

April 2016

Trust in water

Five-year business plan 2016-17 to 2020-21

www.ofwat.gov.uk

ofwat

Welcome to Ofwat's business plan for 2016-17 to 2020-21. This plan sets out our overall approach for delivering our strategy, 'Trust in water', over the next five years.

We continually review what we do to make sure we are delivering the right things in an efficient way. And we update our business plan every year so that we always look five years ahead. Our plan may change significantly from year to year, as circumstances change and our priorities evolve. So our work in 2017-18 to 2020-21 should be used as an indication only. It is based on our current best estimates and assumptions.

We consult on and publish our work programme for each year in our [forward programme](#). More information about who we are and what we do can be found on our website at www.ofwat.gov.uk.

This interactive PDF contains bookmarks to allow you to navigate between sections (these are clickable buttons)

Throughout the plan we provide links to further information. Look out for these pop ups

Introduction

What we aim to achieve

How we plan to work

What we will do

Resourcing the plan

Changing our plans

2016

2017

2018

2019

2020

2021

Ofwat



Find out more about [Trust in water](#) on our website

Ofwat is the economic regulator of water and wastewater services in England and Wales. We are a non-ministerial government department founded in 1989.

We oversee licensed private companies delivering water, sanitation and drainage services.

We ensure that companies deliver services efficiently and with regard to the resilience of systems and services. We ensure that companies put customers at the heart of their work, and we set limits on the price increases of monopoly services.

We also use markets to help allocate resources efficiently and to enable service providers to find new and better ways of doing things. Our use of markets and regulation complements each other and enables us to ensure delivery of better outcomes for customers and society. We help competition to develop where it helps to do this.

We have made significant progress in 2015-16 and we need to maintain that momentum in 2016-17 and beyond.

Our plan builds on the progress we have made in our 'Trust in water' strategy. It has been shaped by the engagement we have had with the sector and others over the last year that has informed our thinking for future markets and price setting by 2020. It has also been shaped by our conversations with all those with an interest in the sector we regulate about the performance of the sector today and in the future.

Water and wastewater services 2015-16

Who we regulate

What we do

The water sector

The water cycle

Performance and progress

Action we took in 2015-16 – examples

Factors shaping our plan – examples

Introduction

What we aim to achieve

How we plan to work

What we will do

Resourcing the plan

Changing our plans



Our strategy, 'Trust in water', is based on a shared vision for the water sector in England and Wales.

Water and wastewater are vital public services. So, maintaining the trust and confidence of customers and wider society in these services is essential.

Growing pressures to water and wastewater services, such as climate change and affordability of bills, makes trust in water even more important.

If we are to build and maintain trust and confidence, then the companies we regulate need to take more responsibility ('step up') for delivering the services that their customers and wider society want – and customers are willing to pay for.

Ofwat and the companies cannot secure trust in water alone. It will require co-ordinated action by many stakeholders from across and outside the industry.

Our shared vision

Why trust in water?

Challenges

Companies stepping up

Working with others



To build and maintain trust in water, we will need to continue to work with others and develop strong relationships based on a shared understanding of what we want to achieve. And to achieve our vision for Ofwat, we will work in new and more flexible ways. We want to be able to respond quickly to new circumstances, while never taking our focus from protecting customers' and society's interests.

Our priorities and the tools we use to regulate will evolve over time. But our regulatory model and principles of economic regulation will guide us in everything we do.

We also comply with our legal duties, obligations and powers determined by the UK Parliament and National Assembly for Wales. Our research, analysis and decisions are all independent of Government investors, suppliers and those we regulate – although we operate within the overall strategic and policy framework set out by the UK Government and Welsh Government both for the water sector and overall.

We will deliver our work in line with our values. This allows us to get the best out of the passionate, skilled and knowledgeable people we have through inspiration, empowerment and accountability.

We also innovate in the way we deliver our work by involving others. This allows our delivery approach to adapt to emerging events as efficiently and effectively as possible.

We will review the impact of our work.

Ofwat: our role and vision

Leadership

Skills and experience

Our operational model

Our values and behaviours

Our approach to regulation

Our principles of economic regulation

Our regulatory model

Improving our regulation of the sector

Introduction

What we aim to achieve

How we plan to work

What we will do

Resourcing the plan

Changing our plans



Over the coming years 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.

Using intelligence and analysis, we have identified a clear set of priorities for our work during 2016-17.

We have broken our priorities down into discrete but interlinked packages of work ('projects'). And to help deliver them, we have organised the projects into themed areas ('programmes').

We have a number of key milestones in 2016-17 – and the four years after that.

By delivering our programmes we will deliver a range of benefits and ensure we make progress towards the visions.

And by working collaboratively or in partnership with our stakeholders we will deliver in the most effective and efficient ways – and provide opportunities for learning and growth for our people and for others.

Our priorities for 2016-17

Our programmes

What each programme will deliver – examples

Overall benefits to vision

Key milestones 2016-17

Key milestones 2017-18 to 2020-21

Collaboration with other regulators



We have an ambitious strategy and work programme in the best interests of customers, the environment and wider society. To deliver these, we need to challenge ourselves more than ever to improve our value for money and be more efficient. We also need to develop a more diverse and flexible delivery model. This includes:

- developing our people, culture, infrastructure and wider organisational capability;
- exploring opportunities for joint working in delivering more of our work; and
- managing financial risks and opportunities to ensure we remain financially secure.

We are funded from licence fees paid by the companies we regulate, and company licences set limits on the amount we are allowed to recover through those fees. However, the main constraint is caps set by the UK Government as part of the Comprehensive Spending Review settlement through annual expenditure limits. Our financial strategy ensures we plan and use our resources to maximise strategic value and our own value for money.

How we are funded

Budget

Being more efficient

Workforce

Developing our delivery model

Introduction

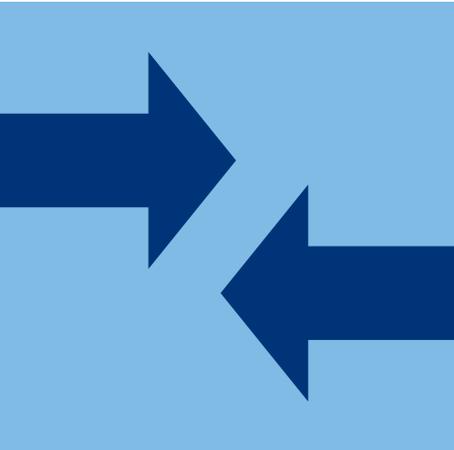
What we aim to achieve

How we plan to work

What we will do

Resourcing the plan

Changing our plans



We focus on those areas of our activity (in line with our duties) that have the most strategic value.

We keep an eye on emerging trends that mean we must adapt our approach to build on that value. We use the information we have and relationships with our stakeholders to check the progress of the sector and challenge them to deliver more effectively and efficiently.

We will provide [quarterly updates](#) on our performance in an engaging and informative way.

Internally, we focus on managing strategic risks and opportunities, prioritising our work, testing our decisions and the horizon scanning so we are flexible to change. This will inform regular stocktakes with the Senior Leadership Team, Board and stakeholders.

Together, these changes enable us to change our plans where necessary and continue the journey with our stakeholders towards trust in water.

How we focus on what matters

Monitoring performance of the sector

Monitoring performance of Ofwat

Factors that could change our plan

Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------

Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
Water and wastewater services 2015-16	Our shared vision	Ofwat: our role and vision	Our priorities for 2016-17	How we are funded	How we focus on what matters
Who we regulate	Why trust in water?	Leadership	Our programmes	Budget	Monitoring performance of the sector
What we do	Challenges	Skills and experience	What each programme will deliver – examples	Being more efficient	Monitoring performance of Ofwat
The water sector	Companies stepping up	Our operational model	Overall benefits to vision	Workforce	Factors that could change our plan
The water cycle	Working with others	Our values and behaviours	Key milestones 2016-17	Developing our delivery model	
Performance and progress		Our approach to regulation	Key milestones 2017-18 to 2020-21		
Action we took in 2015-16 – examples		Our principles of economic regulation	Collaboration with other regulators		
Factors shaping our plan – examples		Our regulatory model			
		Improving our regulation of the sector			



55 million people – or 24 million residential and business properties – served 24 hours a day



99.95% of drinking water complies with EU standards



94% of residential customers are satisfied with their water services – and 91% with wastewater

But...

Utility sector is worst performing UK sector in terms of customer satisfaction

Only 77% of customers find their bills affordable – and 68% find their bills fair

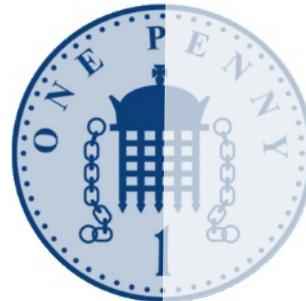
Over 500,000 customers signed up to for major affordability or vulnerability schemes

Bad debt adds about £21 to the average bill each year

Around two serious incidents and 71 less serious incidents for every 10,000 km of sewer in 2014

4 million tonnes of carbon emissions emitted every year

Fewer than 1% of properties are at risk of low water pressure or sewer flooding



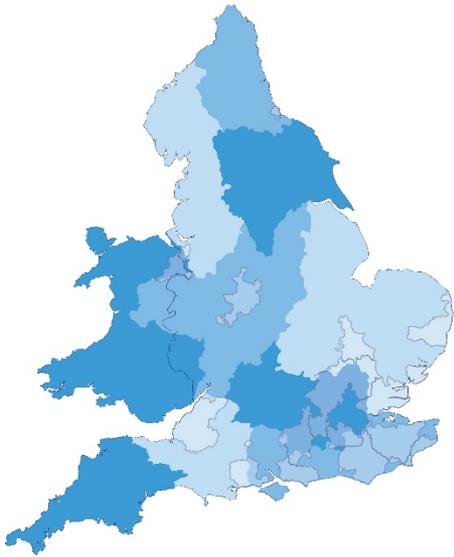
Less than half a penny – average cost of a litre of tap water delivered and taken away



No hosepipe bans for three years



More than 90 Blue Flag beaches – a guarantee of good bathing water



Most residential and business customers receive their water and wastewater from 18 regional monopoly companies – supplying retail services (such as customer service) and wholesale services (such as the supply and treatment of water and safe disposal of sewage). Eight supply water-only services, 10 supply water and wastewater services.

Some residential customers and businesses receive their services from very small monopoly companies. Under certain circumstances, developers and large water user can choose a monopoly supplier for a small local areas.

Only about 26,000 business customers using more than 5 million litres of water a year – 50 million in Wales – can choose from water supply licensees (WSL) that compete for their business.

Following the Water Act 2014:

- From April 2017, 1.2 million business premises in England will be choose their supplier of water and wastewater retail services.
- Ofwat is exploring introducing markets for water resources and sewage sludge disposal.

Find out
more about
the [water
sector](#)



Ofwat

Ofwat's role is to get a good deal for customers now and over the long term.

Our strategy is the means through which we fulfil our statutory duties, which are primarily set out in the Water Industry Act 1991 (as amended). 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.

We make sure companies deliver their services efficiently by controlling the price and service levels of monopoly services and making sure that, where competition exists, it works well.

We also use markets and regulation to reveal information, help allocate resources and drive innovation – and promote competition where it delivers the best results for customers and wider society.

Find out
more about
our [duties](#)

Introduction

What we aim
to achieve

How we plan
to work

What we
will do

Resourcing
the plan

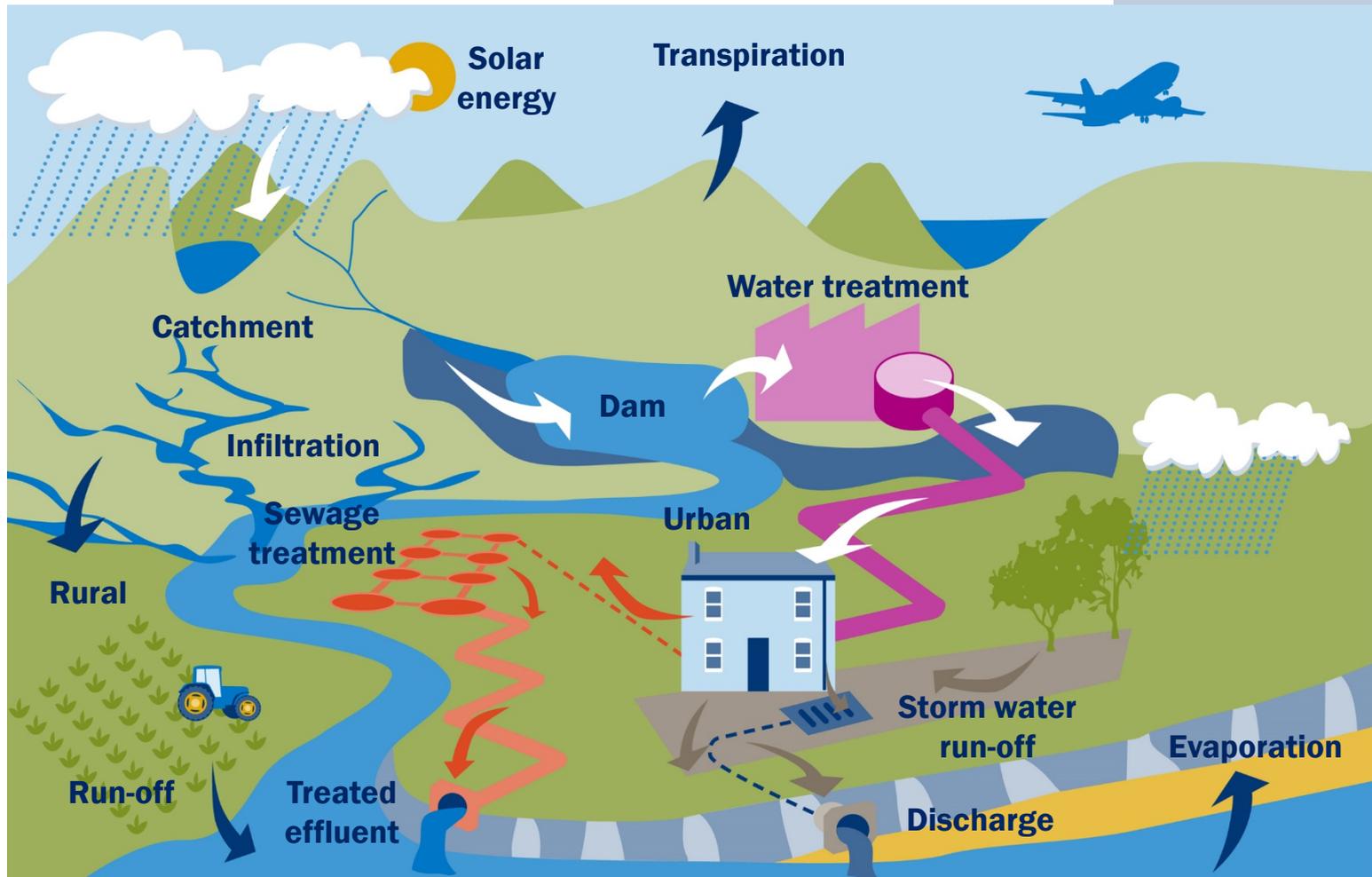
Changing our
plans



Between them, the private companies we regulate (the 'water sector') deliver services to more than 55 million people every day – in their homes, places of work and throughout their daily lives.

Between them, the private companies we regulate (the 'water sector') have an annual turnover of more than £11 billion each year. They employ about 30,000 people – with many more employed in the supply chain. So the sector makes a significant contribution to the UK economy.

The water sector also collects, stores, treats and distributes billions of litres of drinking water and wastewater each year. So it relies on – and has a big impact on – our natural environment.



Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------

Customers

Services to 55 million people

We ensure companies deliver on their promises and take action when they do not – £800 million clawed back for customers

Bills reducing 5% a year before inflation 2015-20

Future choice for customers – household retail review

Trust in water – customer service index (Institute of Customer Services) water company range in July 2015 = 67-75, compared to UK all sector average of 76

Society

£130 billion of investment over 25 years

Drinking water compliance close to 100%

By 2020, companies promise to reduce length of supply interruptions by 32%

Processes to protect customers in the event of financial failure have been tested – and companies are accountable for assessing their financial resilience.

Photo © Sardinelly

Environment

Focus on the future

370 million litres of water saved each day by tackling leakage and promoting efficiency

Changing industry for future challenges

Economy

Industry turnover £11 billion

Non-household retail market

Economic growth through essential infrastructure investment and innovation

Better use of markets deliver for customers and society

Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------

Ofwat



Find out
more about
[the action we
have taken](#)

Draft proposals for improving price limit setting in 2019 and introducing wholesale markets using ideas and evidence from the sector through a 'market place of ideas'.

Our approach for meeting our duty on resilience, using the insights and constructive challenges from an Independent Task and Finish Group on resilience.

Completed key preparations to open a new non-household retail market in England by April 2017 by working with the sector in England, UK Government (Defra) and Market Operator Systems Limited (MOSL).

Work with other regulators through the UK Regulators Network (UKRN) on areas of common interest between sectors in the interests of consumers and the economy.

Contributed to the assessment of impacts on water and wastewater of implementing the recommendations of the Commission on Devolution in Wales, chaired by Paul Silk (the 'Silk Commission').

Work with many sector and non-industry stakeholders to:

- highlight important information about customers who are at risk of water affordability issues and water debt to help policy and decision-makers from across the sector and in Government, to inform the work they do to address these issues; and
- help the sector better identify and support customers in circumstances that make them vulnerable and provide practical guidance on where companies could look and what they could think about when shaping their strategies and policies for customers in circumstances that make them vulnerable.



Complex nature of water and wastewater systems



A growing population and ongoing urbanisation



Customer affordability
What current and future customers want



Customer vulnerability

Unforeseen service events, such as droughts and floods



Efficient and effective regulation

More complex problems that need smarter solutions

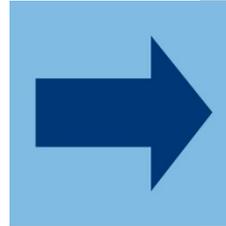


Skills that are needed



Rapid and unpredictable climate change

New actors, often SMEs and third sector organisations



Changes in technology and the environment
Increasing pace of change



Changing customer and societal expectations



Pressure on public spending

Sector investment attractiveness



Economic prosperity

Developments in governance, including in Wales and local government in England



Introduction

What we aim to achieve

How we plan to work

What we will do

Resourcing the plan

Changing our plans



Water and wastewater are vital public services. So, maintaining the trust and confidence of customers and wider society in these services is essential.

Customers and society want:

- good quality service at a fair price;
- services where and when they want it;
- prices that are affordable and good value; and
- services and prices that are sustainable over the long term.

Sustainability over the long term is important as water and wastewater services rely on and impact our natural environment. And the infrastructure can last for decades. But water companies face growing pressures – including increased demand for water, more informed and demanding customers and tougher environmental standards.

Although average water and wastewater bills will drop by 5% in real terms by 2020, one in five customers do not feel their bill is affordable

Climate change is resulting in more – and more extreme – weather events, including droughts and severe flooding

Four out of five water bodies do not meet appropriate environmental standards

Growing pressures on water and wastewater services makes trust in water even more important

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

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

Photo © Environment Agency

Introduction

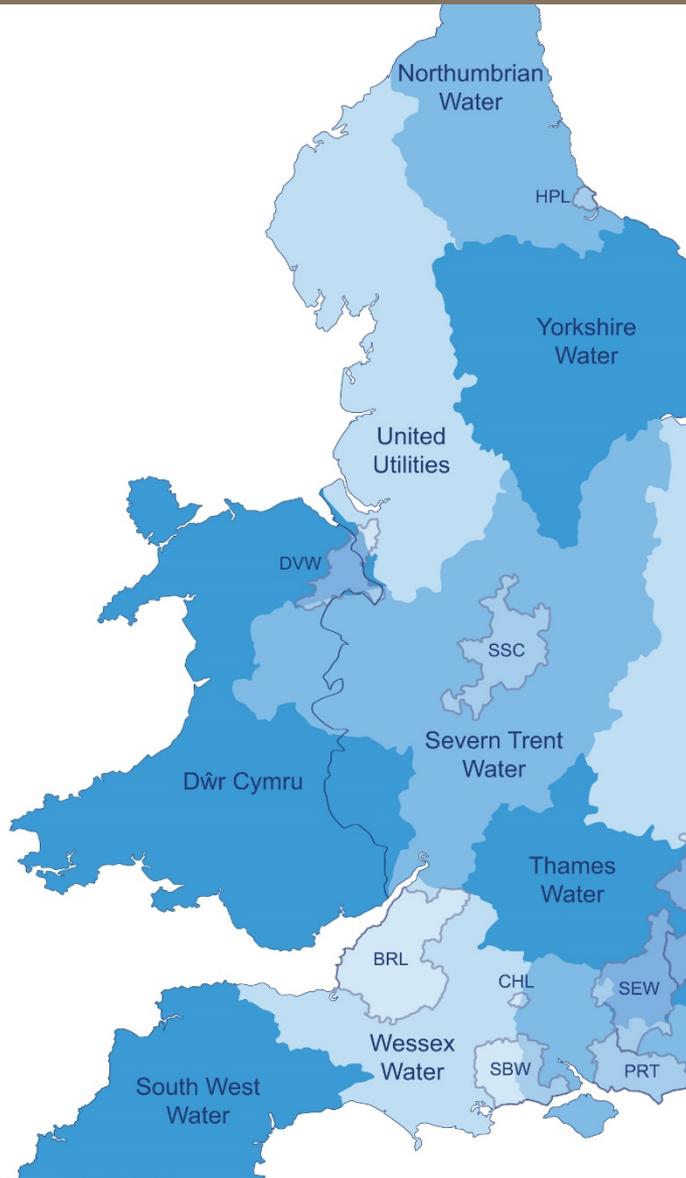
What we aim to achieve

How we plan to work

What we will do

Resourcing the plan

Changing our plans

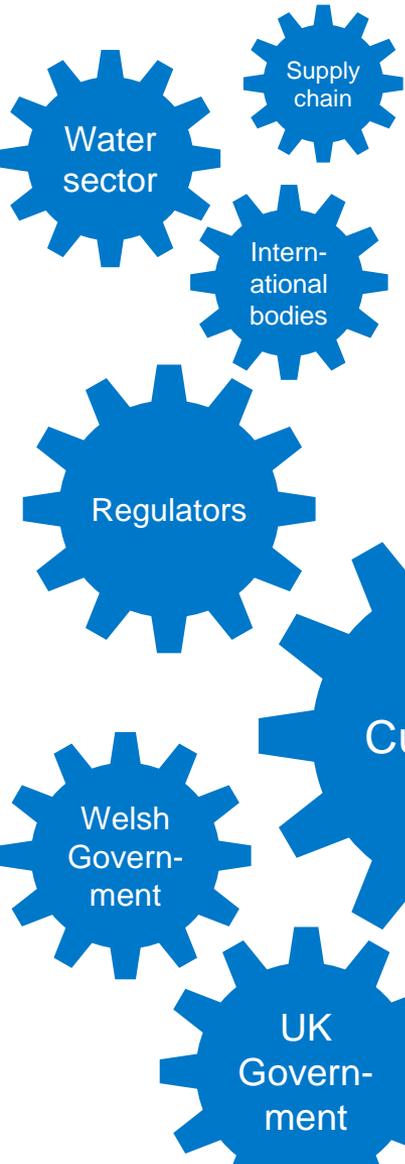


If we are to build and maintain trust and confidence, then the companies we regulate need to respond to changes in customer and society's expectations. This means they need to take more responsibility ('step up') for delivering the services that their customers and wider society want – and customers are willing to pay for. That means:

- being more focused on customers and responsive to their needs;
- becoming more open and transparent;
- having strong relationships with everyone they work with – from communities to suppliers;
- challenging themselves to work differently to provide better services for less;
- make sure that financial performance is closely linked to delivering what customers want
- making better use of scarce resources, protecting our natural environment and making sure services are resilient.

Our approach to regulation will support companies to be more agile and responsive – and allow us to step back where monopolies step up or customers can shop around. But if companies do not step up to the challenge or struggle to adapt and progress, we will be ready to step in to make sure customers' and wider society's interests are protected.

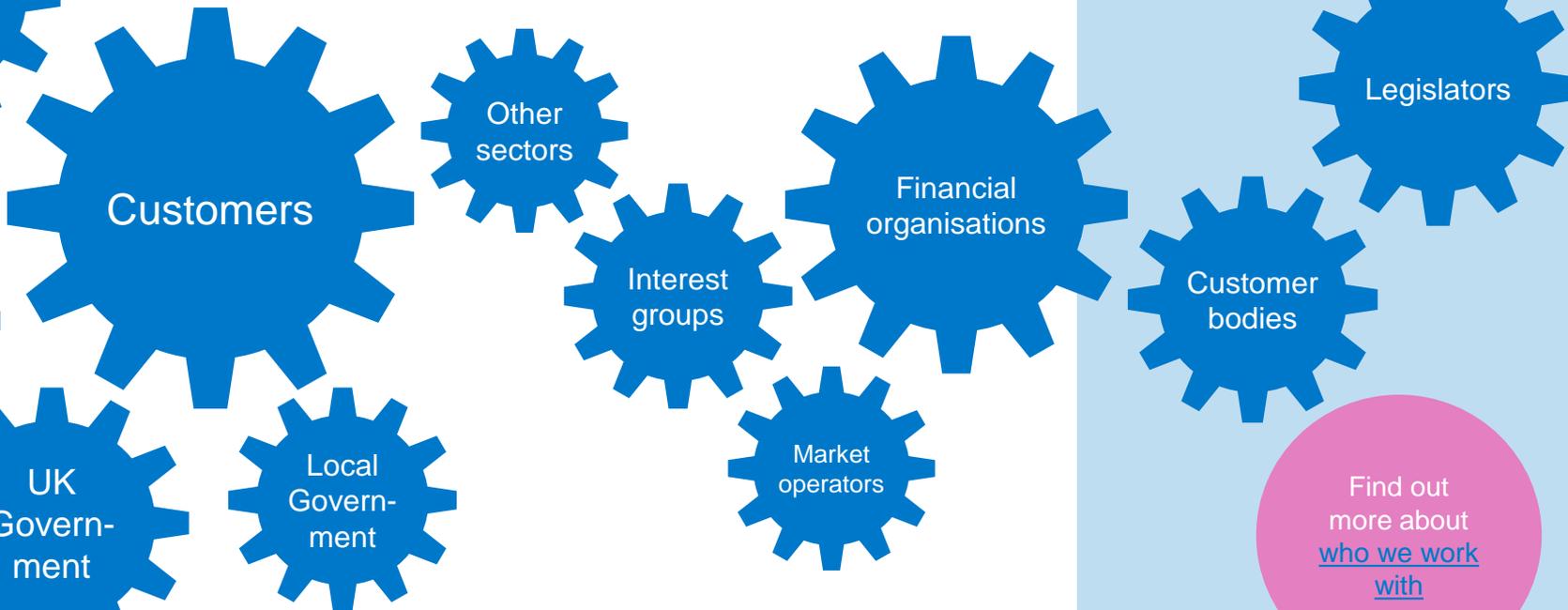
Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------



Securing trust in water is an ambitious and complex task that will develop over time as the sector and society changes.

Ofwat and the companies cannot secure trust in water alone. It will require co-ordinated action by many stakeholders, supported by open and honest conversations, partnerships, collaboration and strong relationships.

It needs everyone in the sector to play their part – and working with and learning from other sectors too.



Find out more about [who we work with](#)

Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------



Ofwat

We want to do the best we can for the customers and society that look to us to regulate the sector on their behalf.

That is why our vision for Ofwat is to be working at the leading edge, trusted and respected, challenging ourselves and others to build trust and confidence in water.

We do that by informing, enabling and incentivising water and wastewater companies to constantly improve the price and service they offer to customers, society and the environment – and to act as a safety net, stepping in where necessary to protect customers' and wider society's interests.

To deliver our legal duties, we will make full use of our duties, legal powers and tools – such as:

- enforcing licences and the law;
- promoting competition;
- setting prices; and
- resolving disputes.

We also use our influence and insight to encourage and provoke the companies to always strive to do better. And we make sure that we and others are informed about companies' performance so we can all hold them to account.



We expect all of our people to show personal leadership. This includes:

- communicating effectively;
- valuing different approaches; and
- being accountable for outputs.

Strong, competent, committed, clear leadership is also important at a senior level in making sure people understand and are delivering against our strategy, and fulfil their potential in doing so. That is why the start of 2016-17, we have new non-executive and executive members of our Board, and a strengthened Senior Leadership Team.

Cathryn Ross
Chief Executive

John Russell
Senior Director,
Strategy and
Planning

David Black
Senior Director,
Water 2020

Aileen Armstrong
Senior Director,
Finance and
Governance

Richard Khaldi
Senior Director,
Customers and
Casework

Keith Mason
Senior Director,
Thames
Tideway

Bev Messinger
Senior Director,
Business
Improvement

Claire Forbes
Senior Director,
Corporate
Communications

Elizabeth Hillman
General
Counsel

PR19 Senior Leadership Team



Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------



We have a proven track record in effective economic regulation. The way in which we regulate has been rated 'AAA' (the highest possible rating) by Moody's Investors Services, the credit rating agency.

We have an in-depth knowledge of the sector we regulate and unique mix of tools, experience and skills – including analysis, policy management, delivery, and support.

We constantly learn, adapt what we do and work with others to get better results from a sector operating in a dynamic environment.

Our skilled staff are passionate and enthusiastic about making a difference for customers, society and the environment.

Find out
more about
[working for
us](#)

Introduction

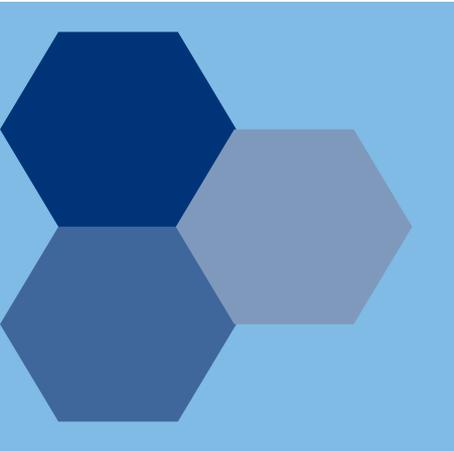
What we aim
to achieve

How we plan
to work

What we
will do

Resourcing
the plan

Changing our
plans



Resource pools

Our people are organised into ‘resource pools’, which reflect the skill set each of them primarily brings to Ofwat.

Each resource pool has a Strategic Resource Manager who ensures the right mix of skills and experience at the right level within their pool to enable delivery of our strategy.

We choose people from different resource pools to work on programmes and projects, reflecting the needs of the work. We are open to bringing in external people as needed to deal with peaks in our workload or highly specialist skill needs.

Decision making and accountability (‘Governance’)

Our Chief Executive is accountable to Ofwat’s Board for the efficiency and effectiveness of our portfolio of programmes and for ensuring Ofwat has the capability to deliver now and in the future. Our Senior Leadership Team helps our Chief Executive to do this.

We devolve decision making on programmes to Senior Responsible Owners for each programme, who are accountable to the Chief Executive. Our governance framework helps all Ofwat staff understand our governance.



Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------

Our values set out what it is like to work at Ofwat and are fundamental to how our people work and behave.

We are Ofwat

We aspire to act in line with our values in everything we do

<h2>S</h2> <p>Support</p> <p>We work collaboratively, we stand by each other and are committed to each other's wellbeing</p>	<h2>A</h2> <p>Ambition</p> <p>We aim high in the best interests of customers, the environment and society</p>	<h2>I</h2> <p>Integrity</p> <p>We act and speak honestly, and have the confidence to challenge and be challenged. We have difficult conversations when needed and we will do what we say we will</p>	<h2>L</h2> <p>Learning</p> <p>We love to learn about new ideas and different ways of doing things and we help each other to develop and grow</p>	<h2>O</h2> <p>Ownership</p> <p>We each take responsibility for our own actions and care about our impact on others</p>	<h2>R</h2> <p>Respect</p> <p>We value people for who they are, and the ideas and perspectives they bring</p>
---	--	---	---	---	---

Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------

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:

- 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 traditional model of regulation we used from 1989 delivered great benefits. But the value of this ‘comparative regulation’ has declined. And if the sector is to successfully meet the challenges it faces, 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. We need 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.

We now have a principles-based regulatory approach where we help and encourage the water sector to step up and assure us that it is delivering good outcomes and building strong relationships. Where companies don’t step up and fall short, we will step in to protect customers.

-£39

2000 to 2005

Value of efficiency savings
(bill) (2012-13 prices)

-£18

2005 to
2010

-£11

2010 to
2015

Outcomes focused: we focus on the things that really matter to customers, the environment and society now and in the future

Using all of our tools: we will continue to use our traditional tools (price controls, determinations, licensing, enforcement), but will also use broader tools to shine a light on issues and provoke debate

Pro-market: we use our tools to align the interests of capital and company management with those of customers. We will make appropriate use of market mechanisms to deliver benefits for customers, the environment and wider society

Relationships focused: we recognise that it is not just what the water sector does but how it does it – we want to see companies stepping up and taking responsibility for their relationships being open, honest, fair and transparent

Proportionate and targeted: we will focus our regulatory intervention where it is most needed. We will facilitate and encourage the water sector stepping up and assuring us that it is delivering good outcomes and building strong relationships. We will step in where necessary to protect customers

Photo © Transport for London

Introduction

What we aim to achieve

How we plan to work

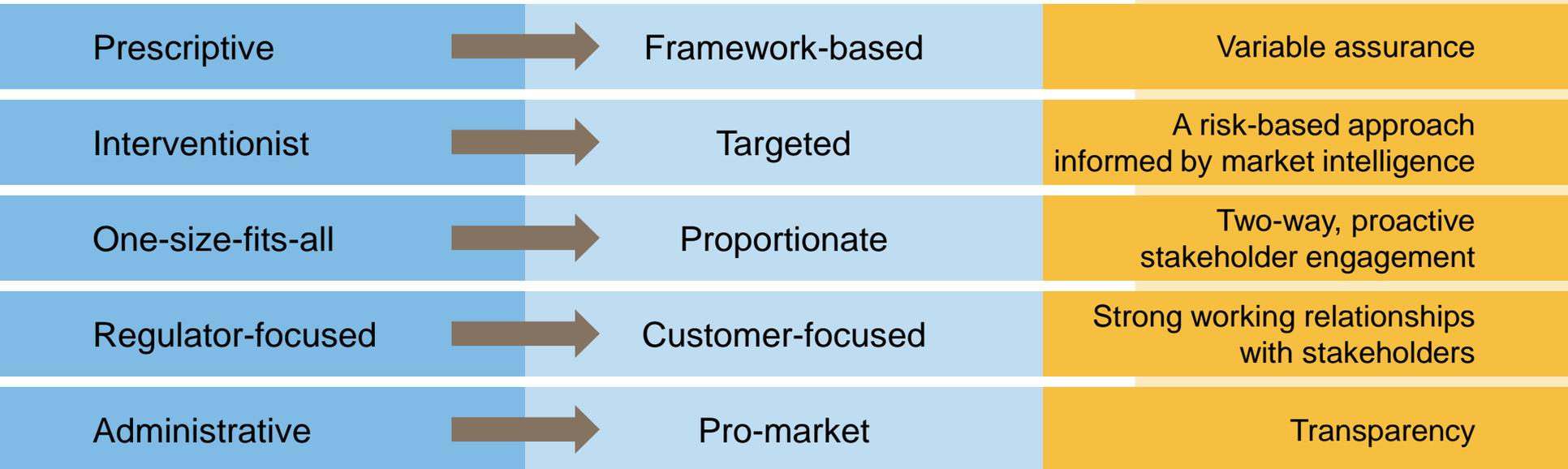
What we will do

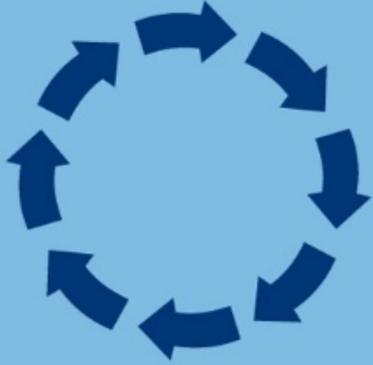
Resourcing the plan

Changing our plans

Building on significant changes we have already made, we are moving away from prescriptive, 'one-size-fits-all' approaches to regulation that focus the water sector on the regulator. Instead, we will use approaches that are based on frameworks that align interests of companies and capital with customers ('pro-market') – with proportionate and targeted action by us, supported by robust intelligence and assurance and a greater focus by companies on their customers.

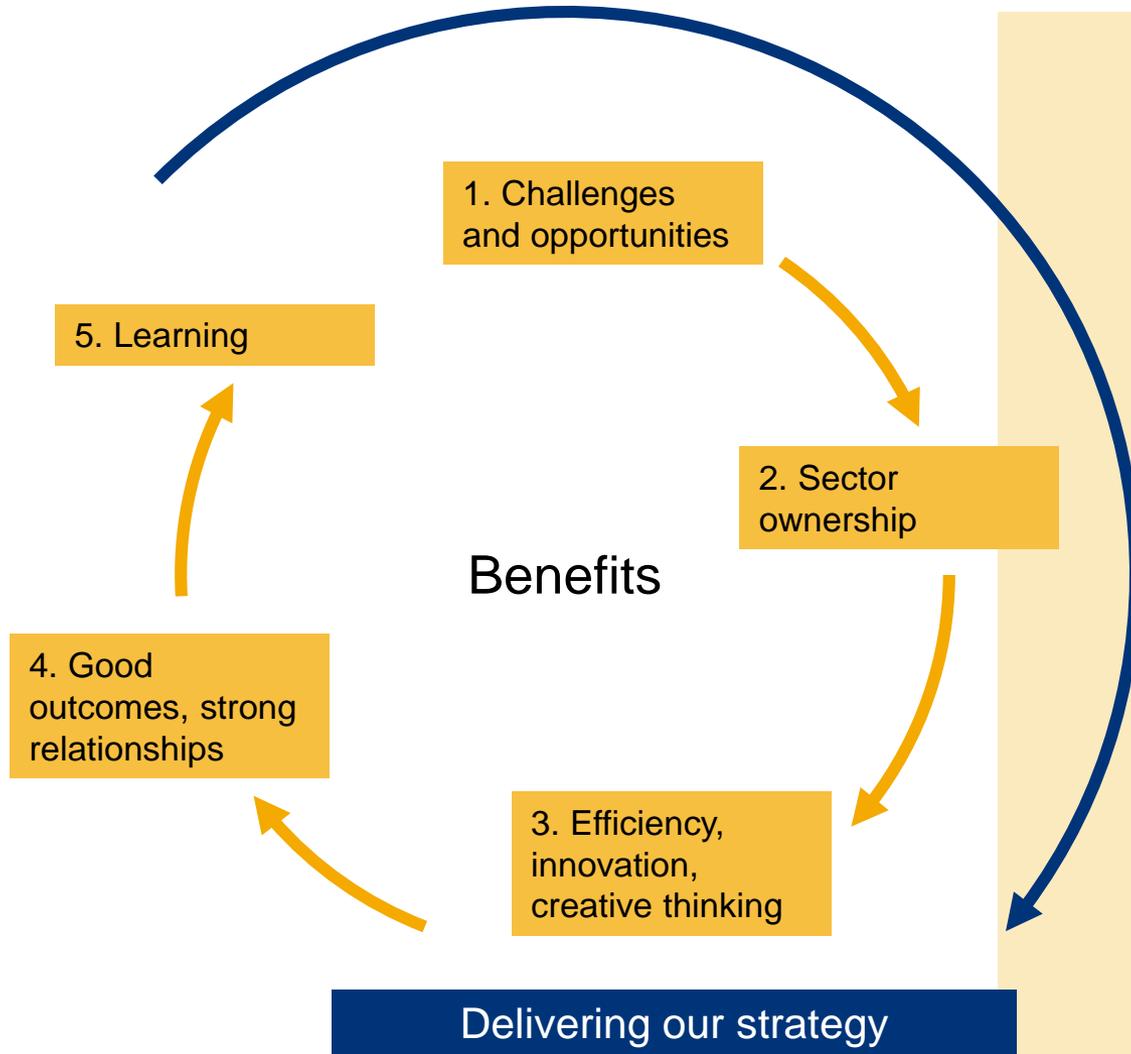
We are also adopting a strategic role in providing information on sector performance. This will be supported by us seeking and maintaining stronger relationships with our stakeholders and greater transparency in our regulatory work.





Our approach to regulation relies on the companies we regulate and others playing their part. Where this happens, we can step back and allow the sector greater freedom to innovate and earn rewards where they deliver what customers want. Where the sector or others does not step up, we will step in to protect customers.

1. To overcome the challenges the sector faces, we will use our regulatory tools and markets to inform, support and challenge the sector.
2. To allow us to step back, we need individual companies, the sector and others to step up in taking ownership for doing the right thing for customers, the environment and society now and in the long term.
3. Where we can step back, companies will have greater freedom to seek efficiencies, innovate and think creatively in how best to deliver services.
4. Greater freedom also means that companies can concentrate on delivering the outcomes and strong relationships customers and wider expect – and be rewarded for doing so.
5. The information this reveals could help us learn where we can step back or where we need to step in to protect customers.





1. Working to ensure that markets deliver real benefits for customers, the environment and society.
2. Improving information and accountability.
3. Maintaining customer confidence through a period of change.
4. Maintaining investor confidence in the sector through a period of change.
5. To ensure that Ofwat has the skills, experience, systems, processes and culture that support our new strategy.

Read more
about our
[priorities for
2016-17](#)

Introduction

What we aim
to achieve

How we plan
to work

What we
will do

Resourcing
the plan

Changing our
plans

Strategy and planning

Establishing our strategy, using it to drive business activity both within Ofwat and in the sector more widely, and monitoring progress towards our vision for the sector and our vision for Ofwat

Compliance and assurance

Improving how we assure ourselves and others that we comply with our own policies and external requirements – and respond to stakeholder expectations

Casework

Using our determination, dispute resolution and enforcement tools to protect customers, hold companies to account and make markets in the sector work better

Finance and governance

Helping companies to develop and demonstrate service, financial and corporate resilience – and ensuring changes in ownership are in the best interests of customers

Customers and wider society have trust and confidence in the vital public water and wastewater services the water sector provides

Business transformation

Making Ofwat a modern, efficient and effective organisation with the right culture, structures, systems, processes and ways of working to support our people in delivering our strategy

Water 2020

Developing future markets and ways of regulating, including delivering the upstream reforms set out in in the Water Act 2014 and our approach to the 2019 price review

Thames Tideway

Establishing and operating the regulatory framework for the Thames Tideway Tunnel, in the best interests of customers, the environment and society

Retail market opening

Developing and opening a market that allows all business customers in England – and those eligible in Wales – to choose their supplier for water and wastewater retail services from April 2017

Introduction

What we aim to achieve

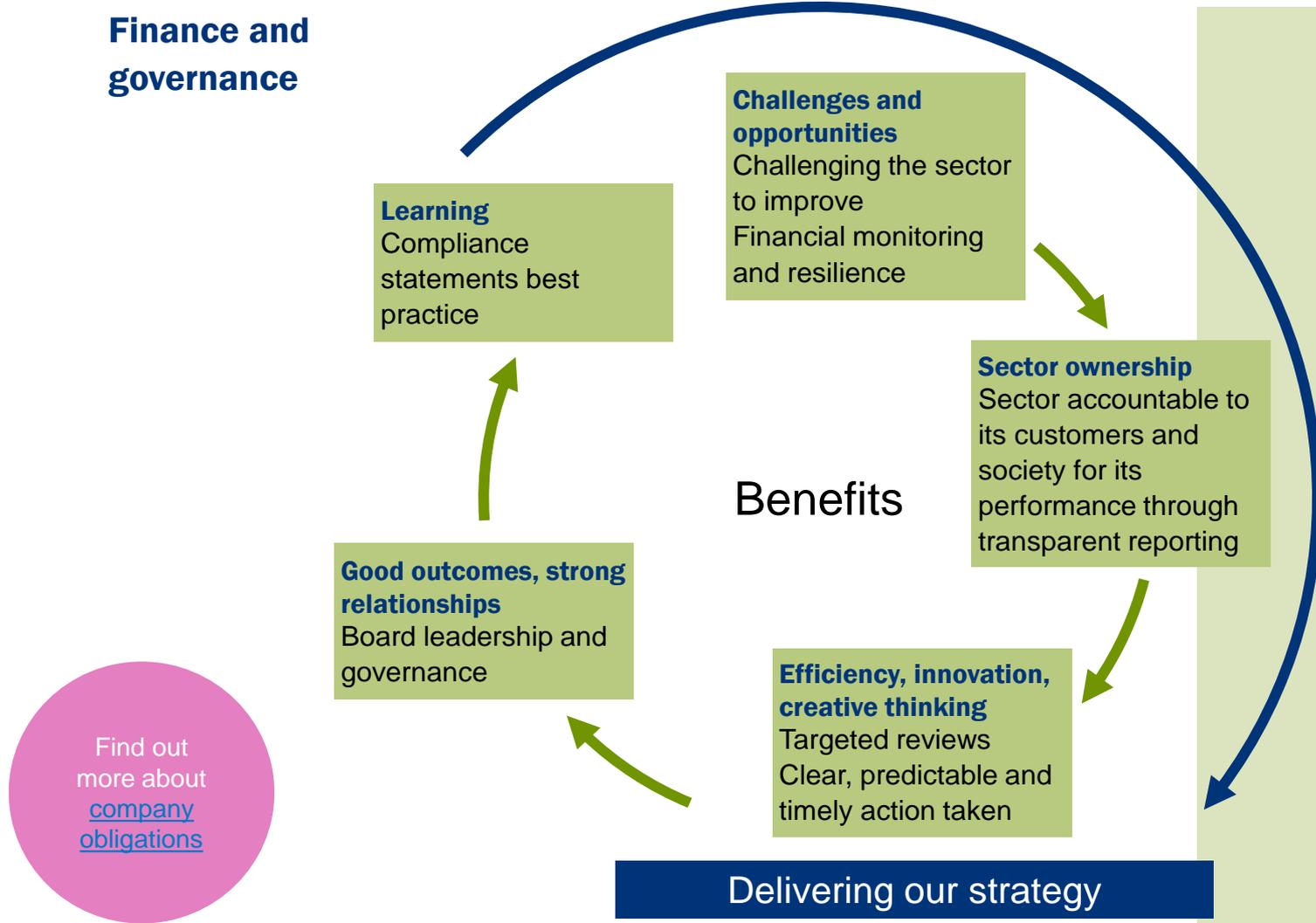
How we plan to work

What we will do

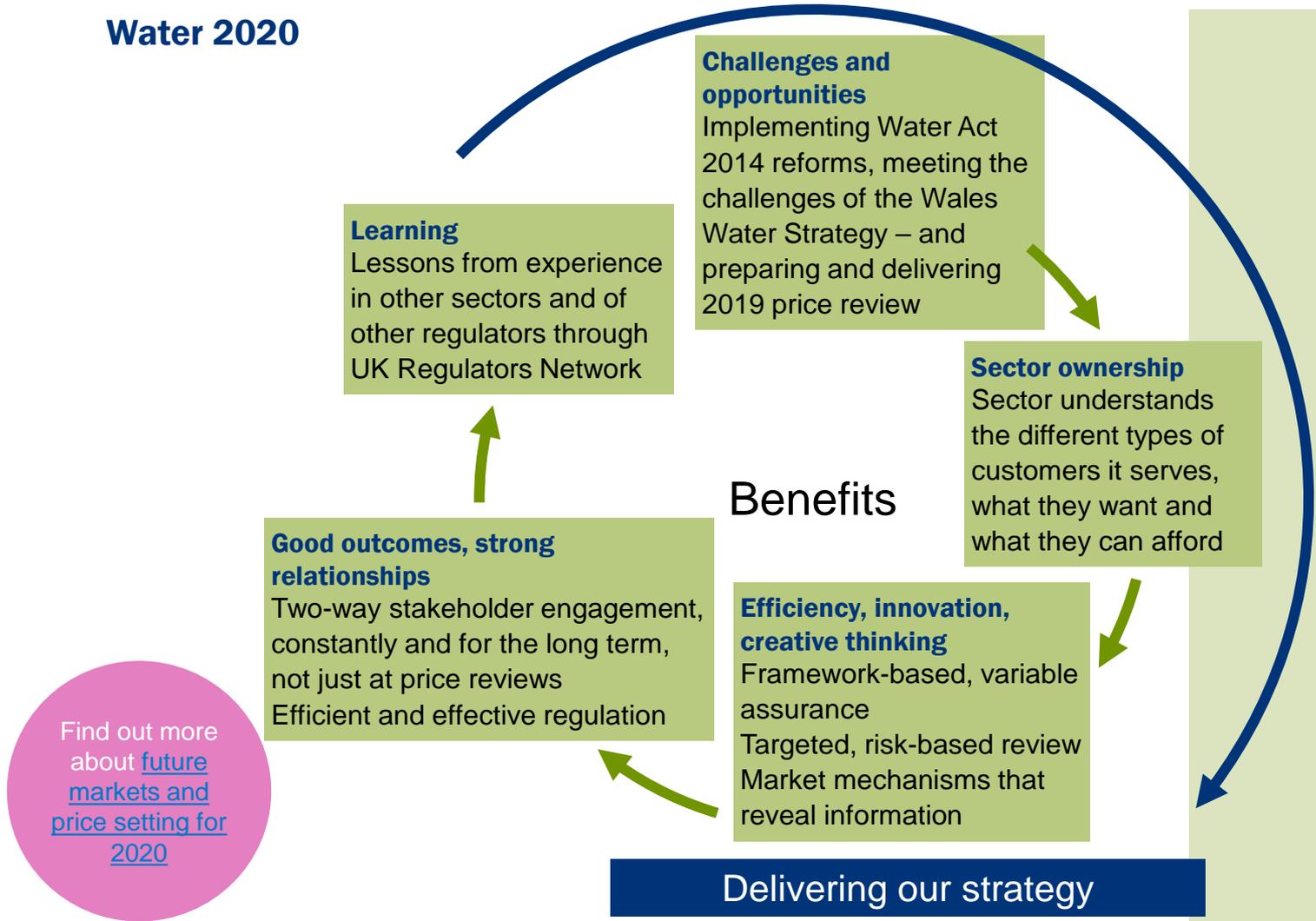
Resourcing the plan

Changing our plans

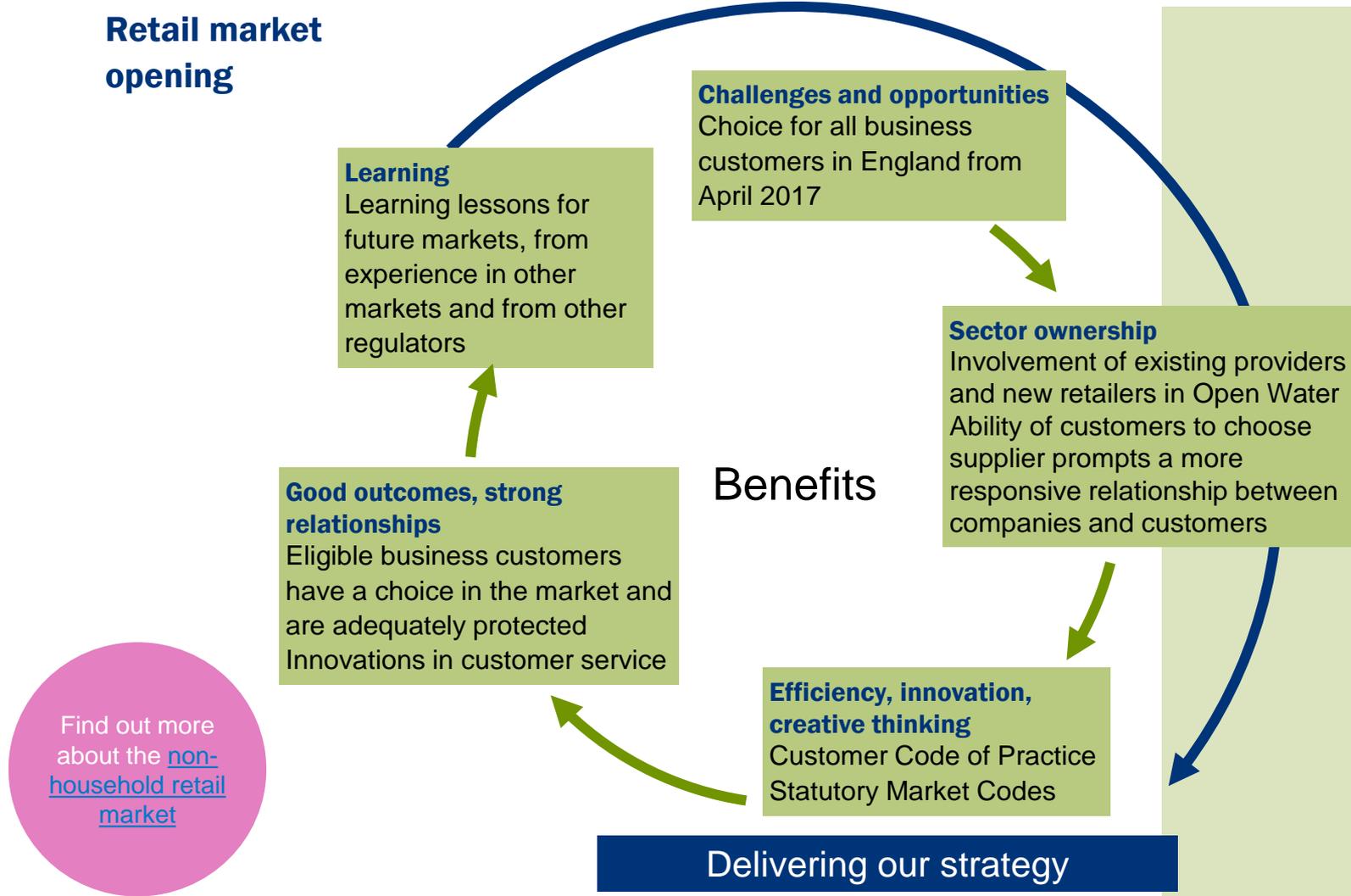
Finance and governance



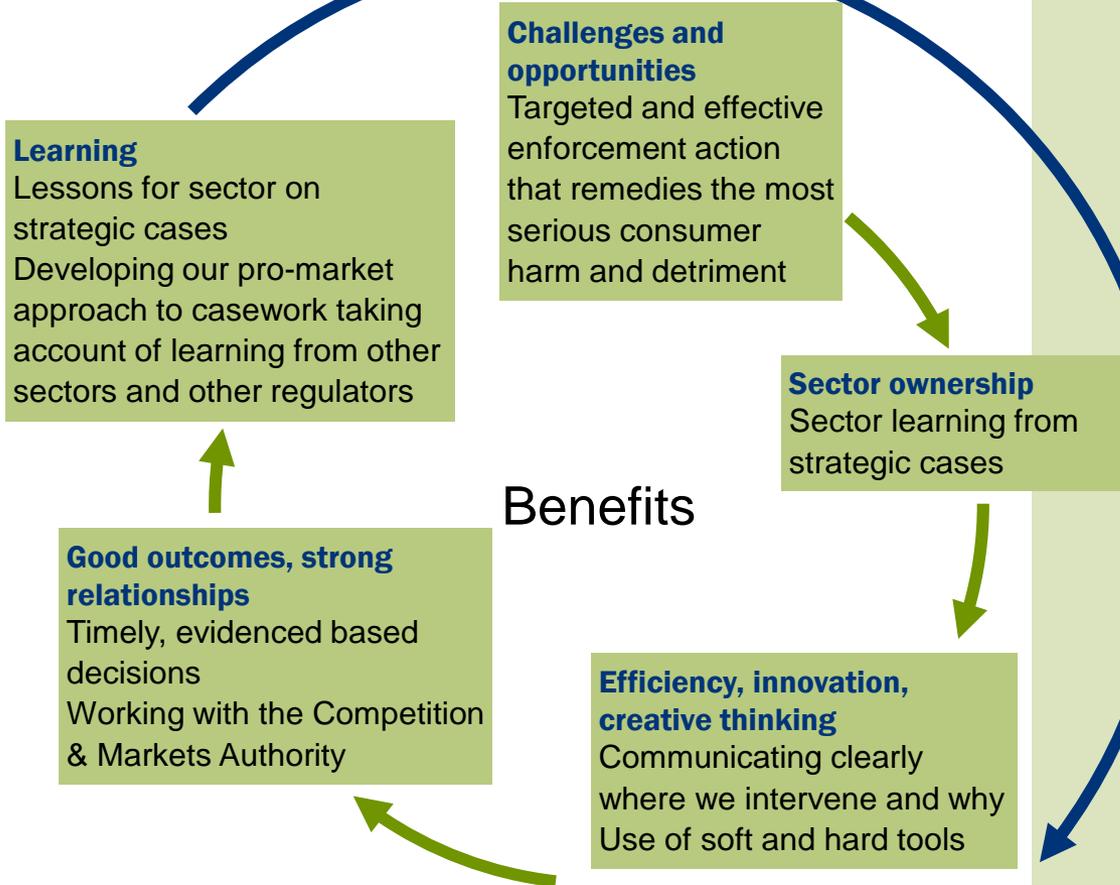
Water 2020



Retail market opening



Casework

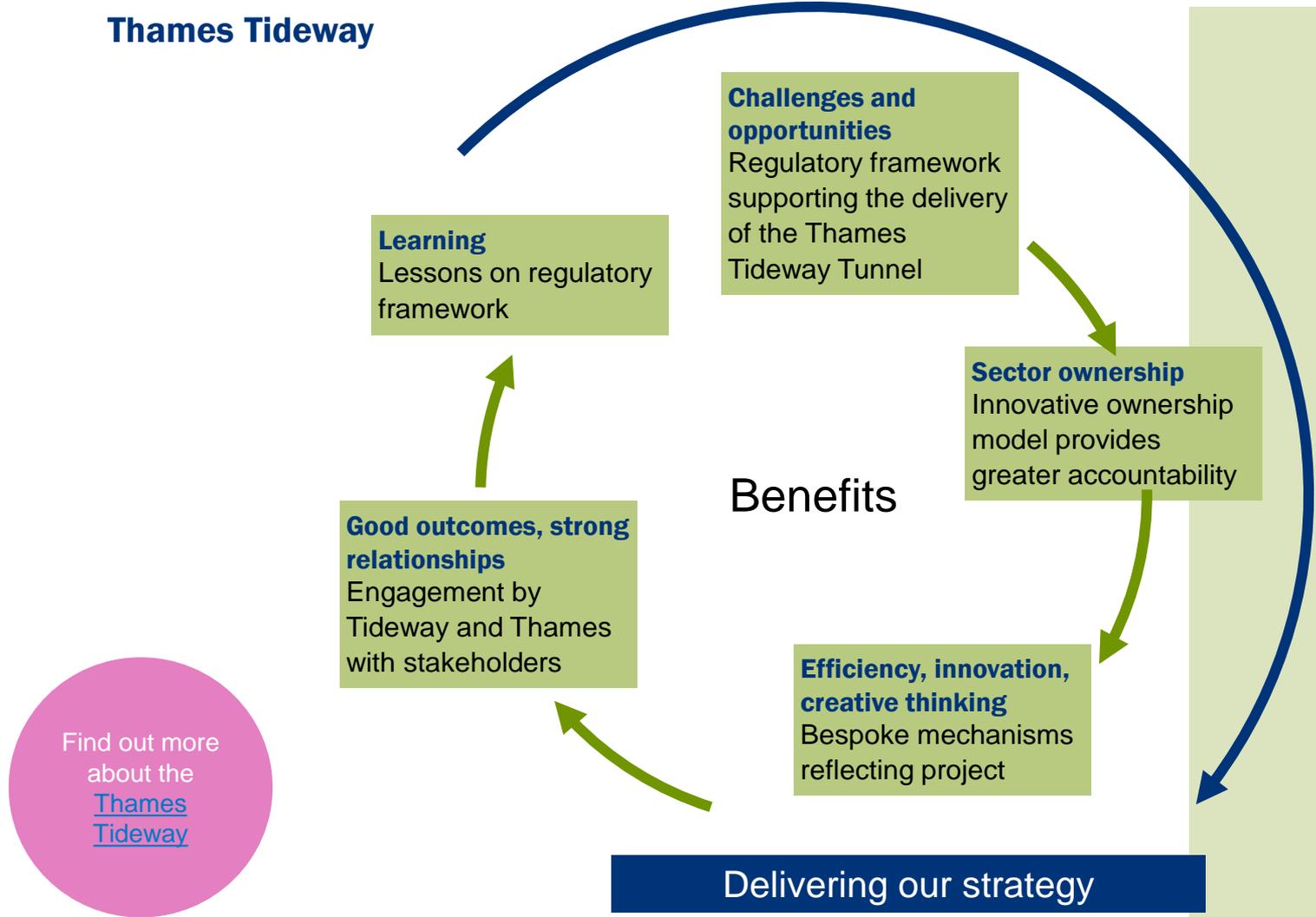


Benefits

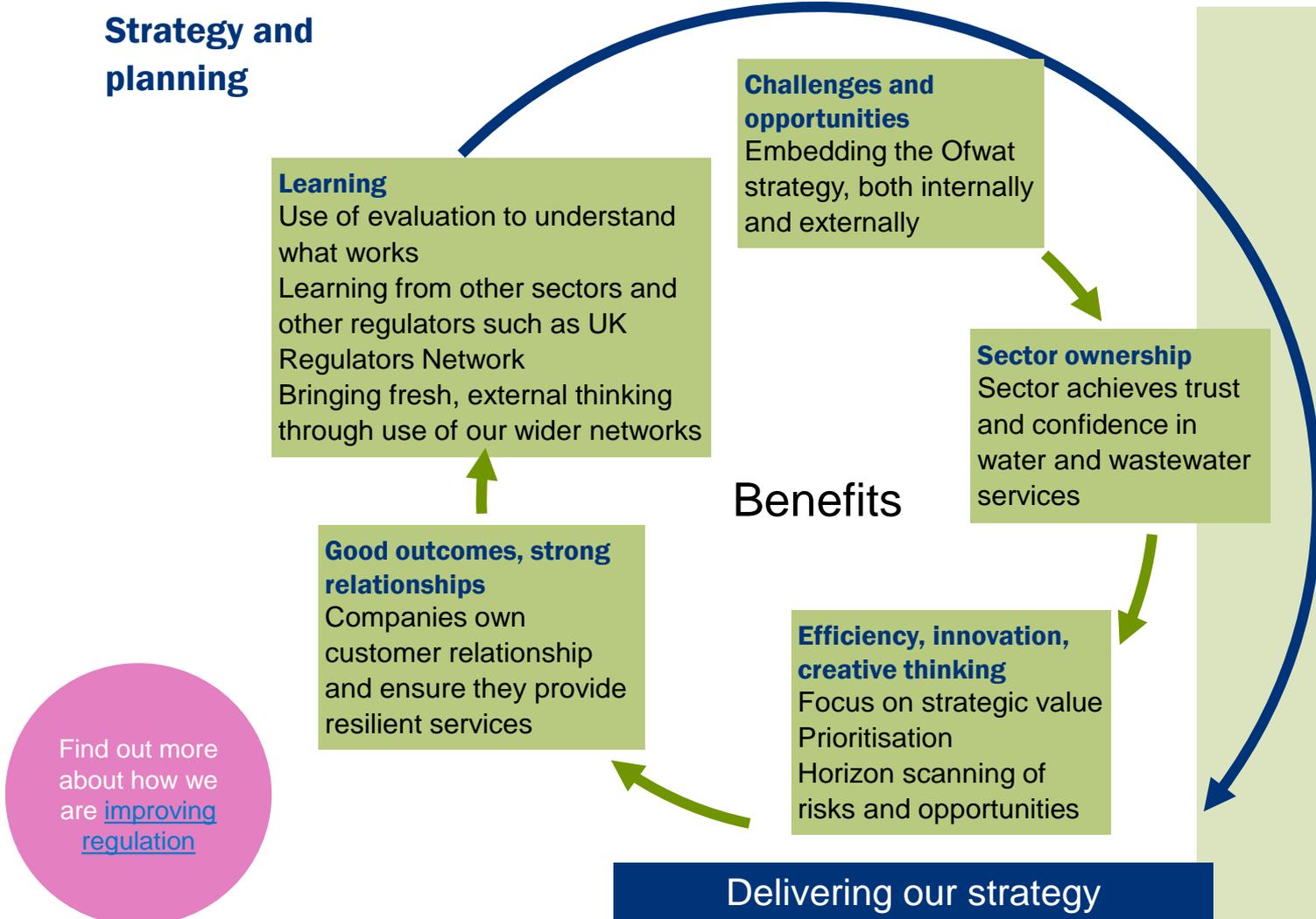
Delivering our strategy

Find out more about our [investigations](#)

Thames Tideway

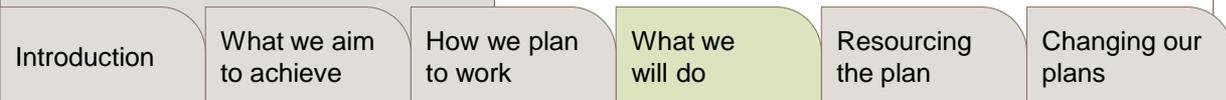


Strategy and planning



Find out more about how we are [improving regulation](#)

Programme	Benefits	Outcomes (not programme specific)
<p>Finance and governance – implementing frameworks to monitor company performance and to enable action to be taken</p>	<p>Building trust and confidence that monopoly service providers in the sector are:</p> <ul style="list-style-type: none"> • delivering against their obligations and operating to high standards; • delivering against their 2014 final determinations; • financially resilient; • operating to high standards of board leadership, transparency and governance; and • providing appropriate assurance on all of the above. <p>Monitoring the performance of competitive markets to ensure they are delivering in the interests of customers and society, and to enable us to intervene in a proportionate and targeted way where necessary.</p>	<p>Companies focus on the needs and desires of their customers and maintain a high standard of corporate governance – and comply with their obligations. Investors are confident in Ofwat and the water sector.</p> <p>Markets work effectively in the best interests of customers and society.</p>
<p>Water 2020 – developing future markets and ways of regulating – implementing Water Act 2014 reforms and approach to 2019 price review</p>	<ul style="list-style-type: none"> • Helping companies to be less focused on what the regulator wants and become more focused on what customers want. • Moving away from a model that is less regulatory and administratively focused to one that is more pro-market with much greater revelation of information. 	<ul style="list-style-type: none"> • Enhanced legitimacy for the sector. • Greater resilience. • Efficient and effective services for customers and the environment. • Costs kept down for customers, contributing to overall affordability and productivity.



Programme	Benefits	Outcomes (not programme specific)			
Retail market opening – opening the new non-household retail market in England	Programme delivers an effective market on time.	Lower bills, better service, more innovation.			
Casework – using tools to protect customers, hold companies to account and make markets work better	Targeted and proportionate interventions to protect customers where companies are failing. Supporting competition and choice for customers through the issuance of licences to new entrants. Taking action using our competition powers to support and correct markets that may not be working in the best interests of customers.	Fair dealing throughout the water and wastewater cycle.			
Thames Tideway – operating the regulatory framework for Thames Tideway Tunnel	Right incentives for delivery by Thames and Tideway for customers, environment and society.	Improved environmental and service quality for customers with greater service resilience.			
Strategy and planning – strategy drives activity within Ofwat and across water sector	Transparent information on water sector’s and Ofwat’s performance strengthens relationships with key stakeholders.	Increased trust and confidence among customers and wider society in Ofwat and the water sector.			
Business transformation – Ofwat is a great place to work and all programmes embed our values	We have people with the right mix of skills and experience, partnering with others where it makes sense to do so.	Customers and society enjoy more of what they want for less, as Ofwat is an effective and efficient regulator.			
Compliance and assurance – complying with our internal and external requirements. Delivering to milestones and budgets	Management information needed to make timely and effective decisions on our resource use. Ensuring the systems and process are in place to ensure compliant and efficient regulation.	Regulation that is demonstrably value for money.			
Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans



'Ofwat's forward programme 2016-17' sets out the key work for each of our programmes for 2016-17. This includes the following.

- Publish our high-level framework for the 2019 price review and development of wholesale market reforms set out in the Water Act 2014.
- Complete the first phase of our delivery model for the 2019 price review.
- Review the benefits of extending choice of water and wastewater retail services supplier to households.
- Make final arrangements opening the new market for water and wastewater retail services for eligible business customers in England – including opening the application process for retailers to apply for licences.
- Set monopoly companies' price controls for non-household retail services in England and Wales.
- Publish a review of a service area delivered by monopoly companies.
- Establish a roadmap and stakeholder working group to review, agree and implement modernised licences.
- Publish Ofwat's five-year business plan, forward programme and annual report and accounts.
- Explore the practical steps needed to share, provide, outsource or jointly deliver services with other regulators.

Read [our forward programme for 2016-17](#)

2017-18	2018-19	2019-20	2020-21
<p>New market for water and wastewater retail services opens for eligible business customers in England.</p> <p>Consult on our methodology for the 2019 price review – and publish our final methodology.</p> <p>Publish annual results of water sector performance, financial resilience, service resilience and board, leadership and transparency principles.</p> <p>Review a service area delivered by monopoly companies.</p> <p>Publish Ofwat’s five-year business plan, forward programme and annual report and accounts.</p> <p>Publish decisions on disputes and investigations as appropriate.</p> <p>Reviewing the effectiveness of company social tariffs and update our affordability and debt report.</p> <p>Assess the performance of the sector and the impact of our regulatory framework in supporting the UK Government’s ambitions for house building.</p>	<p>Monopoly companies send us their business plans for the next price control period.</p> <p>Publish the results of our risk-based review of monopoly companies’ business plans.</p> <p>Publish first review of the non-household retail market in England, assessing the effectiveness of competition and how it is delivering for customers and whether customer protection is sufficient.</p> <p>Publish annual results of water sector performance, financial resilience, service resilience and board, leadership and transparency principles.</p> <p>Review a service area delivered by monopoly companies.</p> <p>Consult on and publish revised board leadership, governance and transparency principles for regulated and holding companies.</p> <p>Publish Ofwat’s five-year business plan, forward programme and annual report and accounts.</p> <p>Publish decisions on disputes and investigations as appropriate.</p>	<p>Publish our draft decisions (‘determinations’) of monopoly companies’ price controls for the next price control period.</p> <p>Publish our final determinations of monopoly companies’ price controls for the next price control period.</p> <p>Publish annual results of water sector performance, financial resilience, service resilience and board, leadership and transparency principles.</p> <p>Review a service area delivered by monopoly companies.</p> <p>Publish Ofwat’s five-year business plan, forward programme and annual report and accounts.</p> <p>Publish decisions on disputes and investigations as appropriate.</p>	<p>Publish lessons learned from the 2019 price review – and reconciliation rulebook.</p> <p>Finalise the framework for monitoring and reporting on company performance for the next price control period.</p> <p>Implement water resources and sludge markets, having worked with the sector to establish these in previous years.</p> <p>Publish annual results of water sector performance, financial resilience, service resilience and board, leadership and transparency principles.</p> <p>Review a service area delivered by monopoly companies.</p> <p>Publish Ofwat’s five-year business plan, forward programme and annual report and accounts.</p> <p>Publish decisions on disputes and investigations as appropriate.</p> <p>Review the effectiveness of water and wastewater markets and their interactions with other markets.</p>

Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans				
--------------	------------------------	---------------------	-----------------	---------------------	--------------------	--	--	--	--

We can develop more efficient and effective regulation by learning from other sectors and working closely with other regulators. This is why we are an active member of the UK regulators network. UKRN members are delivering a range of projects aimed at:

- developing coherent and consistent economic regulation across sectors;
- understanding cross-sector issues related to the affordability of services;
- empowering customers to engage to engage effectively in markets;
- maintaining a positive environment for efficient investment in the UK's infrastructure;
- delivering efficient regulation;
- making markets work better to improve outcomes for consumers; and
- achieving better understanding of the effectiveness of economic regulation.

We are also:

- collaborating with UKRN members on developing for new models of service delivery corporate enabling functions; and
- developing wider collaborative models with URKN for core regulatory work.

[UKRN's website](#)
and
[forward programme 2016-17](#)



Our revenue budgets (the given year's income and expenditure) and the licence fees which fund them are governed by conditions of water and wastewater providers' licences. Ofwat cannot raise its own capital (funding for investment in long-term assets) and so our capital budget is funded directly by the Government, with licencees funding the capital charges (depreciation) in our revenue budgets to recognise the cost of holding our asset base. Annual budgets are subject to stakeholder consultation through our forward programme and scrutiny and final approval by the Ofwat Board.

There are three primary licence fees which make up our resource base.

- **our core licence fee** (Condition N), which in 2015-16 cost 92 pence per household a year to regulate a sector with annual turnover of £11 billion, and comprises two components:
 - a 'renewal fee' which is set annually based on the previous year's budget plus RPI in the previous November; and
 - an 'additional fee' which covers each new five-year price review period; it is set at a maximum of 0.03% of average industry turnover over the previous five years, which acts as a flexible cap for the additional costs of price review processes which can be drawn down flexibly over the five-yearly price setting cycle which peaks in the final two years (2018-19 and 2019-20).
- **Thames Tideway Tunnel** – a seven-year licence fee, capped at a total of £10 million over that period, paid for by Thames Water and the infrastructure provider.
- **Retail market opening** (Condition R1) – a specific licence condition which provides funding for one-off work to set up the non-household retail market which is due to open in April 2017. Companies whose areas are wholly or mainly in Wales do not contribute as Welsh Government policy is unchanged for business retail customers.



We have maximum revenue and capital budgets for the period 2016-17 to 2019-20, set by Government as part of the 2015 Comprehensive Spending Review.

£ million	2016-17	2017-18	2018-19	2019-20	2020-21*
Resource Departmental Expenditure Limit excluding depreciation	£25.4	£23.6	£28.9	£29.6	£24.2
Capital Departmental Expenditure Limit	£0.36	£0.37	£0.17	£0.22	£0.15

* Indicative figure only.



We take our efficiency very seriously. We are investing in an ambitious Business Transformation Programme to improve our efficiency, effectiveness and resilience.

Achievements so far	By 2019-20
<p>Halved our accommodation footprint and costs, and achieved a ratio of 8.3m² per FTE, saving £3.5 million by 2019-20.</p> <p>Reorganised to remove skills we no longer need and created capacity to bring in the skills we need.</p> <p>Invested in our ICT infrastructure which will deliver £0.2 million annual savings on website, telephony and infrastructure costs by moving systems to the Cloud.</p> <p>Improved infrastructure to support flexible and collaborative ways of working which have helped reduce accommodation and travel costs.</p>	<p>Committed to £1.13 million saving (13% real terms) reduction in all of the ‘overhead’ costs associated with running Ofwat) by 2019-20.</p> <p>Improving our workforce planning so that we have the right in-house skills and reduce our use of external specialists, interims and contractors.</p> <p>Working with UK Regulators’ Network (UKRN) colleagues, developing our delivery model for corporate enabling functions through new models of service delivery.</p> <p>Through active collaboration, developing wider collaborative models with URKN for core regulatory work.</p> <p>Early planning in 2016-17 to ensure we have a resilient and cost-effective delivery model for the 2019 price review.</p>



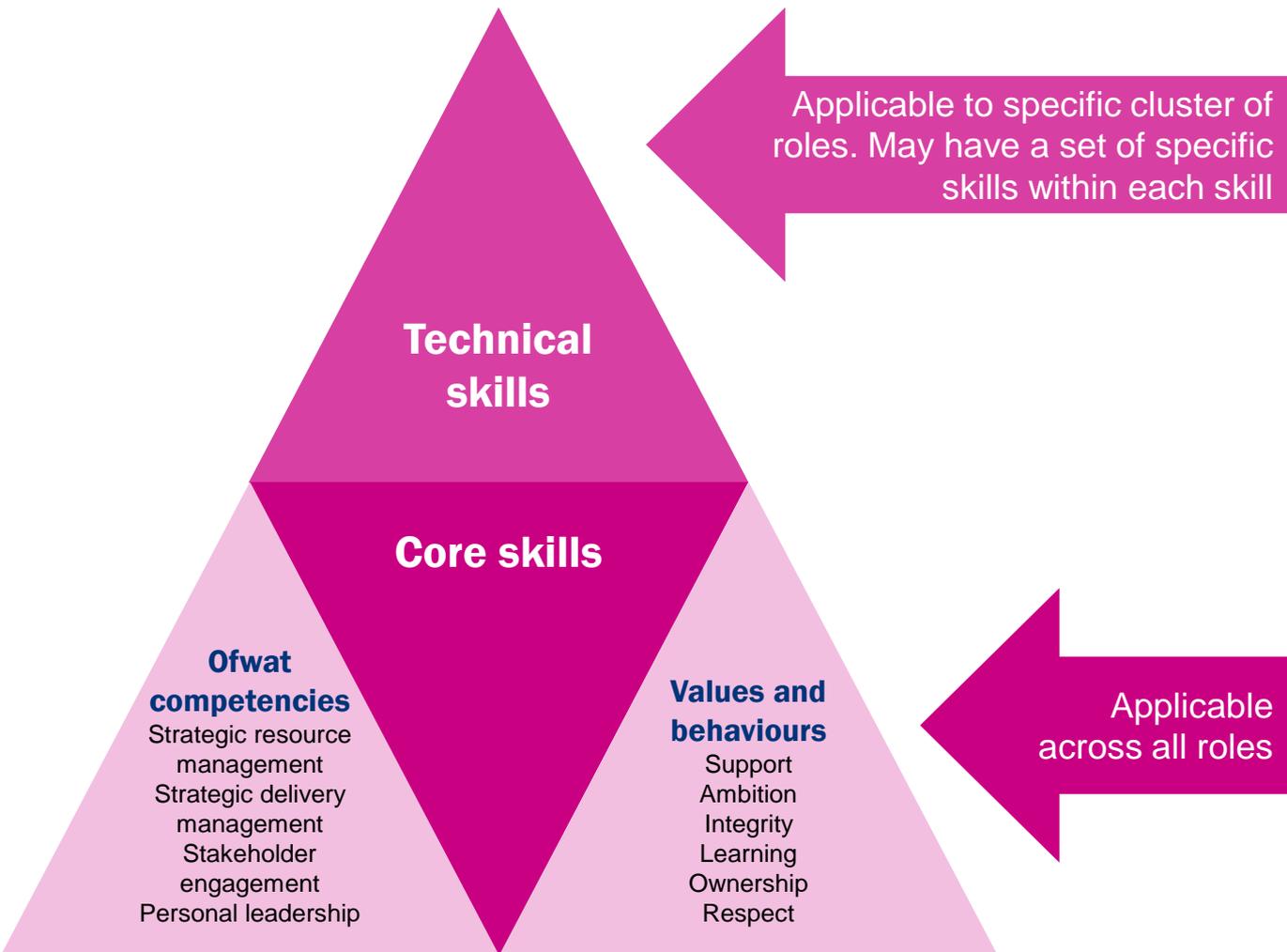
To deliver our strategy through its programmes we must have the right people, with the right skills, at the right time. The people we need at Ofwat has evolved over time and will continue to do so.

We recruit for a mix of skills and professions and from a wide range of backgrounds, including economists, legal, communication, project managers, accountants and a range of operational and business skills. We employ people with a wide range of experience.

The mix of skills we employ has changed over time. Our regulatory model focuses on targeting our interventions and using markets to reveal information, so Ofwat increasingly employs a range of people who have delivered this in other sectors as well as water.

Our plan does not focus just on recruitment, it includes Learning and Development, succession plans and talent management. This will give us time to grow the skills we need to develop in house as well.

See the [recruitment](#) section on our website

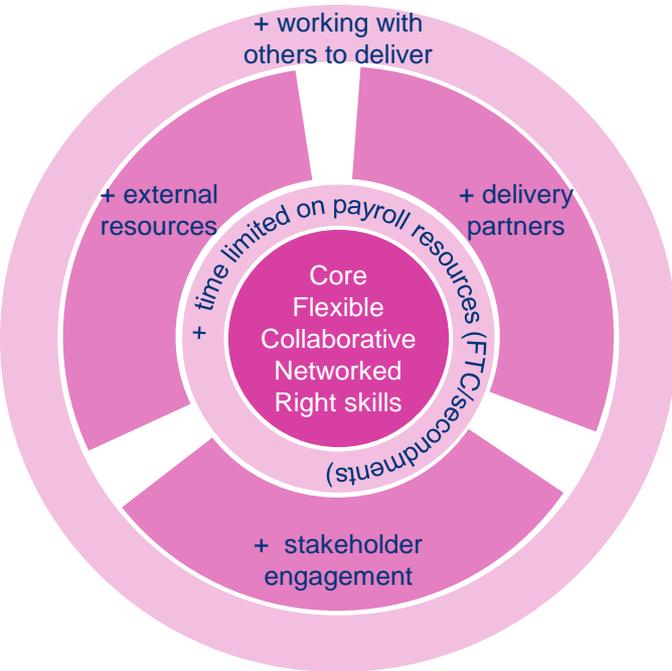


Technical skills

- Policy development and analysis
- Enforcement and compliance
- Regulatory accounting
- Corporate finance
- Data and modelling
- Regulatory and competition economics
- Econometrics and economic modelling
- Science and engineering
- Law
- Delivery management
- Strategy and planning
- Stakeholder engagement and communications
- Human resource management
- Information technology
- Finance
- Business administration and support
- Procurement
- Contract management

Core skills

- Customer focus
- Collaborative influence
- Commercial ability
- Communication
- Information seeking
- Analytical thinking
- People development
- Holding people accountable



Over the five years of the business plan, we will develop a more innovative and collaborative delivery model to develop our people and to manage peaks of workload.

There will be a particular focus in 2016-17 on preparing for PR19 and developing a robust delivery model. We will focus on workforce planning and developing skills we need in house. And building on the success of working with a delivery partner on the 2014 price review, we will explore a range of potential collaborative delivery approaches to support our core resources to meet the significant peaks in our workload expected in 2018-19 and 2019-20 to deliver the 2019 price review.

We will seek to collaborate and work more flexibly with partners, including developing new collaborative delivery models for our corporate enabling functions through the UK Regulators' Network, maximising resilience by sharing, providing, outsourcing or jointly delivering services.

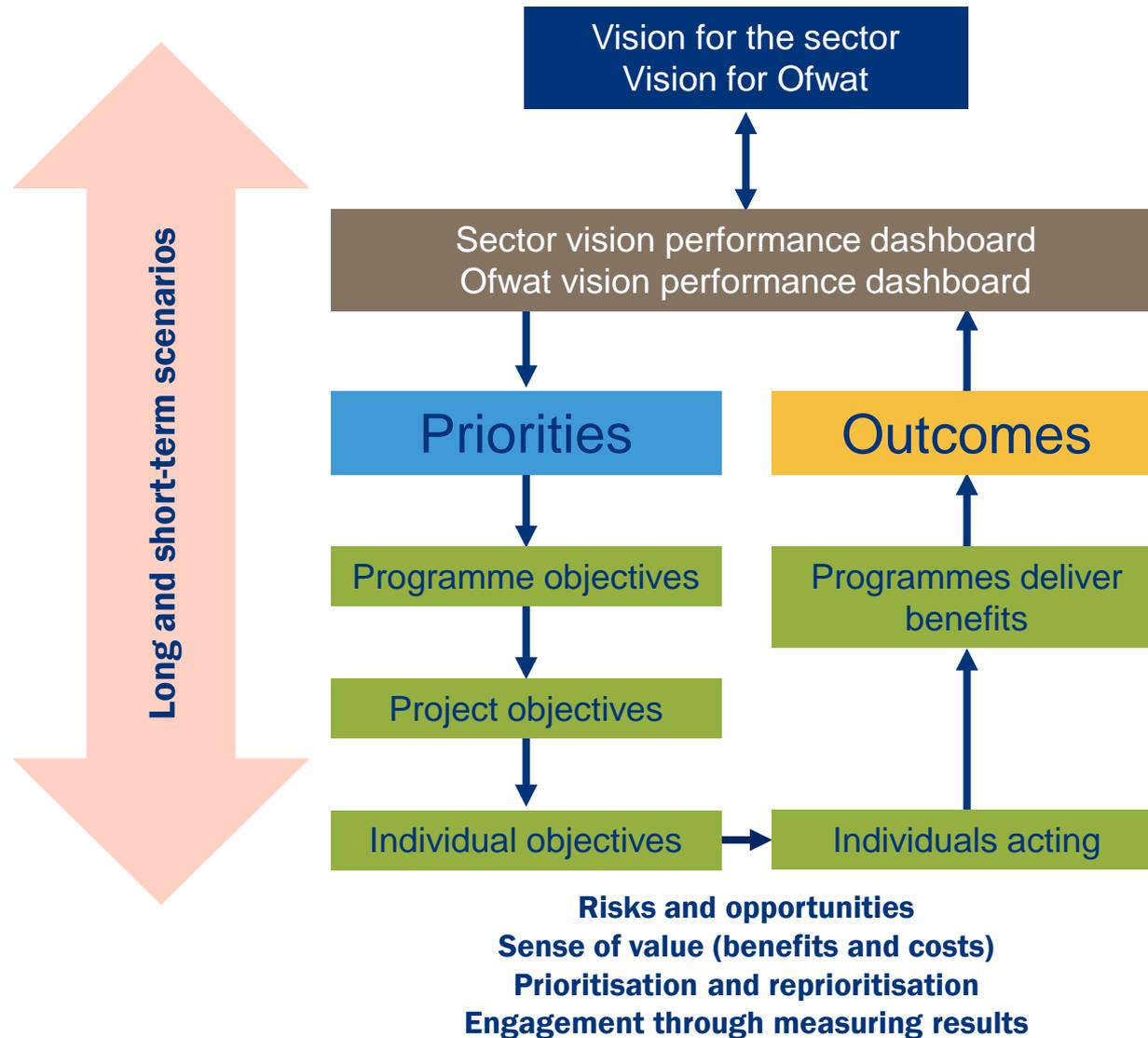


We will use performance dashboards for the water sector and for Ofwat to help decide our annual priorities for contributing to the shared sector vision and delivering the Ofwat vision. We support the work that Water UK is doing on the sector dashboard and anticipate using it to inform the work we do.

Our priorities will determine our programmes and projects – and their objectives. This will inform the objectives of each of our people.

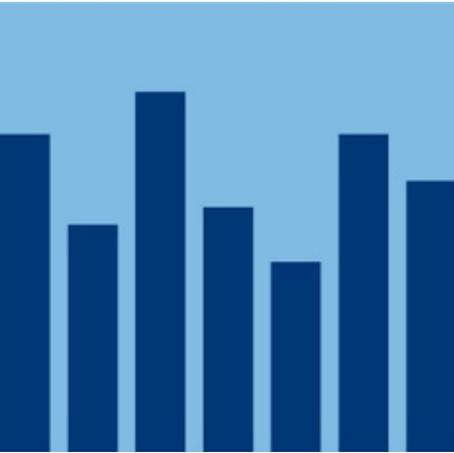
By working on our programmes and projects, our people will deliver the benefits. These benefits will help us make progress towards the visions.

We will monitor the progress we make using the sector and Ofwat dashboards.



Constraints on acceptable costs and outcomes for Ofwat, our stakeholders and sector performance

Long and short-term scenarios



It is important for customers' trust and confidence that the companies that deliver vital public services are accountable for the price and service they deliver. And an important part of this is the information they publish about how they have performed.

We expect all companies to decide how they report on their performance each year. Each company's board is accountable for the quality and transparency of the information they provide on their performance.

But we also expect companies to publish some common information to allow customers and stakeholders to compare the performance of individual companies to the rest of the sector. Providing comparative information also helps companies make decisions – and customers and other stakeholders challenge them – about performance and future targets.

It is also important that there is a clear summary published of the sector's performance in delivery for customers and wider society. Water UK are developing this approach and we are pleased to support their effort in this area. The strategic dashboard is planned to go live on 31 July 2016.

We will work with Water UK to help ensure that the information published includes the views we hear from customer representatives and other stakeholders about what aspects of company performance they need to be kept up to date on.



It is important that we monitor our performance in delivering our strategy. This is not only so that we can be held to account by customers and wider society – but also so we can learn and improve.

Being transparent about our own performance will also 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.

We will publish a summary and description of our performance quarterly, describing the priorities and outcomes as we reflect them in our activities. Some of the performance information we publish will change from year to year, depending on our programmes.

Introduction	What we aim to achieve	How we plan to work	What we will do	Resourcing the plan	Changing our plans
--------------	------------------------	---------------------	-----------------	---------------------	--------------------



We will review our external and internal landscape and may change our plan in the light of any developments. Things that may influence our plans include the following.

- Elections for the National Assembly for Wales in May 2016.
- Legislation on the recommendations of the Commission on Devolution in Wales, chaired by Paul Silk (the 'Silk Commission') – including devolving legislative competence for wastewater in Wales to the Welsh Government and National Assembly for Wales.
- 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.
- The UK Government's long-term plans for improving the environment.
- Revised strategic policy statement for Ofwat from the UK Government – and new guidance from the Welsh Government – which we must act in accordance with.
- The commencement of parts of the Water Act 2014 to allow, for example, the new non-household retail water market opening in England in April 2017.
- New Welsh language standards for public bodies operating in Wales.
- The accountabilities, rules and controls that apply to all government departments – and we operate within. For example, public sector pay and spending controls.
- The UK Government's decision on whether to open the household market in England to competition following our review of the costs and benefits.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

Photographs © Environment Agency, Transport for London, Sardinelly

Printed on 75% minimum de-inked post-consumer waste paper.
April 2016

© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at www.ofwat.gov.uk.

Any enquiries regarding this publication should be sent to us at mailbox@ofwat.gsi.gov.uk.

