

UK Government priorities and our 2019 price review final methodology

December 2017



The 2019 price review (PR19) final methodology will play an important role in contributing to the delivery of the UK Government’s strategic priorities and objectives.

The UK Government has set out [strategic priorities and objectives](#) for us¹, which came into effect on 22 November 2017. We are required to act in accordance with these priorities and objectives in carrying out our relevant functions relating wholly or mainly to England². In this document, we discuss how the PR19 final methodology supports the achievement of those priorities and objectives (which we refer to as the UK Government’s ‘strategic policy statement’).

The UK Government has set priorities and objectives for Ofwat and the water industry in relation to:

- securing long-term resilience;
- protecting customers; and
- making markets work.

The themes of long-term resilience, protecting customers and making markets work, and the priorities and objectives that underpin them, have informed our PR19 final methodology. Although the UK Government’s strategic priorities and objectives only recently came into effect, we used Defra’s [public consultation on its draft statement](#), and discussions with the UK Government to inform our methodology over the course of its development. The UK Government expects that the regulated water industry will reflect these priorities and objectives in its strategic direction.

We want companies to make sure that their business plans meet the needs of their customers for 2020-25 and beyond. Our PR19 final methodology sets out our expectations and requirements for water companies when preparing business plans. It also outlines how we will:

- evaluate those plans, through our initial assessment of business plans; and

¹ It has done so under section 2A of the Water Industry Act 1991, as amended by section 24 of the Water Act 2014.

² For these purposes, “relevant functions relating wholly or mainly to England” means the functions mentioned in section 2(1) of the Water Industry Act 1991 so far as they relate to appointment areas wholly or mainly in England. An “appointment area” is the area for which a company holds an appointment as a water undertaker or sewerage undertaker.

- set companies' price limits, service commitments and the wider incentive framework.

How our PR19 methodology supports the achievement of the UK Government's priorities and objectives

Below, we outline how our PR19 final methodology supports the achievement of the priorities and objectives of the UK Government and how, through PR19, we are establishing an effective framework by which we will hold companies to account.

This discussion is structured under the following headings:

- securing long-term resilience;
- protecting customers; and
- making markets work.

We address each of these in turn, setting out the UK Government's priorities and objectives, and how we, and the sector, are responding.

Securing long-term resilience

Long-term operational resilience means the suitability of a water company's infrastructure, and the skills to run that infrastructure, to avoid, cope with, and recover from, disruption in its performance. This is a key priority for the UK Government and us. External challenges to resilience are increasing. Climate change and population growth put pressure on resources to meet demand while water companies also face additional pressure from ageing assets and the need to keep bills affordable for all. But, at the same time, there is significant potential to address these challenges using new and innovative technologies and by working with customers.

We will assess operational resilience in our initial assessment of business plans and our outcomes framework. The latter includes performance commitments and associated outcome delivery incentives on both resilience and asset health. As part of our challenge to companies on resilience, we are introducing two new forward-looking common performance commitments for resilience to drought and flooding.

We have made long-term resilience in the round a key theme for PR19. Companies will need to deal with a diverse range of risks, including (but not limited to) operational, corporate and financial resilience. Our [resilience in the round](#) document provides further information and case studies on this important topic.

Financial and corporate resilience reinforce operational resilience. How a company is financed, governed and led plays an important role in the delivery of the service it provides. We will therefore assess companies' approaches to corporate and financial resilience, as well as operational resilience, as part of our initial assessment of business plans.

Following our initial assessment of business plans, companies with high quality business plans with significant ambition and innovation for customers and that push the boundaries of the industry and set an example for others will be classed as 'exceptional'. Consequently, they can expect higher financial returns, procedural benefits and reputational benefits. Companies whose business plans need 'significant scrutiny' will face financial, reputational and procedural disincentives.

We consider each of the priorities and objectives of the UK Government with respect to resilience in turn below, setting out key areas where these priorities and objectives are pursued.

Priority: Ofwat should challenge the water sector to plan, invest and operate to meet the needs of current and future customers, in a way which offers best value for money over the long term.

Resilience is vital to current and future customers. Customers expect continuous water and wastewater services, and the impact of disruptions on customers can be significant. Disruptions to water and wastewater services may also have negative effects on wider society and the environment. It is therefore vital that companies provide resilient services and encourage responsible usage from customers.

We expect companies to apply our seven resilience planning principles in their business plans, which reflect our resilience duty. When applying these principles, companies should take account of the full range of pressures on water and wastewater systems and services, develop an excellent understanding of long-term needs and consider a broad range of innovative options to meet these needs.

Resilience planning principles

Principle 1: Considering resilience in the round for the long term. Companies should show a systematic and integrated understanding of service and systems risk, across the entire business, considering short, medium and long-term risks.

Principle 2: A naturally resilient water sector. Companies should promote ecosystem resilience and biodiversity as a key part of the decision-making process for ensuring resilient services where this is consistent with companies' role as providers of water and wastewater services.

Principle 3: Customer engagement. Aspirations on levels of resilience should be informed by engagement with customers, to help companies understand their customers' expectations on levels of service.

Principle 4: Broad consideration of intervention options. Companies' plans to manage resilience should consider a full set of mitigating actions and interventions that consider all components of resilience, including response and recovery.

Principle 5: Delivering best value solutions for customers. Companies' plans to manage resilience should consider the best value solutions for customers in the long term, which may involve long-run solutions.

Principle 6: Outcomes and customer-focused approach. Companies' plans to manage resilience should inform the outcomes they propose.

Principle 7: Board assurance and sign-off. Companies' Boards will need to assure us that their business plans are informed by a robust and systematic assessment of the resilience of the company's systems and services. This means incorporating customers' views and comprehensively and objectively assessing customers' long-term interests.

Our PR19 final methodology challenges the water sector to plan, invest and operate to meet the needs of current and future customers in a way which offers best value for money over the long term. Our resilience tests in our initial assessment of business plans are as follows:

1. How well has the company used the best available evidence to objectively assess and prioritise the diverse range of risks and consequences of disruptions to its systems and services and engaged effectively with customers on these risks and consequences?
2. How well has the company objectively assessed the full range of mitigation options and selected the solutions that represent the best value for money over the long term, and have support from customers?

We are expecting a step change in customer engagement at PR19, with companies using a wider range of techniques to address our principles of good customer

engagement, and we are looking for assurance that they have done so. These include engaging on longer-term issues such as resilience, security of services and the long-term affordability of bills.

In PR19 we will assess the quality of the company's customer engagement and customer participation and how well it is incorporated into the company's business plan and ongoing business operations. We will also assess how well the company has demonstrated that its bills are affordable and value for money for the 2020-25 period and over the long term. Where necessary, we will intervene to ensure that the needs of current and future customers will be met efficiently.

Objective: Ofwat should further a reduction in the long-term risk to water supply resilience from drought and other factors, including through new supply solutions, demand management and increased water trading.

Our PR19 final methodology will further a reduction in the long-term risk to water supply resilience from drought and other factors through:

- our initial assessment of business plans;
- our outcomes framework; and
- the water resources management plan (WRMP) process.

The UK Government has signalled a 'twin track' approach to improving resilience, with investment in new water supplies complementing measures to reduce the demand for water. We expect companies to consider a wide range of options to achieve long-term resilience in water supply, including: new supply investment, demand management, water efficiency measures, leakage reduction, water trading; and solutions that extend beyond traditional boundaries. For example, a company might encourage changes in behaviour through smart customer engagement, partnerships and catchment working.

As outlined in our second resilience test above, we will consider the extent to which companies have objectively assessed the full range of mitigation options and chosen the interventions that represent the best-value for money over the long term, and have support from customers.

Our outcomes framework, with its performance commitments and financial and reputational incentives, will encourage companies' management teams to identify and mitigate relevant risks to water services and infrastructure, to prevent service failures.

- There will be 14 core common performance commitments in total (across both water and wastewater services), which apply to all companies, and cover the outcomes that matter most to customers, including the quality, reliability and resilience of water services and the environment.
- Day-to-day operational resilience is covered by a number of common performance commitments, such as those relating to water supply interruptions and internal sewer flooding.
- There will be a common performance commitment on forward-looking water supply resilience: the risk of severe water supply restrictions in a 1-in-200 year drought. This is a long-term commitment, looking 25 years ahead. Companies need to propose stretching levels for their resilience performance commitments, following engagement with their customers and stakeholders.
- To promote water efficiency, there will be common performance commitments on per capita consumption and leakage. For leakage, we will require companies to set more stretching performance commitment levels and justify their proposals against our challenges. These challenges include a 15% reduction by 2025, and upper quartile performance on leakage per property per day throughout the 2020-25 period.
- Companies must also address their specific resilience challenges through their bespoke performance commitments.
- Companies must provide projections for their performance commitments for at least ten years beyond 2025, to encourage a long-term approach in business plans.

Through water resources management plans (WRMPs), companies set out their plans for managing water resources at least 25 years into the future. As a statutory consultee in relation to WRMPs, we play an active part in the process, and they are an important input into the development and review of business plans for PR19.

We have engaged with and encouraged regional groups, such as Water Resources South East (WRSE) and Water Resources East (WRE), who are developing regional strategies for water resource management. We have also participated in the Environment Agency's development of [water resources planning guidelines](#) to companies that are wholly or mainly in England, to help them develop their WRMPs. We will take into account WRMPs and the recommendations of regional groups such as WRSE and WRE in our assessment of business plans.

We will assess whether companies have applied robust processes to determine the most effective and efficient solutions to meet the levels of service set out in their WRMPs. This will ensure the sector delivers value for money in the long term and undertakes investment where this is considered necessary. We will also have regard

to the recommendations of the National Infrastructure Commission that the UK Government endorses.

Objective: Ofwat should challenge water companies to improve planning and investment to meet the wastewater needs of current and future customers.

Our PR19 final methodology will challenge water companies to improve planning and investment to meet the wastewater needs of current and future customers through:

- our initial assessment of business plans; and
- our outcomes framework.

The resilience tests, outlined above, will challenge companies and enable us to consider the extent to which companies have objectively assessed the full range of options to mitigate the risks to operational resilience for wastewater (and water), with support from customers.

There is a statutory process for water resources planning, but none for wastewater planning. As a result, long-term wastewater and drainage planning is not as advanced or transparent as water resources planning. One of the recommendations of our [Resilience Task and Finish Group](#) was that each company should have a wastewater and sewerage plan. As part of our initial assessment of business plans, we will assess the extent to which these plans demonstrate consideration of long-term operational resilience. We will assess the extent to which companies have demonstrated an ambitious, transparent and comprehensive approach to long-term wastewater and drainage planning in their business plans. We expect companies to develop their drainage strategies by applying the [drainage strategy framework](#) best practice guidance that was published by us and the Environment Agency. They should also draw upon tools developed as part of the Water UK-led 21st century drainage programme and the developing framework for drainage and wastewater management plans.

We will consider, as part of our initial assessment of business plans, the extent to which companies consider drainage solutions outside traditional boundaries to make wastewater services more resilient. We expect companies to consider the role of partnerships, catchment management and other softer options in combination with fixed asset based solutions. They should demonstrate working with others, particularly local authorities and internal drainage boards, to plan and develop integrated solutions to surface water management; encourage and facilitate sustainable drainage systems; and cooperate to manage broader flooding risks.

In addition, our outcomes framework, with its performance commitments and financial and reputational incentives, will encourage companies' management teams to identify and mitigate relevant risks to wastewater services and infrastructure to prevent service failures. The common performance commitments on wastewater in PR19 will also promote transparency and improve comparability across companies so that we, and customers, can hold companies to account. These include:

- reducing internal sewer flooding;
- reducing pollution incidents;
- reducing the future risk of sewer flooding in a 1-in-50 year storm; and
- asset health commitments for sewerage companies on reducing sewer collapses and improving treatment works compliance.

Objective: Ofwat should challenge water companies to make sure that they assess the resilience of their system and infrastructure against the full range of potential hazards and threats, and take proportionate steps to improve resilience, where required.

We will challenge water companies to make sure that they assess the resilience of their systems and infrastructure against the full range of potential hazards and threats, and take proportionate steps to improve resilience, where required, through:

- our initial assessment of business plans; and
- our requirements for Board assurance.

As part of our initial assessment of business plans, and in line with our resilience planning principles, we expect companies to consider resilience in the round, taking an objective and comprehensive view of the risks they face. As such, this should include the consideration of risks to infrastructure, systems, processes and people. It should also consider hazards and threats, such as physical and cyber-attacks, extreme flood events and disruptions to energy supplies. As part of our challenge to companies on resilience, we are introducing two new forward-looking common performance commitments for resilience to drought and flooding. We are also requiring companies to provide projections for their performance commitments beyond the price control period out to at least 2035 to support a longer-term focus.

When reviewing companies' business plans, we will expect each company to have:

- identified and prioritised risks to resilient services and infrastructure across the full range of pressures;

- assessed the full range of mitigation options; and
- proposed proportionate solutions that offer the best value to customers over the long term.

We will require assurance from company Boards regarding how they have challenged and satisfied themselves that their plan will deliver resilience by reference to this objective, over the next control period and long-term. Furthermore, we will seek assurance that each company's business plan has been informed by:

- a robust and systematic assessment of the resilience of the company's systems and services;
- engagement with customers; and
- a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests.

Objective: Ofwat should challenge companies to further the resilience of ecosystems that underpin water and wastewater systems, by encouraging the sustainable use of natural capital, and by encouraging water companies to have appropriate regard to the wider costs and benefits to the economy, society and the environment.

We will challenge companies to further the resilience of ecosystems that underpin water and wastewater systems through:

- our initial assessment of business plans; and
- our outcomes framework.

The Environment Agency and Natural England's water industry strategic environmental requirements (WISER) document³ reminds water companies of their statutory obligations, the environmental regulators' expectations and provides examples of best practice for the sector.

As part of our initial assessment of business plans, we will consider the extent to which companies:

- plan and invest appropriately to meet their statutory obligations, and go beyond these where it is consistent with companies' roles as provider of water and

³ This is available on request from the Environment Agency or Natural England.

wastewater services and is the best value way of delivering an outcome in line with customers' preferences and priorities and is affordable;

- consider ecosystem resilience and biodiversity as part of their decision-making processes – a naturally resilient water sector is one of our resilience planning principles which we emphasised in our 'resilience in the round' document – companies' consideration of their impact on the environment will be particularly important where companies' operations depend on ecosystems and the natural environment, for example, abstraction, treatment and discharges;
- have based their business plans on thorough analyses of their long-term water resources position through the WRMP process; and
- show that they have analysed the costs and benefits of their investment choices, including the wider costs and benefits to the economy and society, having engaged with customers to understand their views.

The natural capital approach provides an opportunity for the value of ecosystems to be better incorporated within the evaluation of resilience and, where appropriate, could be incorporated into the assessment of the impact of company activities.

Our list of 14 common performance commitments includes leakage, per capita consumption, pollution incidents and treatment works compliance. We are expecting companies to set stretching performance commitment levels for these, which should reduce the impact of water companies on the environment. We are requiring companies to have comprehensive coverage of their environmental challenges in their bespoke performance commitments and to take into account customers' preferences and, where appropriate, the environment, biodiversity and natural capital when setting their performance commitment levels and ODIs. Their bespoke environmental performance commitments will sit alongside the abstraction incentive mechanism (AIM), on which all companies must also have a bespoke performance commitment. The AIM incentivises water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites during defined periods of low surface water flows.

Our methodology and regulatory framework will help companies to manage future changes to statutory obligations so that companies remain able to finance their functions, while protecting customers. Where new obligations lead to significant costs, companies can apply for an interim determination to allow price limits to be adjusted. On housing, which is discussed in the UK Government's strategic policy statement, we note the importance of timely developer connections to facilitate housebuilding to accommodate a growing population. There will be a new common performance commitment (D-MeX), which will incentivise improvements in developer services customers' experience. Outside of PR19, we are taking a number of steps to promote competition in new connections, including our code for adoption

agreements for England, published in November 2017, and our new connections charging rules for English water companies which apply to charges from April 2018.

Protecting customers

Priority: Ofwat should challenge the water sector to go further to identify and meet the needs of customers who are struggling to afford their charges.

The PR19 final methodology gives companies opportunities to make bills more affordable, deliver great customer service and improve resilience. Based on market evidence we expect financing costs to be lower for PR19. We can also see opportunities for companies to use the price control framework to make significant efficiency savings.

- We will implement sharper cost sharing incentives to submit and deliver efficient business plans.
- We will benchmark companies (within the sector, and against other sectors, where appropriate) to assess cost efficiency and set efficient and stretching cost baselines.
- Our stronger challenges on companies' service quality through our outcomes assessment will promote value for money.

Taken together, these measures should allow companies to provide customers with value for money and lower bills, while improving resilience and the quality of service.

We have made affordability a key theme for PR19. As part of our initial assessment of business plans, we will consider the extent to which water companies will deliver affordable, value for money, bills both now and in the future and address affordability for those struggling, or at risk of struggling, to pay. We expect companies to engage with their customers to understand what affordability looks like for them and to develop plans that are affordable over the short and long term - this includes considering both the level of, and changes in, bills.

We expect companies to offer a range of assistance options, including social tariffs, and be more proactive getting customers who struggle, or are at risk of struggling, to pay their bills onto those assistance options. We will be examining this in our assessment of company business plans. The UK Government issued guidance in 2012 to English water companies and Ofwat on social tariffs. We must have regard to this. Some social tariffs are revenue positive for companies, because they reduce

bad debt. But we will expect to see strong evidence that customers are supportive of social tariffs that go beyond revenue neutral levels of assistance and that the assistance is provided in the most efficient way.

We will test companies' proposals on affordability against five principles (customer engagement, customer support, effectiveness, efficiency and accessibility for customers who are struggling to pay).

The customer challenge groups (CCGs) will provide us with independent assurance on how well each company has engaged with its customers on affordability, and how well this is reflected in the company's business plan.

Objective: Ofwat should challenge companies to improve the availability, quality, promotion and uptake of support to low income and other vulnerable household customers.

In addition to the measures on affordability discussed above, for the first time, we are putting a specific focus on how companies deliver for customers in circumstances that make them vulnerable. Through our initial assessment of business plans, we will assess the extent to which companies provide sensitive, well-designed and flexible support and services for customers in circumstances that make them vulnerable. This includes customers who are at risk of being in circumstances that make them vulnerable. Companies will be required to develop and report on measures for addressing vulnerability. Companies should take into account the challenges we set out in our [2016 Vulnerability focus report](#). In particular, we expect companies to:

- use good quality available data⁴ to understand their customers and identify those in circumstances that make them vulnerable;
- engage with other utilities⁵ and third party organisations to identify vulnerability and support those that are in circumstances that make them vulnerable; and
- adopt targeted, efficient and effective approaches to address vulnerability.

⁴ [Unlocking the value in customer data: a report for water companies in England and Wales](#), June 2017.

⁵ Ofwat and Ofgem, through the UK Regulators Network (UKRN), have explored the potential for companies to work more collaboratively across the water and energy sectors to make better use of non-financial data to identify and support customers who may be vulnerable: [Making better use of data: identifying customers in vulnerable situations](#), October 2017.

Each company's CCG has a key role in providing us with independent assurance on the quality of companies' planned support for customers in circumstances that make them vulnerable. We also expect companies to include bespoke performance commitments for addressing vulnerability in their business plans after engagement with their customers and CCG challenge.

Customers should not pay for bad debt that is a result of poor revenue recovery and debt management practices. We consider that companies can reduce their levels of bad debt, for example, by gaining a greater understanding of their customers and better targeting customer support. Our [residential retail review](#)⁶ highlighted that the total stock of residential bad debt in water represents 22% of total revenue, compared with 4% of total revenue in the energy sector. We commissioned PwC⁷ to consider water companies' relative cost performance in debt management and customer services both within the sector and across sectors in order to identify best practice.

We will consider the efficiency of retail costs and the approach to levels of bad debt in our initial assessment of business plans. We expect companies to demonstrate that their revenue recovery and bad debt management costs and practices are in line with best practice. Companies are required to outline how their proposed approach will enable them to become more efficient and deliver improvements for customers.

We have also put in place measures to encourage water companies to tackle gap sites (where water and/or wastewater services are being consumed, but the property is not on a water company's system and is therefore not billed) and voids (properties that have been classed as vacant) more effectively. If not addressed both of these can increase customers' bills.

We note the principle of intergenerational equity is raised by the UK Government in its strategic policy statement. Our focus on long-term resilience through performance commitments with long-term projections, resilience planning principles and the development of WRMPs should ensure company plans reflect the needs and requirements of future customers, as well as current ones, to avoid unduly deferring investment into the future and passing the bill on to future generations. We expect companies to look at innovative methods for engaging customers on these long-term

⁶ Costs and benefits of introducing competition to residential customers in England, Ofwat, September 2016.

⁷ Retail Services Efficiency, PriceWaterhouseCoopers, 28 September
<https://www.ofwat.gov.uk/regulated-companies/vulnerability/debt-management-and-other-retail-costs-research-and-recommendations/>

issues. Companies can also use financial levers (such as pay-as-you-go rates and run-off rates for the regulatory capital value) to allow them to balance the recovery of costs between different generations of customers on a net present value-neutral basis.

Objective: Ofwat should promote an enhanced focus by water companies on the needs of small business customers that may struggle to access the best deals.

The biggest component of customers' bills, including the bills of small businesses, is wholesale costs, where we will be providing significant challenge as part of PR19. We expect companies to engage with their customers, including small businesses, about the wholesale services and performance these customers expect to see. The assurance provided by CCGs should reflect that engagement.

The business, charity and public sector retail market in England opened to competition in April 2017. Water companies can exit the business retail market by transferring their business retail operations to either an associated retailer (a company in the same group), or a third party retailer. If a water company does not exit, then we will apply an average revenue control to them, in order to protect their customers. If a water company does exit, then they are outside of the scope of PR19. In this circumstance, the transferred customers are protected by the retail exit code and we will separately review the price requirements in the retail exit code by the end of the 2017-20 period.

All business customers are also protected by the customer protection code of practice. This sets out the minimum standards that all retailers need to comply with when dealing with customers. If retailers do not keep to this code, Ofwat can take action against them – including fining them. Micro businesses – those with 10 employees or less – benefit from additional regulatory protections under this code.

Making markets work

Priority: Ofwat should promote markets to drive innovation and achieve efficiencies in a way that takes account of the need to further:

(i) the long-term resilience of water and wastewater systems and services; and/or

(ii) the protection of vulnerable customers.

We will promote markets, where appropriate, to achieve our PR19 themes of great customer service, affordable bills, long-term resilience and innovation and to meet the UK Government's strategic priority above.

Our PR19 final methodology will promote the development of markets in:

- ecoservices (environmental services);
- water resources;
- bioresources (sewage sludge); and
- direct procurement for customers (third party delivery of large schemes).

Ecoservices

We have reduced the barriers to collaborative catchment management solutions and markets for ecoservices, through our total expenditure (totex) and outcomes framework, as companies are now judged on their outcomes and there is equity of treatment for operating and capital expenditure decisions. This will facilitate companies in reaching agreements with abstractors and polluters, to improve the quality of the ecosystems in which they operate. It will also avoid some of the costs associated with developing new water sources, or treating polluted water.

Water resources

By facilitating markets in water resources, we will promote water trading and resilience. This will increase the diversity of the water sources a company can draw on, reducing the risk of a single point of failure and dependence on resources in a particular area. It will also increase the options available to deal with long-term pressures, such as population growth and climate change. For example, it

encourages greater interconnection of the supply system and new sources of supply. Markets can also improve resilience by allowing companies to target abstraction in areas of low environmental impact, and reduce demand in more sensitive areas.

Bioresources

By facilitating markets for the treatment of energy and nutrient-rich bioresources, we will drive innovation and efficiency, encouraging companies to buy bioresources services from a range of suppliers, where appropriate. Evidence shows that there is scope for the increased optimisation of bioresources activities across companies and scope for greater participation from firms operating in wider waste markets. This will increase resilience as alternative sources of supply are available if an existing source fails.

Markets should deliver the best value for customers. By facilitating markets in both water resources and bioresources, we will incentivise companies to choose the supplier with the lowest long-term costs, regardless of company boundaries. This will encourage companies to minimise the costs of supply, driving efficiency and incentivising innovation. Savings made by reducing costs can be used to improve resilience, reduce bills for all; or provide targeted support for customers in circumstances that make them vulnerable or those struggling to pay.

Direct procurement

By implementing our framework for direct procurement for customers, we will encourage water companies to competitively tender for the financing, design, build, and operation of large projects. This can reduce the costs customers pay for the largest or most expensive new assets, by increasing competitive pressure on project and financing costs, and driving innovation through greater choice. Whether direct procurement for customers is ultimately applied or not, companies are likely to improve outcomes by considering and evaluating alternative options.

We expect companies to consider using direct procurement for customers where competitive tendering delivers the greatest benefits for customers. As part of our initial assessment of business plans, we will consider the extent to which companies have clearly demonstrated that they have considered whether all relevant projects are suitable for direct procurement for customers.

Companies will need to provide us with assurance that their business plans deliver long-term resilience, are financeable, enable the company to meet its statutory and

licence obligations and protect the interests of customers, across the company and its system as a whole, irrespective of the use of market mechanisms to deliver customer outcomes.

Reporting on the Government's strategic policy statement

In due course, we will inform the UK Government how we propose to report on how we are meeting the expectations of its strategic policy statement. Our forthcoming forward work programme and annual report will also be accompanied by an explanation of our efforts to further the priorities and objectives of the UK Government for the water sector.

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.

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