

March 2016

Trust in water

Ofwat forward programme 2016-17

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About this document

This document sets out our forward work programme for the coming financial year. Our work programme is designed to help us deliver our strategy, '[Trust in water](#)'.

This document reflects changes since, and as a result of, our consultation on our draft forward programme for 2016-17. We held the consultation between 3 February and 17 February 2016.

Our 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.

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

Further information about what we do is on our website at www.ofwat.gov.uk.

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Foreword

Welcome to our final forward programme for 2016-17. Over the past year, we have made significant progress towards our ambitious strategy, 'Trust in water'.

Maintaining that momentum is essential. Over the coming year we will focus on delivering results in those areas where we can make the most impact. We remain focused on delivering our duties, including a clear duty to customers.

Our vision for the water sector in England and Wales is clear: securing trust and confidence in the vital public services that the sector provides. This is an ambitious and complex task. It needs everyone in the sector to play their part, and it will take time to deliver.

The challenges the sector faces in maintaining and building trust and confidence are becoming more complex. And, as we know, we all have to find better, smarter ways to do more for less – making the best use of the resources that are available. Customers – and society more generally – need the sector to step up and take ownership for the services it delivers. And that it remains alert to the needs of customers and the environment, as well as continuing to require investment in critical service improvements. There is clear evidence of a growing awareness in the sector that everyone with an interest in those services has to work together to move it forward.

We must play our part in this. We have delivered significant progress since we launched our new strategy at the start of 2015. This includes:

- setting out our Water 2020 programme proposals, which are designed to help the sector deliver for its customers in the face of future challenges. This included setting out our proposals for the greater use of markets, the further evolution of our regulatory framework, and strong engagement in the sector and beyond;
- working with the sector to improve the way the market for developer services functions;
- establishing and embedding our management of the Open Water programme to deliver choice in April 2017 for eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England;
- establishing frameworks to make sure water companies are held to account for their performance and their resilience – including their corporate and financial resilience – today and over the longer term;
- making outstanding progress in resolving our strategic casework, and establishing our 'OnTheCase' newsletter as a valuable means of communicating our decisions and the major points that emerge;

- working 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 Thames Tideway Tunnel; and
- launching a widely welcomed report on affordability in the sector.

In this document, we set out the work that we intend to carry out over the next 12 months. It is an ambitious portfolio: it reflects our strategy and builds on the momentum established over the past year, but it is carefully tailored to be achievable. We will keep the portfolio under review as we go through the year and re-prioritise if necessary. In the coming year we will:

- finalise our proposals for water trading markets and markets for sludge treatment and disposal, and the implications for regulation. This includes setting out how these changes will help deliver efficiencies, environmental improvements and greater resilience;
- set out in more detail how we propose to protect customers through our next price review in 2019. This includes considering the recommendations in the recent National Audit Office and Public Accounts Committee reports;
- carry out critical work, alongside the UK Government, [Market Operator Services Ltd \(MOSL\)](#) and water companies, to ensure that choice for eligible business, charity and public sector customers is introduced successfully in April 2017;
- refine and develop our work on monitoring frameworks, to ensure that we are able to assess company performance and resilience, so that we understand any risks to future delivery now, enabling us to continue with a proportionate and targeted approach to interventions;
- make sure our casework policies and process will support the delivery of good customer outcomes as a result of introducing choice for eligible business, charity and public sector customers in April 2017;
- continue our work to ensure that water companies understand and deliver in line with the needs of developers; and
- continue our work on the Thames Tideway Tunnel project to ensure good value for customers.

As we take this work forward, we also want to build on the significant benefits we have seen in the past year from a change in the way that we work with the sector, customer groups, NGOs, investors and others. This includes, among other things:

- extensive engagement to help inform our thinking and gather evidence for our proposals for [future markets and price limit setting by 2020](#), including contributions from the sector to a Water UK-hosted ‘[marketplace of ideas](#)’;
- the work of the [independent Task and Finish Group](#), which contributed to the insight and constructive challenges on both the sector’s and our approach to resilience;
- delivering key decisions and documents by those involved in the [Open Water programme](#) – including establishing MOSL – to support the opening of the retail market for eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England to competition in April 2017; and
- working with other regulators through the [UK Regulators Network \(UKRN\)](#) on areas of common interest between different sectors in the interests of consumers and the economy.

We have also made significant steps towards our vision for Ofwat as a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust in water. For example, we have implemented more targeted and proportionate approaches to monitoring company performance and assurance that is encouraging companies to take ownership for their performance and report on it to customers, us and others. And we have made significant improvements to how we operate to give our stakeholders confidence that we are working in a principles-based and proportionate way that offers the best value for money. Our approach to regulation has itself been innovative, and will continue to stimulate innovation in the sector.

We were grateful for the work the National Audit Office (NAO) carried out into our regulation of the water sector during 2015. The NAO recognised the changes we have made to our regulatory approach – for example, through the 2014 price review and how we are building on this as we take forward our approach to the 2019 price review and other aspects of our regulation. Our work this year – in particular through the Water 2020 programme – will consider the NAO and Public Accounts Committee recommendations, including in relation to calculating the cost of capital and sharing outperformance.

We operate within the policy frameworks set by the UK and Welsh Governments. Over the coming year, there could be changes to both of these frameworks. This includes potential further devolution of powers on water and wastewater to the National Assembly for Wales and Welsh Government. We will monitor the situation closely and engage with the UK and Welsh Governments and other relevant stakeholders on this matter.

During the coming year we will also take forward work to build our own capability to deliver in line with our strategy. The beginning of this year will see us with new non-executive and executive members of the Board, and a strengthened Senior Leadership Team. We will be developing our horizon scanning and portfolio management functions. We will carry out further work to ensure that our technology and infrastructure best support our ways of working. We will also take full advantage of the opportunities that UKRN offers to learn from others, make the best use of our resources and carry out work jointly where appropriate.

Together we can deliver trust in water. And we look forward to continuing the productive work and discussions we had with so many interested parties over the past year on both our own work and in contributing to the work of others.



Jonson Cox
Chairman



Cathryn Ross
Chief Executive

1. Overview 2016-17

Water and wastewater services are vital for public health, for our economy and society. Across England and Wales, we all rely on them every day. Since privatisation in 1989, the water sector has helped to deliver enormous improvements in the quality of those services – such as making our drinking water among the very best in Europe. But expectations are rising all the time – particularly in respect of customer service and environmental protection – and continued improvement in performance is needed. At the same time, the sector faces some real challenges. For example:

- our population is forecast to rise by 20% over the next 20 years, much of it in drier areas such as the south and south east;
- four out of five water bodies do not meet appropriate environmental standards;
- climate change is resulting in more – and more extreme – weather events, including droughts and severe flooding;
- water and wastewater services and the systems that underpin them – such as financial and ecosystems – need to be resilient, able to anticipate trends, and able to withstand and recover from shocks now and in the future; and
- although average water and wastewater bills will drop by 5% in real terms by 2020, one in five customers do not think their bill is affordable.

If customers and society are to continue to have trust and confidence in these vital public services, the way the sector delivers them needs to evolve, and our regulation of the sector needs to inform, enable and incentivise this evolution.

1.1 Our priorities

We have identified a number of areas where we can make the biggest impact for customers in 2016-17. We set these out below. We review our priorities each year to make sure we are delivering the maximum benefit to customers using our available resources.

Ofwat's strategic priorities 2016-17

1. Working to ensure that markets deliver real benefits for customers, the environment and society. This will include:

- working with Welsh Government, water companies in Wales and National Resources Wales to ensure that regulation supports the effective development of payments for eco-systems services;
- working with the Department for Environment, Food and Rural Affairs (Defra) and Market Operator Services Limited (MOSL), to put in place the arrangements – as set out in the Water Act 2014 – for the opening of the retail market for eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England in April 2017 in a way that secures benefits for customers;
- completing our review, following a request from the UK Government, of the costs and benefits of extending choice to residential customers in England; and
- continuing our work as part of the Water 2020 programme on whether and how markets in England and Wales for water resources and for sludge treatment and disposal can help the sector become more efficient and more sustainable. We will continue our work with the sector to improve developer services. We will also continue to support the UK and Welsh Governments' work on abstraction reform.

2. Improving information and accountability. We will further develop our toolkit to monitor the sector's performance and its resilience, making sure that this enables us to hold the sector to account and informs our interventions – and enables the sector to step up and others to hold it to account. This will include developing our reporting and assurance frameworks. It also includes publishing our assessment of the reliance that can be placed on companies' assurance based on the quality of information they provide to us and the other information we have. We will set out how these will inform the way we assess companies' business plans at the 2019 price review. We will work with Water UK as it takes forward the development of the sector dashboard, helping to ensure that it allows customers and society to see how the sector is doing in relation to things that matter for trust and confidence.

3. Maintaining customer confidence through a period of change. We recognise the changes that are coming in the sector and to the way that we regulate it, and will ensure that service providers and others across the sector – including us as the regulator – maintain the confidence of customers in providing these vital public services. This includes making sure that the changes in the sector deliver demonstrable benefits for customers, now and in the long term.

4. Maintaining investor confidence in the sector through a period of change. We recognise the changes that the Water Act 2014 and possible further devolution of competence in relation to water and wastewater to the Welsh Government will bring to the sector and the way we regulate it to benefit customers. During this period of change, we need to continue to maintain the confidence of investors in the sector and the economic regulatory framework. This includes continuing to discharge our statutory financeability duty, to ensure that efficient companies can access capital markets.

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

We will develop the people, infrastructure and governance to deliver the new strategy and vision for the sector. We will also develop the tools, information and approaches to regulation that we need to deliver our duties efficiently, effectively and using best regulatory practice. A particular focus this year will be on developing our delivery model for the 2019 price review and making sure we have the capabilities it requires.

1.2 Improving how we regulate

Effective economic regulation provides a framework that aligns the interests of companies and their investors with those of customers, so that company management and investors benefit when the companies do more of what customers want. This creates value for everyone because:

- customers get the services they want for a price they are willing to pay;
- managers get more freedom to lead and innovate; and
- investors make better returns.

The model of regulation we used from the point of privatisation delivered great benefits. It facilitated the investment that the sector so badly needed, to improve services for customers and environmental quality. It drove up standards of customer service, and drove down costs. But it is important for regulators to challenge themselves to make sure their approaches continue to deliver all they can for customers and society.

We recognise that the sector faces serious challenges in continuing to provide the water and wastewater services customers and society expect, at an affordable price. If the sector is to meet those challenges successfully, it must become more efficient – it must be able to do more with less. We also recognise that our traditional regulatory approach was not best placed to help the sector meet those challenges. The value of our efficiency challenge using comparative regulation had been falling over time – from £39 off the average bill at the 1999 price review to £11 at the 2009 price review. We needed to do more to inform, enable and incentivise the sector to establish new frontiers, especially by making better use of scarce resources and by innovating.

Bearing this in mind, we now have a principles-based regulatory approach that sees us:

- focus on the things that really matter to customers and wider society now and in the future ('outcomes focused');
- encourage companies to step up and take responsibility for their relationships – especially with their customers – being open, honest, fair and transparent ('relationship focused');
- continue to use our traditional tools (price controls, determinations, licensing and enforcement), but also use broader tools to shine a light on issues and provoke debate ('using all of our tools');
- making better use of market mechanisms to enable buyers to meet sellers and transactions to take place, where it is efficient for this to happen ('pro-market'); and
- focus our regulatory intervention where it is needed most ('proportionate and targeted').

Over the past year, we have used our regulatory approach to work with others to (among other things):

- design our Water 2020 programme proposals to help the sector deliver for its customers in the face of future challenges;
- manage the Open Water programme to deliver a retail market for eligible business, charity and public sector customers in April 2017, including completing key pieces of work such as our proposals for customer protection; and
- establish frameworks to make sure companies are held to account for their performance – and for their corporate and financial resilience.

In delivering our work over the coming year, we will help and encourage the water sector to step up and assure us that it is delivering good outcomes and building strong relationships. Where companies fail to do this, we will step in to protect customers.

It is also important for us to understand and take account of the implications of the different policy frameworks in England and Wales, and the relative priorities of the UK and Welsh Governments, respectively.

1.3 Improving how we work

To deliver our strategy, the way we work, the way we behave and the values we live by will be as important as the work that we do. Our vision is to be trusted and respected, working at the leading edge, challenging ourselves and others to build trust and confidence in water and wastewater services.

During 2015-16, we continued to improve our capability in line with our new strategy. This included:

- implementing clearer structures and processes to improve our decision making;
- strengthening our approaches to programme management and planning to improve the delivery of benefits to customers;
- reducing our Birmingham office space and implementing a new open plan, flexible working environment to deliver better value for money and support our new ways of working;
- implementing our new approach to talent management, acquisition and retention to make sure we attract and retain the right people; and
- launching a new corporate website to enable better communication with customers, companies, investors and others, and more collaborative working.

Over the next year, we plan to embed many of these changes and make further improvements to how we work through our programmes on:

- Strategy and Planning;
- Business Transformation; and
- Compliance and Assurance.

Further information on these programmes is available on pages 23, 32 and 33.

1.4 Delivering value for money

We aim to carry out all of our work efficiently and effectively. From 2015-16 onwards, Ofwat was made part of the UK Government's Comprehensive Spending Review (CSR). HM Treasury has confirmed Ofwat's CSR settlement for 2016-17 to 2019-20.

In line with the settlement agreed with HM Treasury, we anticipate our core licence fee for 2016-17 will be £22.5 million. We will also recover a further:

- £1 million for our work on the Thames Tideway Tunnel; and
- £1.97 million for opening the new retail water market for eligible business, charity and public sector customers in April 2017.

Work in these areas is funded from separate, ring-fenced licence fees, recovered from those companies directly affected by this work.

The progress we have made in 2015-16 has helped us to work in more flexible ways and reduce our costs. For example, we have strengthened our corporate approaches to governance and programme management – and reduced our Birmingham office space by more than 50%.

We will continue to seek efficiencies in delivering our work to secure even better value for money. This includes:

- exploring opportunities to work collaboratively and more flexibly with other regulators, including through UKRN;
- carrying out a study with some UKRN members looking at how we may be able to share support services in future; and
- reducing our London accommodation.

See page 35 for more information.

1.5 Managing risks and opportunities

To deliver our strategy successfully, we need to identify and understand risks and opportunities – and manage them proactively, effectively and proportionately. We have based our risk and opportunities framework on the principle that everyone at Ofwat has a responsibility to identify and manage risk and opportunities in a way that reflects our strategy.

During 2016-17, we plan to assess our priorities, risks and opportunities against the:

- wider value to customers and society – including economic and social impacts;
- impact on other regulators and stakeholders;
- immediate impact on our work; and
- impact on our resources in the future.

This will further improve the consistency of risks and opportunities across our programmes and within individual projects. It will also help us review our progress in delivering our programmes and allow us to reschedule, re-prioritise or rethink the way we deliver our work to deliver maximum benefits to customers and wider society over the course of the year. We will support our work on risk and opportunity management with other work to develop our horizon scanning and our definition of strategic benefits.

1.6 Measuring progress

During 2015-16, we worked with key stakeholders, including other water sector regulators, to develop an assessment framework and performance dashboards for monitoring the progress that the sector makes towards our vision for it. We are pleased that Water UK has agreed to take ownership of this framework on behalf of the sector. We will work closely with Water UK to develop the framework in line with the many emerging changes in the sector. Water UK will share next steps on this work in the coming months.

We also developed a framework to enable us to monitor our own progress towards our vision for Ofwat. This helps us monitor the benefits we are delivering as part of our work programme. And it will help improve the conversations we have and work we carry out with strategic partners and other stakeholders in securing trust in water, recognising that Ofwat cannot deliver this work alone. This is in development; we will publish more details on our assessment framework during 2016-17. We will provide quarterly updates of our progress during 2016-17, as well as the formal reporting of our performance in our annual report and accounts.

1.7 Encouraging innovation

Our approach to regulation and to regulating the sector is innovative in the way it has encouraged companies to take accountability for their relationship with their customers. This in turn has driven innovation in the sector, which has had positive impacts for customers, wider society, the environment and the economy.

In the year ahead, we will continue to work with the sector and others more widely to promote and facilitate innovative thinking and ways of delivering, which will help the sector to meet the challenges of the future and continue to provide services in line with the expectations of customers and society.

1.8 Working with others and possible changes to our work

Our strategy – and our work programme – relies on the sector and individual companies we regulate to step up and take ownership and responsibility for delivering the outcomes that customers and wider society value. At the same time, we also rely on the work and engagement of our stakeholders.

Where the sector does not step up, we will step in to protect customers – which may require us to re-prioritise what we do. And if the work and engagement from others changes, we may then we may need to change what, how and when we deliver our own work.

The work we have set out in this document is intended to give our stakeholders the best possible information on our plans. But we have an ambitious strategy and a limited budget. So we need to be able to work flexibly and re-prioritise throughout the year. While we plan based on previous experience and our understanding of how our landscape will evolve in future, there are many external factors that may mean we need to do more or less work than we currently anticipate. This includes the work we are relying on others to carry out, which may affect the resources we have available and the work we are able to carry out – for example:

- the Water UK-led work on the sector dashboard; and
- the contributions to our Water 2020 programme and the review of residential competition for the UK Government through the marketplace of ideas.

As a further example, we are required to carry out certain types of casework – licensing, investigations, enforcement cases and disputes. We have not included this work specifically in this forward programme, as we cannot predict its nature and volume. We have provided for it in our resource planning; to the extent that the casework we receive is different from our assumptions, this may affect the resources available for our other work.

During 2015-16, our approach was successfully tested. For example, we were able to move resources to start work on a study into the costs and benefits of residential retail competition in England when the UK Government asked us to look at this topic. We have also been able to respond in an agile and flexible way to the thinking that the sector has contributed to our Water 2020 programme, building on ideas and avoiding duplication.

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

- There will be elections for the National Assembly for Wales in May 2016. Following the election, there may be some change to the priorities set out in the Water Strategy for Wales, which was published in May 2015. The policy direction for the Welsh Government will be set out in its Strategic Policy Statement (SPS) to Ofwat.
- Legislation has not yet been taken forward on [the recommendations of the Commission on Devolution in Wales](#), chaired by Paul Silk (the 'Silk Commission'). These recommendations include the following.
 - The boundary for legislative competence for water and wastewater should be aligned with the national border.
 - Powers over wastewater should be devolved to the National Assembly for Wales.
 - The Secretary of State's legislative and executive powers of intervention in the water sector should be removed and replaced with a formal intergovernmental protocol in relation to cross-border issues.
- The UK Government's priorities for regulation and competition arising from the [draft Enterprise Bill](#) and '[A better deal: boosting competition to bring down bills for families and firms](#)' – and its long-term plans for improving the environment.
- The UK Government plans to revise its SPS to Ofwat. And, as outlined above, the Welsh Government will also issue its own SPS for the first time. We have a legal duty to act in accordance with both Governments' strategic policy statements.
- In 2014, the UK Parliament passed the Water Act 2014. Different parts of the Act must formally pass into law (be 'commenced') before they can be used. This includes necessary laws to implement a market to allow eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England – and eligible customers in Wales – to choose their water and wastewater service provider. We and others involved in the Open Water programme expect the market in England to open to competition in April 2017. But the timing of commencement of specific parts of the Water Act 2014 will determine the scale and pace of our Retail Market Opening programme in particular, and may have an impact on our other programmes such as Casework.
- The Welsh Government is currently considering a report from the Welsh Language Commissioner that may result in changes to the Welsh language standards that apply to public sector organisations operating in Wales – including Ofwat.

As a non-ministerial government department, we also operate within the accountabilities, rules and controls that apply to all government departments. This includes:

- public sector pay controls;
- a range of Cabinet Office spending controls; and
- the requirements of HM Treasury's 'Managing Public Money'.

The way these controls are applied can affect the way we deliver our work programme and our response to changes in our environment.

We also expect that the UK Government's Enterprise Bill will bring us into the scope of the Regulators' Code and the Business Impact Target. This will require us to submit impact assessments for qualifying measures to the Regulatory Policy Committee, and to notify non-qualifying measures. This includes a requirement for retrospective notification and assessments of measures introduced since May 2015.

We are working with the UK Government's Department for Business Innovation and Skills (BIS) and the Better Regulation Executive to understand what these requirements will mean in practice, and will need to build them into our portfolio. We have provided for this work in our resource planning, but if we need to make significant changes to that provision, it may affect the resources we have available for other work.

We will notify our stakeholders if we think there is a need to change our plans significantly during 2016-17.

1.9 Responses to our draft forward programme consultation

We consulted on our draft forward programme in February 2016. We received ten formal written responses. We also received some further feedback from stakeholders through discussions we had with them.

Overall, most of the responses were supportive of our work programme. Some respondents sought further information on:

- our overall approach to regulation; and
- specific programmes or pieces of work.

Where we are able to provide further clarity in our final forward programme, we have done so. For example, we have:

- referenced more explicitly how we are taking account of the different policy framework that exists in Wales and the priorities of the Welsh Government;
- reiterated that all the various aspects of our work on licences will come together and be co-ordinated in a licensing project that cuts across our programmes; and
- explicitly named the Infrastructure Provider for the Thames Tideway Tunnel as 'Tideway'.

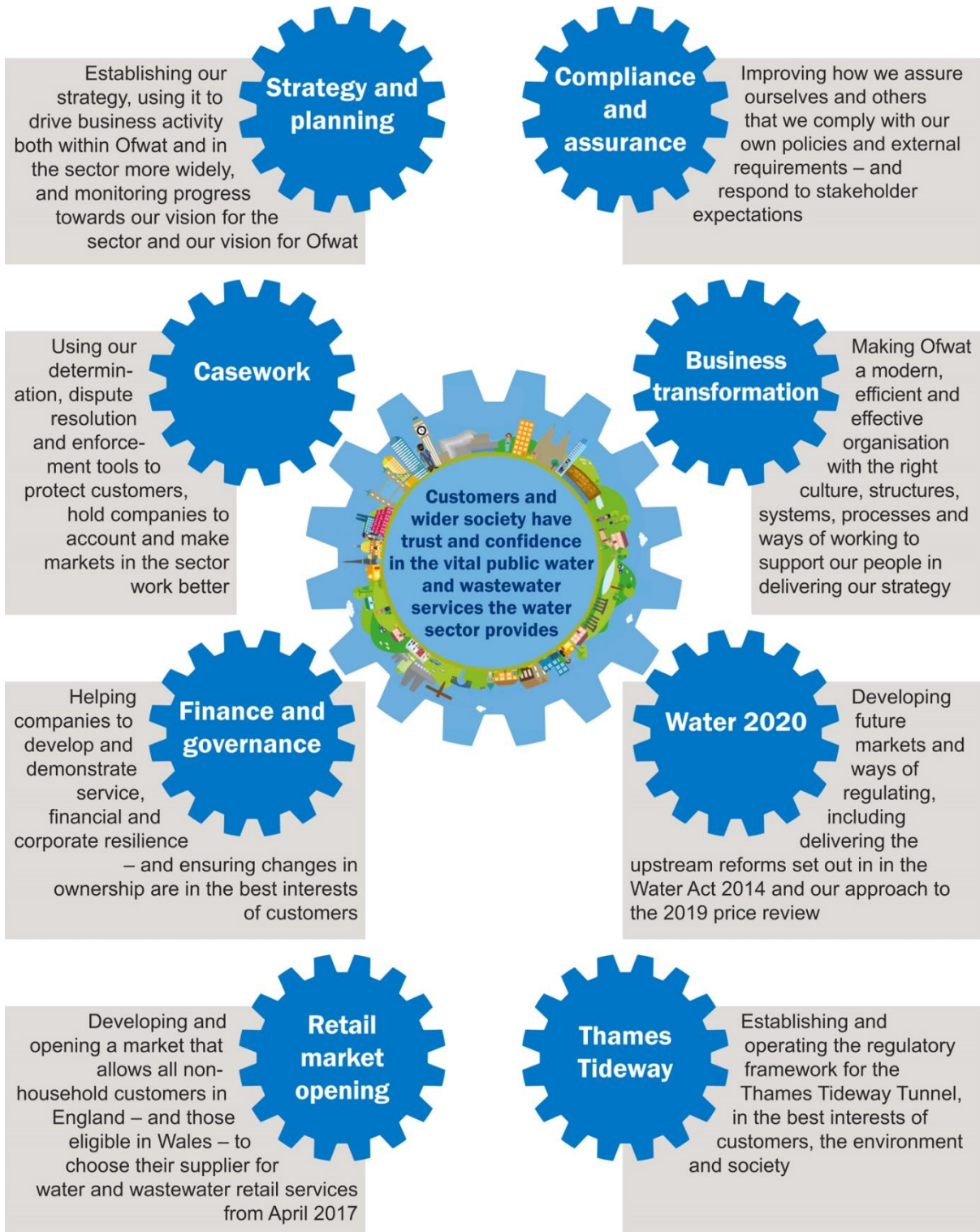
We will also consider suggestions for how we approach our work and engagement with stakeholders during 2016-17. For example, we will:

- provide more clarity on timings on specific pieces of work in advance of us delivering them during the course of the year; and
- consider where appropriate to seek comment and challenge from the sector through mechanism like the market place of ideas, which proved a very successful method of engagement.

For more complex or detailed points, we will pick these up with the respondents that raised them. We will consider how we take account of their points more generally as we deliver our work programme over the coming year in our discussions with our wider stakeholders.

1.10 Our work programme

We plan to carry out the following interlinked programmes to deliver our strategy. Pages 15 to 17 set out the key dates for all of our programmes. On pages 23 to 34, we describe each programme and what we aim to achieve.



2. Key dates

Ofwat programme	April to June 2016	July to September 2016	October to December 2016	January to March 2017
Strategy and Planning	Publish Ofwat's five-year business plan for 2016-17 to 2020-21.	Establish a customer panel to help make sure we build the customer perspective more effectively into all our work. Publish Ofwat's quarterly dashboard.	Begin sector-wide engagement on handling and managing customer data. Begin sector-wide engagement on identifying and taking account of the needs of the future customer. Publish our assessment of sector performance against the latest Water UK-led water sector assessment framework ('dashboard'). Publish Ofwat's draft forward programme for 2017-18. Publish Ofwat's quarterly dashboard.	Publish Ofwat's final forward programme for 2017-18. Publish Ofwat's quarterly dashboard.
Casework	Publish final guidance and engage the water sector on our approach to competition law and, in particular, the challenges of the new retail market for eligible business, charity and public sector customers in England. Open the application process for businesses to apply to become licensed as Water Supply and Sewerage	Produce a scoping document for the code for self-lay agreements, as set out in the Water Act 2014.		Implement a new database of customer enquiries and disputes received by Ofwat to help identify trends and issues that may need investigation or action. Review the sector's markets and consider whether further intervention, potentially through a formal market study, would improve customer outcomes in

Ofwat programme	April to June 2016	July to September 2016	October to December 2016	January to March 2017
	Licensees (WSSLs) for the newly competitive retail market for eligible business, charity and public sector customers in England – and for individual customers to self-supply themselves with retail services.			a target water and wastewater market.
Finance and Governance	Engage the sector and others on work to modernise water companies' licences ^a .	<p>Publish revised regulatory accounting guidance to reflect good practice and to reveal information to support the regulation and development of markets.</p> <p>Conduct a targeted review related to market participants' readiness for the opening of the retail market for eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England – to support Ofwat's assurance of market participants' readiness.</p>	<p>Assess monopoly companies against the company monitoring framework – after they have published their annual performance information for 2015-16.</p> <p>Publish our first full commentary on water sector financial resilience.</p>	<p>Initiate and carry out a targeted review of a service area.</p> <p>Consult on revised board leadership, transparency and governance principles.</p>
Retail Market Opening	Publish the customer protection code of practice setting out the minimum standards of behaviour towards customers in the new market – and consult on the consequent changes to companies' Instruments of Appointment from market opening.		<p>Formally consult on the main market codes – the Wholesale–Retail Code and Market Arrangements Code.</p> <p>Set up the enduring Market Codes Panel.</p> <p>Send the UK Government an interim letter of assurance on Ofwat's and market participants'</p>	Send the UK Government a final letter of assurance on Ofwat's and market participants' readiness for the market to open.

Ofwat programme	April to June 2016	July to September 2016	October to December 2016	January to March 2017
			readiness for the market to open.	
Water 2020	<p>Publish our decisions on the design of the regulatory framework for wholesale markets and the 2019 price review (PR19) – and engage with the sector on licence reform needed to give effect to our decisions^a.</p> <p>Publish the final method and table requirements for carrying out our review of each monopoly company's price control for non-household retail services in England and Wales.</p> <p>Publish a policy statement on customer engagement for PR19, setting out conclusions on the principles consulted on in our December 2015 document.</p> <p>Complete the first phase of our delivery model for PR19.</p> <p>Consult on rules for monopoly companies in charging for new connections.</p>	<p>Publish our initial and final findings of our review of the benefits of extending choice of water and wastewater retail services supplier to residential customers.</p> <p>Publish rules for monopoly companies in charging for wholesale water and wastewater services.</p> <p>Publish our draft decisions ('draft determinations') of each monopoly company's price control for non-household retail services in England and Wales.</p>	<p>Publish further consultations to take forward work to implement the regulatory framework for wholesale markets and PR19.</p> <p>Following engagement with the sector, consult under section 13 of the Water Industry Act 1991 to change monopoly companies' licences to reflect our decisions on the regulatory framework for wholesale markets and PR19^b.</p> <p>Publish our final decisions ('final determinations') of each monopoly company's price control for non-household retail services in England and Wales.</p> <p>Publish rules for monopoly companies in charging for new connections.</p>	
Thames Tideway	Publish a rulebook setting out how the Infrastructure Provider's licence will work.	Hold an event with stakeholders to explain the Infrastructure Provider's licence and the regulatory framework for the Thames Tideway Tunnel.		

Ofwat programme	April to June 2016	July to September 2016	October to December 2016	January to March 2017
Business Transformation	<p>Launch our new employer brand, resourcing and attraction strategy.</p> <p>Design and begin to implement our learning and development offer for employees</p> <p>Complete changes to our London accommodation to reduce the space we occupy.</p>	<p>Implement our strategic workforce plan and model to drive our resourcing and inform our delivery model for PR19.</p>	<p>Review our approach to telecommunications to support our flexible approach to working and deliver improved value for money.</p> <p>Implement our new human resources system.</p> <p>Move more of our IT services to a Cloud-based system and investigate sharing services.</p>	<p>Complete the implementation of our management development programme.</p> <p>Start planning the systems needed to support PR19.</p>
Compliance and Assurance ^b	<p>Publish Ofwat's annual report and accounts 2015-16.</p>			

Notes

- a) All the various aspects of our work on licences come together and are co-ordinated in a licensing project that cuts across our programmes.
- b) The other key dates for this programme are a combination of internal and external reporting requirements and meeting schedules (for example, internal audits), which we have not included in this document.

3. Programmes

3.1 Strategy and Planning

What it is

This purpose of this programme is to set out what we will do to:

- work with the sector to build and maintain trust and confidence in water and wastewater services; and
- ensure Ofwat is a trusted and respected regulator, working at the leading edge.

It includes projects in the following areas.

- Assessing progress towards achieving the vision for the sector and the vision for Ofwat.
- Identifying strategic risk, capturing intelligence and insights from across Ofwat and the sector.
- Developing our and the sector's understanding of future water customers' identities and needs – and gathering intelligence around our role in making sure that future customers play an active role in the provision of sustainable water and wastewater services. This may feed into further work in the future.
- Building on the success of the 2014 price review, developing a framework within which we can capture the customer voice to improve our understanding of the most important and strategic issues facing customers, and embedding the culture of using the customer voice when developing policies in our work programme (including, but not exclusively, when developing the framework for the 2019 price review).
- Developing our and the sector's understanding of issues in relation to affordability and customer vulnerability. This may lead to further work in the future.
- Developing our approach to communicating and engaging with stakeholders.
- Developing our Innovation Plan as required by the UK Government's productivity plan.

- Understanding the implications of our inclusion in the Regulators' Code and the forthcoming Enterprise Bill on the way we work and ensuring this is properly factored into our work programme and resource planning.
- Developing a long-term, robust approach to our internal business planning and programme planning that enables and supports prioritisation.
- Exploring opportunities for joint working externally with stakeholders. It also includes our contribution to UKRN and the co-ordination of our work with UKRN.

We will continue to deliver this programme after the end of 2016-17.

What we will deliver
An improved understanding of the potential for customers to play a more fully engaged and empowered role in the provision of water and wastewater services. Clarity on issues the sector needs to address to make this happen, and any potential implications for the way we regulate the sector. This will be supported by the framework that we will use to incorporate customers' views in our decision-making.
An understanding of the different dimensions of customer affordability and vulnerability and any potential implications for how we regulate the sector.
An understanding of how the sector handles and manages customer data, the benefits and risks, and implications for the sector and how we regulate it.
A focus on clear and accessible communication, and making sure we have effective relationships with our stakeholders.
An improved understanding of: <ul style="list-style-type: none"> • the progress the sector is making in building trust and confidence; • the progress we are making towards our vision for Ofwat; • our contribution in delivering benefits to customers and wider society; and • the role and scope of innovation in the sector.
An efficient and effective contribution from Ofwat to the work of UKRN, which helps to deliver its objectives.
A clear, robust and long-term approach to planning our work that is transparent and gives stakeholders trust in us.
Approaches to regulation that reflect best regulatory practice.

3.2 Casework

What it is

Our casework relates to the use of a number of our regulatory tools, in particular:

- enforcing water companies' obligations under sector-specific legislation, and in licences and general competition and consumer law;
- dispute resolution;
- determining price and non-price terms in certain contracts;
- issuing licences, including water supply licences and the new Water and Sewerage Supply Licences;
- granting new appointments and variations; and
- carrying out market studies.

Many of our cases directly affect customers' experience of the sector. We expect water companies to get services right first time, and we will encourage them to do so – and take ownership of the relationship with their customers. But where they fall short, we stand ready through our casework programme to provide an important safety net for customers, which is essential for their trust and confidence in the sector.

Our casework will have a particularly important role to play in making sure that the opening of the retail market for eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England to competition as provided for in the Water Act 2014 is effective and delivers benefits for customers. It will also play an important role in helping to deliver the upstream reforms envisaged in the Water Act 2014.

Our [casework strategy](#) will see us using our available tools and options to achieve effective results – including timely conversations with water companies to resolve issues in ways that are no less satisfactory to customers, but which may be quicker and less burdensome than formal action.

We will continue to deliver this programme after the end of 2016-17.

What we will deliver

We will ensure that through all of our casework we make clear why we have taken the decisions we have and what the wider implications of those decisions are for the sector. In this way, we will enable the sector to learn, which will help to avoid unnecessary casework in future.

Robust and timely decisions on individual cases.

A continued focus on strategic cases, which will bring the most benefit to customers now and over the long term.

A sector that more fully understands its obligations under general competition law, and the implications of these in the context of opening of the retail market for eligible business, charity and public sector customers in England.

What we will deliver

A view on whether all of the markets we have in the sector are functioning effectively and whether further investigation, potentially through a formal market study or some other intervention, is warranted.

3.3 Finance and Governance

What it is

This programme aims to:

- encourage a sector that is accountable to its customers for its performance;
- challenge the sector to improve;
- further the sector's resilience, including its corporate and financial resilience;
- deal with mergers, changes of company ownership and any interim determinations of monopoly companies' price controls; and
- modernise and simplify licence conditions and ensure they are consistent between companies, where appropriate.

The programme includes:

- regulatory reporting – including performance reporting, assurance and regulatory accounting guidelines;
- encouraging company benchmarking and stakeholder engagement on their performance;
- gathering intelligence and assessing where companies have not managed their risks – and stepping in (where needed) to highlight any issues;
- our work on board leadership, transparency and governance, financial monitoring and building resilience for financial distress;
- our approach to mergers and working with the Competition and Markets Authority (CMA), changes in company ownership and any interim determinations of price controls; and
- reviewing water companies' licences to make sure they are straightforward, consistent and supportive of the development of markets and effective regulation.

We will continue to deliver this programme after the end of 2016-17.

What we will deliver

This programme will help build trust and confidence that water companies are:

- delivering against their obligations and operating to high standards;
- delivering against their 2014 price review final determinations;
- financially resilient;
- operating to high standards of board leadership, transparency and governance; and
- providing appropriate assurance on all of the above.

After the new retail market for eligible business, charity and public sector customers in England opens in April 2017, this programme will also monitor the new market and service providers operating within it.

Trust and confidence relies on the financial sustainability and transparency of regulated water companies over the long term. This programme will help provide assurance of the sector's financial stability and make sure we are well placed to step in as a safety net if a failure should arise.

It is likely that there will be some changes in ownership as water companies respond to the:

- challenge of delivering price controls during 2015-20;
- opening of the retail market for eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England opens in April 2017; and
- information that we have revealed through the 2014 price review and will continue to reveal as we go forward – for example, through markets for new water resource and sludge treatment and disposal services.

Where this happens, we will use our tools to ensure that changes in ownership benefit customers, and support the development of markets and more effective regulation.

Regulatory reporting that:

- reflects the way we set price controls in 2014;
- reflects the changing nature of the sector (Water Act 2014); and
- provides information for setting price controls in 2019.

A framework that encourages effective leadership and governance of the sector, where boards operate to high standards, take full accountability and are transparent.

Clearer, more uniform licences that:

- reflect the way we regulate and the shape and legislative framework of the sector;
- are principles based; and
- provide all customers with equivalent levels of protection.

And a mature environment that brings about a constructive approach to developing and modifying licences.

3.4 Retail Market Opening

What it is

At the moment, only a limited number of business, charity and public sector customers across England and Wales can choose their retailer. Most customers must use services that their local monopoly water only or water and wastewater companies provide. The Water Act 2014 will allow 1.2 million eligible business, charity and public sector customers of companies whose areas are wholly or mainly in England – and eligible business, charity and public sector customers in Wales – to choose their supplier of water and wastewater retail services from April 2017. Retail services include things like billing and customer services.

The new competitive business, charity and public sector customer market in England will be the largest retail water market in the world and is forecast to deliver about £200 million of overall benefit to customers and the UK economy. And research shows that seven out of ten business customers want this choice. Customers will be able to shop around and switch to the best deal. Investors and retailers will have new opportunities for growth. And the environment will benefit from customers using new water efficient services. Customers are already benefiting from a similar market in Scotland.

Work to set up the market is being delivered by Open Water, a single programme of work that brings together all of the key organisations to design and deliver the new market. These include the Department for Environment, Food and Rural Affairs (Defra), Ofwat and Market Operator Services Limited (MOSL) – a private company owned by member market participants. Opening the new market is a complex challenge, but it is on track to open in April 2017. The [integrated plan for opening the market](#) is available on our website.

The Retail Market Opening programme will deliver Ofwat's responsibilities for setting up the market – and the necessary arrangements for us to regulate the market after it opens. This includes, for example:

- arrangement to allow new companies to be licensed to supply retail services – or individual customers to 'self-supply' themselves with retail services;
- making sure customers have effective protection – including those business, charity and public sector customers in Wales that will not be able to switch their supplier; and
- making sure that retailers are allowed to compete fairly with each other to win business and deliver benefits to customers ('level playing field').

This programme can help to build trust and confidence in water for current and future customers. In opening a new market, the programme will encourage water and wastewater service providers to do the right thing by customers, wider society and the environment today and tomorrow.

This will assist eligible business, charity and public sector customers to get the services they want and are willing to pay for, at the level of safety and reliability that they want, and delivered in socially, economically and environmentally sustainable ways. It will also ensure that the sector is viewed as a sustainable investment opportunity.

What we will deliver

With our partners we will deliver the design, development and implementation of regulatory arrangements to support the new retail market for eligible business, charity and public sector customers, complementing the work of Open Water and market participants.

3.5 Water 2020

What it is

Like the Retail Market Opening programme, our Water 2020 programme plays an important part in building trust and confidence in water for current and future customers. In developing markets and reforming our regulatory approach, it will inform, enable and incentivise water companies to do the right thing by customers, wider society and the environment today and tomorrow. This will mean that customers get the services they want and are willing to pay for, at the level of safety and reliability that they want, and delivered in socially, economically and environmentally sustainable ways. It will also ensure that the sector is viewed as a sustainable investment opportunity.

Through the implementation of the Water Act 2014 and the delivery of the future price controls, the water sector will see significant changes over the next four years. These changes present real opportunities to improve how providers deliver services to customers and for the environment over the longer term. By using all of our regulatory tools and considering a broad package of changes, we can help ensure the sector is able and continues to be incentivised to deliver the best service and price for customers.

This programme will deliver – in conjunction with the UK Government, Welsh Government and other regulators – the regulatory changes needed for wholesale water and wastewater services to increase the scope for incentives for efficient delivery and innovation.

To ensure that the regulatory framework facilitates these changes and continues to protect customers, the environment and wider society, the programme will also develop the framework for a proportionate and targeted price setting process for the 2019 price review that builds on the success of the 2014 price review. The new framework will:

- build on what we, and others, have learned from the 2014 price review;
- continue to incentivise companies to place engagement with their customers about the outcomes they want at the heart of their businesses;
- enable these providers to deliver services that customers want in an efficient way at prices they can afford;
- be consistent with our enduring principles for setting price limits;
- support the development of market mechanisms where appropriate;
- take account of water companies' statutory environmental and quality obligations; and
- take account of our statutory duties and the strategic priorities and objectives we receive from the UK and Welsh Governments. This includes any new strategic priorities and objectives that either Government issues during the next five-year period.

Our Water 2020 programme considers the implications of introducing a competitive retail market for eligible business, charity and public sector customers in England and our approach to regulating the retail market in Wales, which remains largely monopolistic.

In November 2015, the UK Government asked us to carry out a review of the benefits of allowing household customers of companies whose areas are wholly or mainly in England to choose their water and wastewater retailer. The Water 2020 programme includes this work.

We will continue to deliver this programme after the end of 2016-17.

What we will deliver

With our partners we will:

- deliver the design of the markets in the water and wastewater value chain as appropriate;
- determine the price controls for non-household retail services beyond 2016-17;
- further develop the framework for determining the price controls for all appointed service providers in 2019;
- encourage price controlled companies to further improve their level of engagement with their customers and to understand and respond to the preferences and needs of different customer groups;
- develop the charging approach to support upstream market arrangements and the necessary charging arrangements for wholesale and retail services;
- contribute to any government reforms to abstraction licensing in England and Wales; and
- carry out a review of the costs and benefits of extending choice of retailer to household customers of companies whose areas are wholly or mainly in England.

We will also decide what our delivery model for the 2019 price review will look like, making sure that the critical enablers we identify for the model are being delivered through our Business Transformation programme.

3.6 Thames Tideway

What it is

The [Thames Tideway Tunnel](#) is a large, complex project to reduce overflows of untreated sewage into the River Thames. The UK Government has endorsed the project as the best-value solution to reduce sewage discharges and to meet European legal requirements.

Our role is to [regulate the Infrastructure Provider](#) – Bazalgette Tunnel Limited (also known as ‘Tideway’) – which is responsible for financing, constructing and operating the Thames Tideway Tunnel, and to do so in a way that delivers value for money outcomes for customers, the environment and wider society.

We are working with the UK Government, Thames Water and other stakeholders to ensure that the way in which we will regulate is well understood, which is important in supporting the delivery and financing of the Tunnel. We will also work with others, including members of UKRN and the UK Government to ensure that lessons from the experience of delivering the Thames Tideway Tunnel are understood and shared as appropriate.

We will continue to deliver this programme after the end of 2016-17.

What we will deliver

Tideway and Thames Water are accountable for the specific obligations each is required to deliver for the Thames Tideway Tunnel – and for providing assurance that they are meeting them. Our role is to make sure:

- it is completed at best value for money to customers;
- it is delivered in a way that optimises benefits to customers through competitive processes;
- it remains financeable;
- effective engagement takes place with all stakeholders;
- Tideway is enabled to operate within the regulatory framework we have established; and
- Tideway and Thames Water are kept accountable to customers.

The programme will also help deliver better outcomes for customers across England and Wales by:

- offering new ways to deliver large and complex infrastructure projects; and
- advancing new approaches for regulating large and complex projects.

3.7 Business Transformation

What it is

Delivering our new strategy requires us to challenge ourselves constantly to ensure that our regulation is as efficient and effective as it can be. It also requires us to make significant changes to the way we work. We aim to become a learning organisation, making the best use of our resources – including, crucially, getting maximum value from the skills and experience of all our people, and working in partnership with others to achieve our visions for the sector and for Ofwat.

The scope of this programme includes the changes and new ways of working we need to embed to achieve our vision as a trusted and respected regulator, working at the leading edge. It focuses on making Ofwat a great place to work, and on increasing our agility and flexibility. It will ensure we have the systems, processes, structures, facilities and technology to support all of our people in making the best contribution they can to delivering benefits for customers, the environment and society.

This programme includes work to:

- develop our people;
- develop and embed efficient and effective programme and project management;
- embed and review governance structures, systems and processes; and
- implement enabling infrastructure to support new ways of working.

What we will deliver

An organisation that:

- is dynamic, flexible, responsive, well led and well managed, and that supports effective programme-based working using different individuals and skills;
- has a positive culture supported by appropriate technology and infrastructure, and is a great place to work and develop;
- makes excellent strategic use of resources and demonstrates value for money;
- has compliant processes and effective and proportionate governance;
- is transparent and understands the information it holds;
- has people with the right skills, experience, values and behaviours to support the delivery of our strategy;
- uses external resources to supplement our own people, allowing us to flex the skills and expertise to which we have access in an efficient and agile way;
- is a learning organisation that continually looks for improvement;
- values and supports great management through programmes, projects and people; and
- values and supports leadership throughout the organisation.

3.8 Compliance and Assurance

What it is

This programme will embed and monitor the changes we introduce through our Strategy and Planning and Business Transformation programmes. It will help improve how we assure ourselves and others that we comply with our own policies and external requirements. It will also help us respond to stakeholders' expectations.

The programme includes internal projects embedding and monitoring Ofwat's:

- corporate and programme governance;
- financial management and governance;
- information governance and infrastructure;
- people;
- culture of compliance and assurance, transparency and learning; and
- approach to compliance with the requirements of the Regulators' Code, including submissions to the Regulatory Policy Committee.

While our Strategy and Planning programme will determine what we are trying to achieve and what we will do to achieve it, our Compliance and Assurance programme will tell us whether we have done what we said we would do and tell us how we will know this.

This programme will also ensure that we have the systems and processes in place to make sure we comply with our obligations and report on our compliance. We are developing many of these systems and processes as part of our Business Transformation programme. But once developed, they will be monitored and managed in our Compliance and Assurance programme.

What we will deliver

This programme will help to make sure we deliver our strategy and live up to the high standards required of a public body with a leadership role in the sector. It will help maintain trust in us as an effective regulator that is:

- well run;
- operates efficiently and delivers value for money within the UK and Welsh Governments' strategic and policy frameworks;
- has a learning culture; and
- is a great place for our people to work.

Efficient and effective systems, processes and information for governance and assurance that ensure we comply – and that we can demonstrate compliance – with:

- our policies;
- external requirements; and
- stakeholder expectations for the way we operate.

An organisation that has a strong culture of compliance and assurance, and that learns from its successes and mistakes.

Strategic and timely information for Ofwat's management about:

- the delivery of the organisation's programmes;
- the implementation of new ways of working; and
- embedding our values and behaviours.

High-quality governance, programme management, and financial and people management to support effective management of Ofwat's work programme.

An effective approach to information asset management to maintain the integrity and security of information we hold.

Meet our regulatory and legislative requirements, including the UK Government's de-regulation agenda and innovation, and the Welsh Government's Water Strategy, wellbeing goals and natural resource management frameworks.

4. Financing the delivery of our work programme

We aim to deliver our legal duties effectively and efficiently. Our expenditure requirements are met by licence fees, which customers ultimately pay for in their water and wastewater bills. We recover these licence fees from the water companies we regulate. So, we continuously seek improvements in the value for money we deliver and innovation in the ways we work.

Our core budget for 2016-17 is £22.492 million for 2016-17 – equivalent to about 0.2% of the sector's turnover. But our net licence fee will be about £3.4 million to £3.8 million lower. This is because:

- we are returning a credit note for unspent funds from 2015-16 to water companies, which includes efficiency savings that we have generated from reducing our accommodation space; and
- we will not be charging companies £0.5 million of our budget at the start of the year. Instead, we are holding this funding back as contingency for risks associated with Judicial Reviews or Competition Appeals Tribunal cases. While we do not plan to use it, we reserve the right to charge companies the extra amount later in the year if we require this contingency.

The progress we have made in 2015-16 has helped us work in ways that are more flexible and reduce our costs. Value for money will be a key focus for us over the next five years to ensure we deliver maximum benefits to customers for the resources we have available. For example, we are to:

- achieve savings in our London accommodation costs during 2016-17;
- deliver savings by getting the right balance between internal and specialist external resources;
- reduce our travel and subsistence costs by improving our infrastructure and ways of working; and
- develop a more innovative and collaborative delivery model to develop our people and to manage peaks of workload.

We are also continuing to seek further value for money through our membership of the UKRN and developing collaborative and more flexible ways of working with other sector regulators. We are currently exploring the practical steps needed to share, provide, outsource or jointly deliver services. This includes carrying out a study with some UKRN members looking at how we may be able to share support services in future.

Other licence fees

We will recover the cost of regulating the Thames Tideway Tunnel project separately from Tideway and Thames Water. The proposed estimate for this special fee is £1 million.

We are also recovering the cost of the Retail Market Opening programme from service providers separately. The cost of the programme is ring fenced from our other regulatory work. The proposed estimate for this special fee is £1.97 million. £0.42 million of this relates to activity which has moved from 2015-16 to 2016-17, which we will return to water companies through a credit note for 2015-16.

March 2016

Trust in water

Ofwat forward programme 2016-17

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