013-14).
- Continue working with the UK and Welsh Governments, the Environment Agency, Natural England and the Drinking Water Inspectorate on implementing the Water Framework Directive so that water customers only contribute to work to mitigate the impact of water and sewerage companies or work that otherwise benefits them (2013-14).
- Ensure our price review process aligns as much as possible with other regulatory frameworks such as river basin management plans and water resources management plans (2013-14).
- Contribute to the UK Government's National Adaptation Programme for climate change (2013-14).



### Key dates in 2013-14

Each company publishes a draft water resources management plan (quarter 2, 2013-14).

We will set out our approach to climate change, water resources and water quality in our final methodology for setting price controls in 2014 (quarter 1, 2013-14).

### We will also:

- continue to work with the Environment Agency and the Drinking Water Inspectorate (2013-14 and 2014-15) to:
  - strengthen our working relationships;
  - join up our price review process with other regulatory processes; and
  - deliver better regulation in practice.



## Delivering better regulation



### In our strategy, we said this meant:

- effective regulation, delivered efficiently at a minimum cost to customers and a minimum burden to the companies;
- a system of regulation that encourages the companies to meet the needs of customers and the environment – and that takes action against those that do not;
- reviewing continually the tools, approaches and information we use to ensure that monopolies improve the services they offer and that markets deliver benefit to customers and the environment; and
- regulation that promotes positive social, economic and environmental impacts.

## Our performance management and transparency project

### What we aim to deliver

- A performance management framework – in line with recommendations from the Gray review – that delivers improved transparency for our stakeholders about how we:
  - perform against our strategy and objectives; and
  - allocate and use our resources.

### How we will do it

- Following consultation, we will progressively implement our own annual reporting arrangements (2013-14 and 2014-15). This will include:
  - how we propose to monitor our own performance – particularly how we meet the better regulation principles of being accountable, proportionate, targeted, consistent and transparent; and
  - the information we provide about how we use our resources.
- Report on our performance using these arrangements each year (2013-14, 2014-15 and 2015-16).

### We will also:

- have regard to:
  - the UK Government's final strategic policy statement and social and environmental guidance; and
  - the Welsh Government's water strategy and social and environmental guidance (2013-14).
- publish a revised code of practice on how we carry out our consultations (2013-14).

## Measuring our performance

In our strategy, we committed to developing the approach we use to hold the companies to account for their performance. We also need a framework for monitoring our own performance as economic regulator. This would:

- improve transparency for our stakeholders of the impact of our actions;
- help us to identify the impact of any action we take; and
- help us target and use our resources most effectively.

We published a draft performance framework alongside our draft forward programme consultation.

Our stakeholders welcomed our work and provided some useful comments and ideas. We will use their responses to develop our final performance framework, which we publish in early 2013-14. We will then trial a reduced version of the system for 2013-14. This will allow us to test our framework before we implement it in full in 2014-15.



“our decisions must allow those we regulate to deliver sustainable water and sewerage services now and in the future”

## Our approach to consultation

The decisions we take can have big consequences for:

- customers, whose interests we protect;
- the companies we regulate;
- the environment; and
- the UK economy as a whole.

In doing our job, we have to be particularly careful about what we do and how we do it. We need to balance the benefits of any action we take with the costs that may be imposed on customers, the companies we regulate or others. Ultimately, our decisions must allow those we regulate to deliver sustainable water and sewerage services now and in the future.

Our normal approach to making decisions includes consulting on them with those people or organisations with an interest in the subject matter. This helps us to be sure that our decisions are based on the best possible information and a wide range of views.

As part of our commitment to best regulatory practice, we plan to update ‘[Having your say: Ofwat’s code of practice on consultations](#)’, which we published in 2003. We plan to consider the UK Government’s ‘[Consultation principles – guidance](#)’, which it published in July 2012.

In response to our request in our draft forward programme, a number of stakeholders provided their views on our overall approach to consultation and engagement. We will use these responses to develop our code of practice, which we plan to publish in autumn 2013.

## Financing the delivery of our work programme

We aim to deliver our legal duties effectively and efficiently, and provide value for money. Our expenditure requirements are met by licence fees that are recovered from the companies we regulate. Our budget for 2013-14 of £21.5 million is equivalent to about 85 pence each year for every customer in England and Wales, or about 0.2% of the sectors' turnover.

We have moved to a more risk-based, targeted and proportionate approach to regulation. This has meant we have been able to divert existing resources to the new work set out in this document. This includes preparing for possible implementation of reforms set out in the UK Government's Draft Water Bill.

The proposed general licence fee at £19.7 million for 2013-14 has increased for the first time in four years. This is to ensure Ofwat can

deliver its work up to the price determinations in 2014 and the strategic market reform developments. The cost of regulating the Thames Tideway tunnel project will be recovered separately from Thames Water. The proposed estimate for this special fee is £1.5 million.

Our work programme could change further in the light of new UK and Welsh Government policies and legislation. For example, the scale and pace of our market reform project will be determined by the legislation that the UK Government published in summer 2012. And the Welsh Government is expected to publish its revised water strategy during 2013, which may give us more new responsibilities – such as ensuring that companies operating in Wales can support customers who struggle to pay their bills. If so, we will review our current and future budgets accordingly.

## How we deliver value for money

Our risk-based approach to regulation helps us deliver:

- more effective outcomes for consumers; and
- improved value for money for customers (who pay our running costs).

We use our approach to decide whether or not we start new work. We:

- assess whether we are best placed to act;
- weigh up the likely costs and potential benefits of the work; and
- decide whether the proposal intends to go about the work in the right way.

This should help us make sure the work we carry out is proportionate to the risks posed, and targeted on the areas that matter most to customers.



## Summary of responses to our draft forward programme consultation

We consulted on our draft forward programme between 29 November 2012 and 31 January 2013. In total, we received 17 responses about our programme and draft performance framework.

Overall, respondents broadly supported our work programme. Many comments we received were on specific projects or areas of work. We will consider these as we deliver our work programme over the next year.

Below we highlight the main themes that came out of the consultation, and our response to the issues raised.

### **The importance of the 2014 price review**

Several respondents emphasised the importance of our implementing price limits project. In particular, they highlighted the need for us to focus our resources on the timely delivery of the 2014 price review – and to engage with our stakeholders.

We are aware of our priorities and are ensuring they are appropriately resourced. We are committed to carrying out appropriate engagement with our stakeholders throughout the price review process.

### **Preparing for market reforms**

A number of respondents questioned the pace of market reforms, given that legislation has not yet been formally agreed by the UK Parliament. Others asked that stakeholders have adequate opportunities to help shape planned reforms.

We recognise the balance between achieving clear UK Government policy on market reforms and the passage of necessary legislation to enact them. We are working closely with other members of the High Level Group – which was set up by Ministers – to prepare for, and develop, reforms. The work of the High Level Group can be found on a new section of our website at [www.ofwat.gov.uk/hlg](http://www.ofwat.gov.uk/hlg).

### **Self-lay and charging for new connections**

One respondent raised issues about self-lay (where a developer chooses their own contractor to install new water mains or sewers) and connection charges for water and sewerage infrastructure. In particular, they were concerned about delays to two pieces of work we have been doing on:

- developing standards of service that we expect companies to deliver to developers, self-lay organisations and landowners; and



- revising our policy principles for charging for new connections.

The respondent was also concerned about the transparency of our casework and our plans to prioritise what we do.

To improve transparency in these areas, in 2013-14 we will:

- consult on – and publish – service standards, which we have developed using working groups of interested stakeholders;
- publish our revised policy principles for charging for new connections; and
- carry out work to improve transparency of our casework by – for example – publishing timescales for different types of cases (see page 15).

### **Accurate bills for commercial properties**

One respondent wished to see us start new work on encouraging water companies to improve the accuracy of their bills to commercial properties. Ensuring the accuracy of customers' bills is already part of each company's responsibilities. And, following the introduction of planned market reforms in the Draft Water Bill, the accuracy of bills for commercial customers in particular will be a key part of the service that retailers will want to compete with each other to provide.

### **Draft performance framework**

We received a considerable amount of comments on our draft performance framework. Most respondents welcomed this work. As we highlighted on page 24, we will be using the views and suggestions we received to develop our final performance framework.

### **More specific dates in the forward programme**

A number of respondents asked for more specific dates to be included in our forward programme. We provide our stakeholders with up-to-date information on our planned events and publications through our email newsletters. This provides them with more accurate information than if we were to include estimated dates in our forward programme – more than a year in advance – of work we plan to carry out.

### **Consultation and engagement**

As we requested in our consultation, a number of respondents gave us their views on our overall approach to consultation and engagement in delivering our work. We will be using the comments we received to develop our code of practice on consultation, which we plan to publish in autumn 2013-14.

### **Value for money**

A number of respondents questioned the proposed increase in our licence fee. We have increased our licence fee in order to finance the considerable increase in work from our implementing price limits and market reform projects, which – as a number of respondents also highlighted – are strategically important. This is the first time in four years we have increased our licence fee and we have kept the increase to below the level of inflation over the same period. We challenge ourselves to deliver value for money for water customers in delivering all of our work.

[Full copies of the responses](#) to our draft forward programme consultation, including responses to our draft performance framework consultation are available on our website.

**Ofwat** (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.



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