

February 2018

Trust in water

Ofwat's forward programme 2018-19 – draft for consultation



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Foreword



Welcome to our consultation on our draft forward programme for the financial year 2018-19.

Our work programme is designed to help us deliver our strategy, 'Trust in water'.

The UK Government's Strategic Priorities and Objectives Statement to Ofwat was published on 22 November 2017. The Welsh Government's Strategic Priorities and Objectives Statement was laid in the Welsh Assembly on 23 November and is anticipated to be published in early 2018. In an appendix to this document, we have described how our strategic priorities and draft work

programme aligns with and supports the achievement of the governments' priorities and objectives. We will also write to Ministers when our final forward programme is published, providing a summary of how our work in the next year supports the vision of both the UK and Welsh Governments for the water sector.

Our priorities are the areas where we can make the biggest impact for customers now and in the future. We review our priorities each year to make sure we are delivering the maximum benefit. Our strategic priorities for 2018-19 are:

- **Delivering more for customers** by challenging the sector to provide innovative solutions, improve resilience, affordability, efficiency and customer service.

- **Holding companies to account** by improving information and transparency in the sector.
- **Enabling more for less** from the sector by encouraging long-term innovation and the development and investability of markets.
- **Securing stakeholder engagement** and support for change.
- **Ensuring Ofwat is fit for the future**, with the right culture, skills, governance, systems and processes.

2018-19 promises to be a significant and busy year for Ofwat. Following the publication of our final methodology for the 2019 price review in December 2017, we will begin to deliver an ambitious and transformative price review – driving positive change in the sector to deliver the services that matter for customers.

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Alongside this work we will continue to actively monitor the business retail market, which opened to competition a year ago and take action, where necessary, to support the development of this market to promote positive outcomes for customers.

We will continue to engage with stakeholders and the sector on strategic issues such as financial resilience, innovation potential and long-term development of the industry.

We will continue to deliver, while ensuring our people are equipped to meet the challenges of the year ahead, providing value for money, adopting the right culture which will enable excellent engagement with our

stakeholders and continue to operate as a 'trusted regulator'.

Please note we are considering a minor reshaping of the programme structure (page 4) which may mean that some of the programme descriptions, and where the respective milestones for each programme sit, alter in the final published version of the forward programme. These changes will not affect our strategic priorities or delivery of the milestones we are consulting on in this document

We invite your views on our work programme by **Wednesday 28 February 2018**. Please email forwardprog@ofwat.gsi.gov.uk to send us your response. We will use the responses we receive to our consultation to inform our

plans and publish our final forward programme by **31 March 2018**. We look forward to engaging with you throughout the busy year ahead.



Rachel Fletcher
Chief Executive

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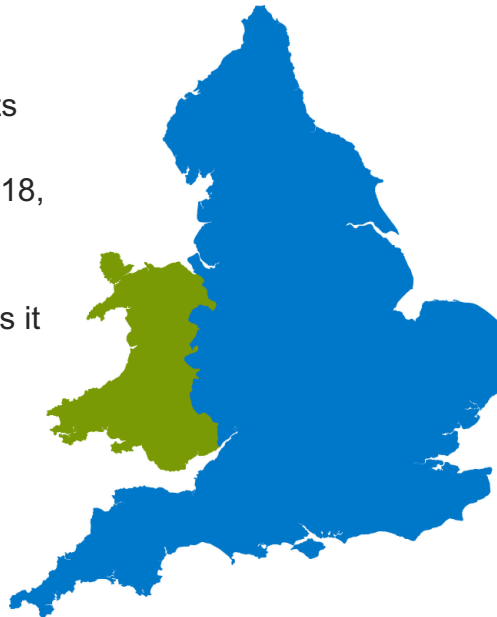
We operate within the overall strategic and policy framework set out by the UK Government and Welsh Government for the water sector in England and Wales respectively.

Where necessary, and taking into account specific circumstances, we will adopt a different approach for English and Welsh companies in the way we regulate.

Wales

The Welsh Government adopted its Strategic Policies and Objectives Statement for Ofwat in January 2018, which we must act in accordance with alongside our other statutory duties. The priorities and objectives it sets out focus on:

- long-term affordability and resilience;
- innovation; and
- the sustainable management of natural resources.



England

The UK Government published its Strategic Priorities and Objectives Statement for Ofwat in December 2017, which we must act in accordance with alongside our other statutory duties. Its priorities focus on:

- securing long-term resilience;
- protecting customers; and
- making markets work to further achievement of the first two priorities.

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Strategy and planning

Putting our strategy into practice by mobilising our resources, leading thinking, encouraging innovation, proactively engaging with stakeholders, and monitoring progress towards our vision for the sector

Finance and governance

Challenging companies to develop and demonstrate the service they deliver to customers, including delivering operational, financial and corporate resilience

Our programmes are packages of work to meet our priorities

Our shared vision for the water sector is that customers and wider society have trust and confidence in the vital public water and wastewater services the water sector provides



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

Thames Tideway Tunnel

Delivering changes to ensure that Ofwat has the right people, skills, systems, processes, culture and governance to deliver our strategy

Business improvement

Delivering the 2019 price review. The price review sets out the price and service package for each of the 17 appointed water and wastewater companies, for the period from April 2020 to March 2025. We have set out four key themes for the 2019 price review: great customer service, resilience in the round, affordability and innovation. The review will challenge companies to find new and better ways of delivering their vital services so that customers will get more of what matters to them

Price review 2019 (PR19)

Market outcomes and enforcement

Designing, monitoring, promoting and regulating **markets** – and following customers' experiences with water companies and stepping in where needed to protect and promote customers' interests, including taking enforcement action

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Finance and governance

Publish updated board leadership, transparency and governance principles. We will revise the principles to make sure that they remain fit for purpose, reflect recent developments in corporate governance and that companies are operating to the highest standards. This will help make companies more resilient and build the trust and confidence of stakeholders in the companies.

Strategy and planning

Provide analysis and advice to the National Infrastructure Commission in developing its first National Infrastructure Assessment.

Business improvement

Publish and lay our annual reports and accounts 2017-18 before the UK Parliament and National Assembly for Wales to account for our work and expenditure during the year, and explain how we have contributed to delivering the strategic priorities and objectives set for us by the UK and Welsh Governments.

Thames Tideway Tunnel

Two-year review of progress on Thames Tideway Tunnel considering lessons learned and potential wider use of approach.

PR19

Publish our feedback to appointed companies on their allocation of their Regulatory Capital Value to the Water Resources price control.

Pilot the Customer Measure of Experience (C-MeX) and Developer Measure of Experience (D-MeX) with appointed companies. These pilots are important to help us understand how we can best use these incentives to encourage companies to improve customer experience and innovate.

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Finance and governance

Carry out an in-depth review of a particular aspect of either companies' performance, how they operate or their reporting. This will allow us and other stakeholders to gain greater assurance in the information being provided by the companies, the resilience of companies or help us to inform the development of our policies for how we regulate companies.

Business improvement

Following our selection scheme, our 2018-19 graduates will start with us in September to support critical skills development as part of our strategic workforce plan.

PR19

Receive each appointed company's business plan for 2020-25 (by 3 September 2018). This represents the start of the 15-month process leading to our final determinations in December 2019.

Publish the rules that companies based wholly or mainly in Wales must use in setting their charges.

Market outcomes and enforcement

Publish our first Annual State of the Market report setting out our assessment of the effectiveness of competition in the first year of the business retail market and our customer insight survey setting out eligible customers' views of the market.

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PR19

Consult on and determine the in-period underperformance penalties and outperformance payments for three regional water and wastewater companies, based on their performance during 2017-18. This process incentivises companies' management to deliver what matters to their customers, and also ensures that bills reflect recent service performance.

Strategy and planning

Working together with UKRN we will build on our 2017 report on data sharing, by reporting progress made by companies to share data to assist customers in situations of vulnerability, and consider whether there are any regulatory barriers to effective data sharing which we and other regulators need to remove.

Market outcomes and enforcement

As part of our code for [adoption agreements](#), consider and approve the guidance and model agreement the sector has developed for water infrastructure adoption agreements to ensure the effectiveness of the [new connections market](#) and housing growth in England.

Business improvement

Within the continuous improvement of our systems and processes, we will deliver a new intranet and payroll service to ensure Ofwat is efficient and effective and providing value for money.

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Finance and governance

Assess appointed companies against our company monitoring framework to challenge them to publish good quality information about their performance for customers and others.

Consult on our guidance to appointed companies in preparing their [annual performance report](#) for 2019-20.

Market outcomes and enforcement

Publish a discussion paper about how our codes for adoption agreements ensure the market for new connections works more effectively for companies operating wholly or mainly in Wales.

PR19

Publish our initial assessment of appointed companies' business plans. We want companies to produce high-quality, ambitious and innovative business plans, pushing forward the performance and efficiency of the sector for customers. We will categorise company business plans into four categories (significant scrutiny, slow-track, fast-track, or exceptional) depending on the level of quality, ambition and innovation demonstrated.

Make our draft decisions ('draft determinations') of appointed companies whose plans we categorise as 'exceptional' or 'fast track' (March-April 2019).

Strategy and planning

Consult on our draft forward programme of work for 2019-20 to get feedback from our stakeholders on our plans, and publish the final version ahead of the new financial year.

Publish our updated five-year business plan for 2019-20 to 2023-24.

Business improvement

Develop a new IT and Digital Strategy, to optimise our IT capability and maximise the potential for digital transformation in Ofwat.

Develop and implement our refreshed People Strategy for getting the most from our people.

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We aim to fulfil our responsibilities effectively and efficiently.

Our expenditure requirements are met by licence fees, which customers ultimately pay for in their water and wastewater bills. We recover these licence fees from the water companies we regulate.

We continuously seek improvements in the value for money we deliver and innovation in the ways we work.

Licence fee	£ million
Core Ofwat budget	26.7 to 29.6
Water Supply and Sewerage Licensing (WSSL)	1.7
Thames Tideway*	0.5
Total	28.9 to 31.8

* Recovered from Thames Water and Tideway respectively.

Changes to our planned work

As part of our role we are required to carry out a range of reactive work such as licensing of companies and licence enforcement investigations. We plan our resources on the basis of a certain level of these activities but if we receive more than expected we may need to reprioritise other work. We will notify stakeholders where there are significant changes.

Collaboration with other regulators

We can develop more efficient and effective regulation by learning from other sectors and working closely with other regulators. We contribute directly to the work of the [UK regulators network](#), and draw on the network to inform our own work.

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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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