

Appendix 1

Ofwat financial strategy 2016-17 to 2020-21

Vision:

A trusted and respected regulator working at the leading edge, challenging ourselves and others to build trust and confidence in water

Strategic outcomes:

We are accountable, compliant and efficient as a regulator and public body, and implement our duties effectively

We have sufficient skilled and motivated people and other resources to deliver our work

We learn from ours and others' experiences

Objectives:

1. Secure an adequate resource base which is flexible enough to respond to changes in our operating environment and aligned to our strategy;
2. Continuously improve value for money and demonstrate efficiency for customers and stakeholders;
3. Deliver improved resilience, service and cost through collaborative and innovative delivery models;
4. Adopt an effective and innovative commercial strategy and approach to developing our suppliers; and
5. Achieve greater strategic alignment in our financial management across the portfolio.

Key Enabler	Red lines	Rationale
Well managed financial risk	Contingency is sufficient to cover our net financial risk exposure We operate within our 'cautious' risk appetite	We should maintain only enough contingency to meet net financial risk exposure
Effective forecasting and budget management	Outturn expenditure should be no more than 2% below income	Customers should only fund the work we need to undertake
Relevant, reliable and timely information and simple processes	Timely provision of management accounts by working day 6 of the month	We need to empower those managing Ofwat's resources with the information they need
Engagement with stakeholders	At least quarterly face-to-face engagement with key internal and external stakeholders on budgets	We need to build external confidence and relationships and ensure strong internal dialogue on financial issues
Effective planning	Resource provision will be based on strong plans and realistic assumptions	We need proper planning to support the effective implementation of this financial strategy
Building financial and commercial capability	At least one annual budget manager and contract manager update training session	Staff managing budgets and commercial contracting processes should have the required skills and knowledge and we continuously learn and improve our financial management

Maintain a five year rolling budget model and publish in business plan

Increase flexibility by negotiating more realistic delegations from HMT and seek additional flexibility in application of Cabinet Office spending and pay controls

Seek income-generating opportunities through service provision to other organisations – annual target £0.1m from 2017-18

Use collaboration and innovative delivery models to increase resilience and flexibility of resource base

Make judicious use of CSR settlement flexibility

The right balance of on and off-payroll resources, supported by effective workforce planning, efficient recruitment and effective establishment control

Deliver 13% real terms efficiencies in 'overhead costs' in line with CSR settlement

Prudent cashflow management and forecasting

Photo © Stockvault

Objective 2: continuously improve value for money and demonstrate efficiency

Savings in 2018-19 and 2019-20

We have set ourselves an efficiency challenge from collaborative delivery models to achieve savings (through additional income or reduced costs) of **£1.13m** spread across 2018-19 and 2019-20. These savings will arise from completion of our transformation programme and the work we are actively pursuing with UKRN colleagues to work more collaboratively in our corporate service functional areas.

Historically, Ofwat has not had a sufficiently strong culture of value for money

We have established much better foundations for vfm, for example a substantial reduction in the use of STAs and better assessment of the need to use of interims

We will set and monitor progress against annual vfm indicators and target efficiencies

From 2016-17 Ofwat will participate in CIPFA's benchmarking club and/or benchmark via UKRN to better understand our cost base

We will maintain a rolling 5 year medium-term financial plan as part of our five year business plan

VFM indicators (target efficiencies) for 2016-17 = £1.56m

Accommodation (£0.94m)

Deliver savings of £0.44m in London and £0.5m in Birmingham

Travel (£0.07m)

'VFM challenge' target of £70k annual saving through use of ICT to reduce demand for travel and better booking practice when we need to travel

ICT (£0.1m)

£0.1m saving from investment in Cloud, rationalisation of existing contracts

Professional services (£0.34m)

Deliver savings of £0.34m against 2012-13 professional services costs (£1.85m excluding TTT/RMO)

Enabling functions (£0.11m)

Deliver salary savings of £0.11m as part of the flight path to real term savings of 9% by 2019-20

Objective 3 – collaborative delivery models

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. 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 given 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 through the UK Regulators' Network, to maximise resilience by sharing, providing, outsourcing or jointly delivering services.

We will also explore opportunities to provide services to and with others. Potentially, this could include developing international work on economic regulation, which could generate revenue, develop our people and expand our corporate knowledge.

Objective 4 – commercial strategy

Ofwat needs to take a more strategic approach to its procurement and commercial activity. This will ensure that commercial activity aligns to our strategy, Trust in Water.

It will also ensure congruence between our emerging delivery model for PR19 and development of collaborative delivery approaches more generally. The strategy will ensure Ofwat shapes the market more effectively, works more collaboratively on procurement with other regulators, manages strategic suppliers more effectively and develops processes and guidance that supports best practice across our commercial activities.

The development of our commercial strategy forms part of the Procurement Target Operating Model project within the Business Transformation Programme. The financial strategy will be updated with a link to the commercial strategy and a summary of its key points once this work has been completed.

Ofwat has made significant progress in embedding programme ways of working. The next stage of our development is to build more effective portfolio management systems. This will ensure we maximise benefits for customers, society and the environment through dynamic and strategically-aligned allocation of resource across the portfolio.

The strategic value project within the Strategy and Planning programme will lead the development of our portfolio management systems.

Business planning, budgeting and ongoing resource management across the portfolio will become more strategically aligned. To support this we will:

- develop more strategic budget reporting to Board (quarterly plus monthly updates via the Chief Executive's report) and SLT (bi-monthly);
- use quarterly portfolio conversations with SLT to discuss strategic resourcing issues;
- use quarterly portfolio discussions with SLT and programme directors to raise strategic financial risks and opportunities, and strategic resourcing issues across the portfolio; and
- ensure that our finance and budgeting systems evolve in line with the development of our approach to portfolio management.