
Appendix 1 – How our work aligns with the UK and Welsh Governments’ Strategic Priorities and Objectives

The Water Act 2014 amended the Water Industry Act 1991 to enable the UK and Welsh governments to publish strategic priorities and objectives statements (“statements”), setting out the governments’ respective priorities for Ofwat’s regulation of the water and wastewater industry. The Act requires that Ofwat act in accordance with the statements, and further requires that Ofwat’s forward work programme for any year must include an explanation of how the projects described in it reflect the statements. In addition, the UK government’s statement sets out the expectation that Ofwat should set out how activity in the forward work programme will achieve the government’s strategic priorities and objectives.

Our forward programme for 2018-19 has been developed in the light of the governments’ statements having been finalised during 2017-18, and we therefore believe that the statements are reflected in Ofwat’s strategic priorities for 2018-19 and many of the projects set out in the programme. This document explains how our forward programme reflects and will contribute to achievement of the priorities and objectives set out in each statement.

The forward programme sets out our plans across all areas of our work – these include vitally important activities that contribute to achieving the priorities set out by the UK and Welsh governments, but also activities to support delivery of our other responsibilities, together with important enabling activities that will ensure Ofwat and its people are equipped to deliver its regulatory agenda.

2018-19 will see Ofwat begin to deliver its 2019 price review (PR19). When we published our final methodology for PR19, we set out clearly how it would deliver the priorities and objectives set out in the statements¹. In this document, we provide only a summary of how our PR19 activities during 2018-19 reflect the statements.

Welsh Government Priorities and Objectives

The Welsh government has developed a strategic priorities and objectives statement for Ofwat which contains six objectives, which concern the approach that Ofwat should take to performing its regulatory functions in Wales, including the need to take decisions with appropriate regard to the particular circumstances in Wales and differences in the policy and law between England and Wales, and the need to consider how Ofwat’s regulation can contribute to the achievement of the Welsh

¹ Ofwat: [UK Government priorities and our 2019 price review final methodology](#), and [Welsh Government priorities and our 2019 price review final methodology](#), December 2017

Government's broader policies and strategies. The Welsh Government has also set out priorities for the regulation of the water sector under seven headings:

- **Affordability**, relating to both current and future affordability for customers.
- **Innovation**, relating to new ways of delivering services for customers and for the environment.
- **Long-term**, relating to the need to balance short-term affordability and efficiency, and longer-term resilience and investment, and the need to ensure that companies plan for the long-term.
- **Markets and competition**, relating to the need to ensure that market mechanisms and competition are applied with appropriate regard to Welsh Government policy.
- **Resilience**, relating to the importance of short and long-term resilience, including the resilience of eco-systems and companies' operational assets.
- **Strong customer focus**, relating to the importance of effective customer engagement and acceptability of companies' plans.
- **Sustainable management of natural resources**, relating to the need for an integrated approach in the management of natural resources in management of water and wastewater services.

Our Forward Programme for 2018-19 has been developed in the light of the Welsh Government's statement, and we consider that our strategic priorities and plans reflect the objectives and priorities set out in it, and the initiatives we will deliver during the year will make a strong contribution to achieving these.

In developing our plans for 2018-19, we have considered the particular requirements of Wales, both in developing our plans for PR19 and in developing projects which have particular relevance to customers of companies operating wholly or mainly in Wales. Moreover, we continue to engage actively with the Welsh Government and stakeholders in Wales to ensure that developments in Welsh policy are fully reflected in our plans, including through participation in the Welsh Water Forum. We are also mindful that during 2018-19 it is likely that further progress will be made on the implementation of provisions of the Wales Act 2017 which will affect the way that companies which operate in both England and Wales are regulated. The work we do to develop, consult on, and implement our future forward programmes and business plans will be important elements of how we continue to ensure that we are acting in line with the Welsh Government's objectives, and ensuring that our regulatory framework remains clear and coherent, including in a Welsh context. And we will set out in our annual report and accounts how we have contributed to delivery of the Welsh Government's objectives and priorities during 2017-18.

Alongside our final PR19 methodology, we published a document setting out how the methodology will contribute to the achievement of the Welsh Government's objectives and priorities, and set out how our approach to delivering PR19 will take appropriate

account of circumstances, policy differences, and priorities in Wales. In this document, we focus on how our forward programme reflects the priorities the Welsh Government has established for the economic regulation of the sector in Wales.

Affordability

- Affordability is a core theme of PR19 and our initial assessment of companies' business plans during 2018-19 will make a significant contribution to delivering the Welsh Government's affordability priority. Our assessment will consider the extent to which companies' plans will deliver affordable, value for money bills for those struggling, or at risk of struggling, to pay their bills, including the availability of social tariffs. Companies' proposals for affordability will be tested against five principles (customer engagement, customer support, effectiveness, efficiency, and accessibility for customers who are struggling to pay). In addition, PR19 will for the first time place a specific focus on how companies deliver for customers in circumstances that make them vulnerable, and the initial assessment of business plans includes assessment of the extent to which companies provide sensitive, well-designed support and services to these customers. In assessing the efficiency of companies' retail costs and approach to recovering bad debts, we will test the extent to which companies' debt management and collection practices are in line with best practice, recognising differences in the regulation of residential landlords in Wales. We will also publish during 2018-19 the rules which companies operating wholly or mainly in Wales must use in setting their charges, reflecting the charging guidance which the Welsh Government provides.
- The work we will deliver with Ofgem to report on progress companies are making to share data on customers in circumstances of vulnerability will allow us to challenge companies to offer appropriate support to such customers, and potentially to improve the take up of social tariffs.

Innovation

- Innovation is a central theme of PR19 and during 2018-19 we will assess companies' business plans on their ability to innovate and to realise the benefits of innovation for customers. Innovation is also one of the three characteristics, alongside ambition and high quality, which we will judge to determine whether a company's business plan is considered "exceptional" and should therefore receive financial, procedural, and reputational benefits. Moreover, reflecting the Welsh Government's emphasis on the promotion of catchment management approaches, our initial assessment test on resilience will incentivise companies to consider the full range of mitigation options to achieve resilience over the long-term, which we would expect to include consideration of scale catchment management approaches where appropriate.

Long-term

- Our approach to PR19 reflects the Welsh Government’s focus on the importance of balancing short- and long-term affordability and ensuring that our approach to regulation, and companies’ plans, are fair to future generations as well as current customers, in line with the sustainable development principle set out in the Well-being of Future Generations Act (Wales) 2015. Our initial assessment of business plans will test companies’ proposals for overall affordability of bills as well as affordability over the long-term. We will test whether companies have used the best available evidence to assess and prioritise risks, and whether the full range of appropriate mitigation options have been considered.
- Our work on finance and governance during 2018-19 will also support our ability to challenge companies to ensure that they have resilient and sustainable corporate governance arrangements to deliver reliable services in the long-term. Our updated board leadership, transparency, and governance principles will allow us to ensure that our challenge to companies in operating wholly or mainly in Wales is up to date and that they are incentivised to adopt systems and processes which customers expect.

Markets and competition

- Our plans for 2018-19 reflect the Welsh Government’s position on the extension of competition in Wales. In our work to deliver PR19 we will continue to promote the use of markets in Wales to the extent this is consistent with the Welsh Government’s position. Our assessment of business plans will apply tests to determine whether companies’ plans “use and engage with markets to deliver efficiency and innovation and enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers” and whether companies have given appropriate consideration to the use of direct procurement for major projects. However, we are clear that our application of this test will have regard to the particular circumstances in Wales.
- We will publish a discussion paper about our codes for water infrastructure adoption agreements. This paper will focus on how our code for adoption agreements ensure the market for new connections works more effectively for companies operating wholly or mainly in Wales, contributing to the priorities set out in the statement.

Resilience

- Resilience in the round for the long-term is one of the principal themes of PR19, and during 2018-19 we will assess companies' business plans against their adherence to the seven resilience principles that we have established. These tests reflect the Welsh Government's priority, and set out the expectation that companies should consider the short, medium, and long-term risks which the company faces, including operational, corporate, and financial risks. Our approach to resilience also emphasises the importance of ecosystem resilience, and incentivises companies to promote ecosystem resilience and biodiversity where this is consistent with their role as providers of water and wastewater services. Our outcomes framework will also emphasise resilience: the 14 core common performance commitments, which companies are required to propose service levels for, will provide incentives to companies to identify and mitigate relevant risks to water and wastewater services, and cover a range of issues including resilience, asset health and the risk of severe restrictions during a drought.
- For companies to plan and invest effectively to deliver the long-term resilience that customers require, companies must be well run and capable of maintaining the confidence of customers, investors, and the public, and company Boards must be able to hold management to account for the effective delivery of projects which enhance resilience. To ensure we continue to provide companies with appropriate guidance and are able to challenge companies to demonstrate exemplary corporate citizenship, through our Finance and Governance programme, we will continue to challenge companies, including by publishing updated board leadership, transparency, and governance principles, and by undertaking an in-depth review of an important aspect of companies' transparency, reporting, or operations.
- We will review the significant water supply issues customers experienced in England and Wales during the freeze and thaw of February and March 2018. The review will look at the preparedness and performance of water companies in the lead up to, during and after the freeze and thaw period and the adequacy of the compensation offered to affected customers. The review will establish what happened and set out clear lessons learned for improvement, drawing out good and bad performance, so that customers receive a more resilient and better service in the future, in line with the priorities set out in the government's statement.

Strong customer focus

- We have made great customer service one of four key themes of our approach to PR19. When operating their businesses, and developing their business plans, we expect companies to actively, meaningfully and effectively engage with their customers and stakeholders. Through our initial assessment of business plans, we will test the quality of companies' customer engagement, including their approach to customer participation and how well their customer engagement has been reflected

across their business plans. We will also require assurance from company Boards that their business plans have been informed by customer engagement. Our expectations of companies' customer engagement are supported by the principles of customer engagement we have established which, in line with the Welsh Government's priority, includes an expectation that companies should engage customers on longer-term issues. Our initial assessment of business plans will also test whether companies have engaged effectively with customers on longer-term issues such as resilience, and taken into account the needs and requirements of future customers. Our work to pilot a new Customer Measure of Experience (C-MeX) during 2018-19 will also help to driving a greater focus from companies on the services experienced by all customers, including those in circumstances of vulnerability.

- In order to ensure customers are able to access accurate information about their company, we will continue to conduct our annual review to assess the transparency and quality of the information (including data) that companies publish using our company monitoring framework. We use our company monitoring framework to provoke and challenge all water and wastewater companies to publish information that can be trusted, enabling customers and stakeholders to understand how the company is performing. Our role is to ensure that this information can be trusted. If we do not have confidence in the information companies provide about their performance, we will step in to protect customers.

Sustainable management of natural resources

- The principal route through which we can incentivise efficient and sustainable use of water resources is through the price review process. Our approach to PR19 reflects the Welsh Government's emphasis on the sustainable use of natural resources as articulated in the Welsh Government's statement and as reflected in Natural Resources Wales' State of Natural Resources Report and the Water Strategy for Wales. During 2018-19, our initial assessment of companies' business plans will consider the extent to which companies:
 - Plan and invest appropriately to meet their statutory duties, and go beyond these where it is consistent with the companies' roles as provider of water and wastewater services and is the best 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 document² – companies' consideration of their impact on the environment will be particularly

² Ofwat: ['Resilience in the round'](#), September 2017

important where companies' operations depend on ecosystems and the natural environment, for example, abstraction, treatment and discharges;

- have based their business plans on thorough analysis of their long-term water resources position through the Water Resources Management Plan (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.

Many of our 14 common performance commitments relate to the sustainable management of natural resources – for example, pollution incidents, per capita consumption and leakage. We are expecting companies to set stretching performance commitment levels for these, which should reduce the impact of water companies on the environment.

Reflecting the Welsh Government's statement's emphasis on leakage, we will require companies to justify their proposals for leakage reduction against our challenges. These challenges include a 15% reduction by 2025 or upper quartile performance on leakage per property per day throughout the 2020-25 period.

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 outcome delivery incentives.

UK Government Objectives and Priorities

The UK government has published a statement setting out objectives and priorities under three principal headings:

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

We consider that our priorities and work programme reflect, and will make a significant contribution to delivering, the UK government's priorities and objectives.

Securing long-term resilience

- Delivering more for less by challenging the sector to provide innovative solutions and improve resilience, is a strategic priority for Ofwat in 2018-19 and is reflected across our programme of work. As part of our work to deliver PR19, we will continue to challenge companies to develop business plans which deliver long-term resilience in the round, of which operational resilience and the ability to meet future needs for water supply and wastewater services, is a core part. Long-term resilience in the round is one of the central themes of PR19, and the price review will further a reduction in the long-term risk to water supply and wastewater resilience. The UK government's statement also highlights the importance of innovation in developing a range of options to meet future needs. PR19 recognises the role that innovation plays in driving resilience, and our initial assessment of business plans will test companies' plans in part on the extent to which they provide evidence that companies have effective mechanisms to innovate and to realise the benefits of innovation for customers.
- Our outcomes framework also emphasises resilience. The 14 core common performance commitments, for which companies are required to propose stretching service levels based on customer engagement, will provide incentives to companies to identify and mitigate relevant risks to water and wastewater services. These cover a range of issues including resilience, asset health and the risk of severe restrictions during a drought. Many of our 14 common performance commitments also relate to the sustainable management of natural resources – for example, pollution incidents, per capita consumption and leakage.
- The government's statement requires Ofwat to “challenge water companies to improve planning and investment to meet the wastewater needs of current and future customers”. In addition to our role in the water resource planning process, where we work collaboratively with other regulators to evaluate companies' draft WRMPs, 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 we will apply to business plans 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.

- Our approach to PR19 will also challenge companies to further the resilience of ecosystems which underpin water and wastewater systems. During 2018-19, our initial assessment of companies' business plans will consider the extent to which companies:
 - Plan and invest appropriately to meet their statutory duties, and go beyond these where it is consistent with the companies' roles as provider of water and wastewater services and is the best 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 analysis 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.
- We will also pilot the new Developer Measure of Experience (D-MeX) with appointed companies during 2018-19, which, by incentivising improvements in the service water companies offer to developers, will contribute to furthering the expectation that the regulatory "company planning and delivery keeps pace with

housebuilding and supports development”. We will also undertake work to ensure the effectiveness of the new connections market to support housing growth.

- Further detail on how PR19 will contribute to delivering the government’s priorities and objectives can be found in the document we published alongside our final PR19 methodology.
- Our priority of holding companies to account is also important in securing long-term resilience. For companies to plan and invest effectively to deliver the long-term resilience that customers require, companies must be well run and capable of maintaining the confidence of customers, investors, and the public, and company Boards must be able to hold management to account for the effective delivery of projects which enhance resilience. To ensure we continue to provide companies with appropriate guidance and are able to challenge companies to demonstrate exemplary corporate citizenship, through our Finance and Governance programme, we will continue to challenge companies, including by publishing updated board leadership, transparency, and governance principles, and by undertaking an in-depth review of an important aspect of companies’ transparency, reporting, or operations.
- During 2018-19 the National Infrastructure Commission will produce its first National Infrastructure Assessment, which will consider the challenges to managing long-term drought and flood risks to 2050. Ofwat will continue to provide evidence and advice to the Commission as it develops its Assessment and, in line with the expectation set out in the government’s statement, we will have regard to any relevant recommendations the Commission makes.
- We will review the significant water supply issues customers experienced in England and Wales during the freeze and thaw of February and March 2018. The review will look at the preparedness and performance of water companies in the lead up to, during and after the freeze and thaw period and the adequacy of the compensation offered to affected customers. The review will establish what happened and set out clear lessons learned for improvement, drawing out good and bad performance, so that customers receive a more resilient and better service in the future, in line with the priorities set out in the government’s statement.

Protecting Customers

- Our strategic priorities’ emphasis on delivering more for customers, for less, and holding companies to account for what they do and how they do it, illustrate the importance we place on our ability to protect customers. Great customer service and affordable bills are core themes of PR19 and our initial assessment of business plans during 2018-19 will consider the extent to which companies’ plans

will deliver affordable, value for money bills for those struggling, or at risk of struggling, to pay their bills. Companies' proposals for affordability will be tested against five principles (customer engagement, customer support, effectiveness, efficiency, and accessibility for customers who are struggling to pay). In addition, PR19 will for the first time place a specific focus on how companies deliver for customers in circumstances that make them vulnerable, and the initial assessment of business plans include assessment of the extent to which companies provide sensitive, well-designed support and services to these customers. We set out more detail on how our approach to PR19 will support delivery of the government's priorities and objectives for protecting customers in the document we published alongside the PR19 final methodology, cited above. Our work to pilot a new Customer Measure of Experience (C-MeX) during 2018-19 will also help to driving a greater focus from companies on the services experienced by all customers, including those in circumstances of vulnerability.

- In addition to our work on delivering PR19, to ensure that companies are incentivised to deliver the outcomes which customers want, and keep pace with customer expectations, we will also continue to deliver the PR14 settlement, including by consulting on and making final determinations on in-period underperformance penalties and outperformance payments for three companies, for performance during 2017-18.
- Building on work conducted jointly with Ofgem through the UK Regulator's Network in 2017-18, in 2018-19 we will publish a further report on progress made by utility companies to share data on customers in situations of vulnerability. This work will allow us to further challenge companies to put in place appropriate measures to support customers in such circumstances, and to assess whether there are regulatory barriers to effective data sharing.
- In order to ensure customers are able to access accurate information about their company, we will continue to conduct our annual review to assess the transparency and quality of the information (including data) that companies publish using our company monitoring framework. We use our company monitoring framework to provoke and challenge all water and wastewater companies to publish information that can be trusted, enabling customers and stakeholders to understand how the company is performing. Our role is to ensure that this information can be trusted. If we do not have confidence in the information companies provide about their performance, we will step in to protect customers.

Making markets work

- Enabling more for less from the sector by encouraging long-term innovation and the development and investibility of markets is one of our strategic priorities. The

development and promotion of effective markets is an important part of Ofwat's approach to PR19, and will play a key role in driving achievement of long-term resilience and protection for customers. Our initial assessment of business plans during 2018-19 will assess the extent to which plans provide evidence that companies "use and engage with markets to deliver efficiency and innovation and enhance resilience in the provision of wholesale and retail water and wastewater services to secure value for customers" and will apply tests of companies' plans to make use of bioresource and water resource markets, and direct procurement for major relevant major projects.

- Our programme of work to monitor and regulate the business retail market also has important long-term benefits for customers. Effective operation of the business retail market will help to drive greater efficiency and more sustainable use of water, contributing to the long-term resilience of water and wastewater services. The government's statement notes that "small business customers can be vulnerable users of utilities". During 2018-19 we will publish our first Annual State of the Market report to provide an assessment of how competition in the business retail market is working, informed by our customer insight survey which will provide important evidence of the views of relevant customers, including small business customers, on the market. The survey, and the State of the Market Report, will inform the future development of work which will help to ensure that the market is working effectively.
- Our Market Outcomes and Enforcement programme will consider and approve the guidance and model agreement the sector has developed for water infrastructure adoption agreements. This will ensure the effectiveness of the new connections market and housing growth in England.