

January 2020

Ofwat's forward programme 2020-21 – draft for consultation

Ofwat

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Foreword

Safe and reliable water and wastewater services are essential for our day to day lives, our wellbeing, and our natural world. Ofwat has the vital task of regulating the industry to deliver high quality, value for money water services while taking care of the environment and building resilience in the face of climate change and population growth, which put pressure on our streams and rivers.

The year ahead is important and exciting.

We have put in place new, stretching performance standards and efficiency challenges for the regional water companies for the five year period to 2025. Companies now face strong incentives to improve the service they provide for people and the environment and have been given the revenue they need to make the investment for a more resilient future. There is much for them to do if they are to live up to expectations.

We have set out our own [strategy](#) for the years ahead. The scale of change needed means Ofwat will not sit back and wait for the incentives to take effect. We are driving an ambitious agenda, and will use a wide range of tools to transform the companies' performance; address the challenges of climate change and population growth; and drive the sector to deliver more value for society.

This draft forward plan sets out the work we will do over 2020-21 to achieve these goals. This includes new areas such as work on environment, innovation, asset resilience, sitting alongside a continuation of work for example on Board Leadership and improving markets. We will be building new skills and relationships throughout the year.

We aim to provide most value we can from the one-year spending settlement we have received from HM Treasury for 2020-21. We will regularly assess whether we are doing the best we can to drive the change that is needed. We are keen to hear your views through the consultation.



Rachel Fletcher
Chief Executive

Introduction

Our overall aspiration is for the water sector to provide the very best service to customers, improve the environment and improve life through water both now and in the future.

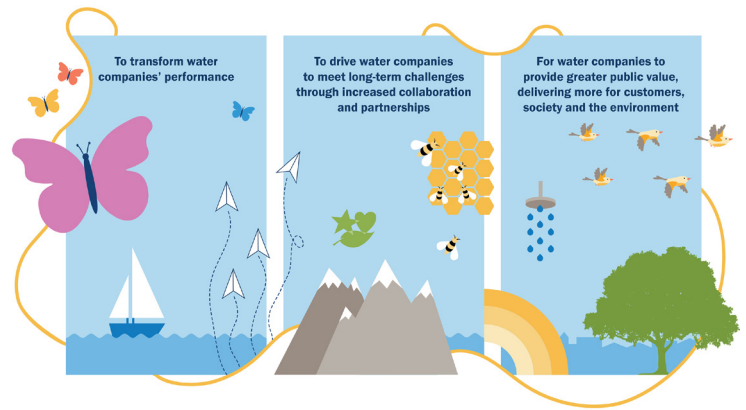
Our three strategic goals over the years ahead are to:

- transform company performance;
- drive companies to address the long term challenges of climate change, population growth and changing customer expectations; and
- for water companies to provide greater value for customers, society and the environment.

These goals are based on our strategic outcomes which reflect what people have said they want from water companies, and articulates the impact we expect our regulation of the water sector to have. In all our work we are aiming to achieve these outcomes which we will continually review to assess progress in achieving these outcomes for customers to monitor our progress towards addressing the current challenges relating to the sector. If we are successful in our work we should achieve the following key outcomes:

- reliable, resilient, safe and good quality water and wastewater services for everyone;
- water companies to leave the environment in a better condition for our grandchildren;
- value for money, keeping water affordable even for those on low income; and
- for water companies to act in the long-term interests of society and the environment while still providing the very best service for customers today.

These reflect what people have said they want from water companies. We will monitor our progress towards achieving them.



Our 12 ambitions for 2020-21

The industry we regulate needs to change to meet the challenges ahead such as climate change, population control and society's changing expectations. As a regulator we need to change too. Our 12 ambitions for 2020-21 are set out below. The work we plan to do over the next year should mean that by the end of the year:

Transforming company performance

We are driving improvements in outcomes for consumers and society. We will develop a richer understanding of company performance. If necessary we will take swift and targeted action - including using our formal enforcement powers as appropriate. This will help to drive performance improvements and protect customers from risks.

Markets are delivering more. We have driven a significant growth in the benefits the developer and business retail markets bring for customers and the environment. We have devised a way forward jointly with MOSL so the markets can drive further innovation to help address the environmental and cost pressures from a growing population.

We are evaluating and evolving our regulatory approach. We have built on the learning from PR19 and PR14 and, working with industry and stakeholders, have developed early views on our long term approach to regulating regional monopolies. We are using outcome tracking to assess our own effectiveness and improve our regulatory approach.



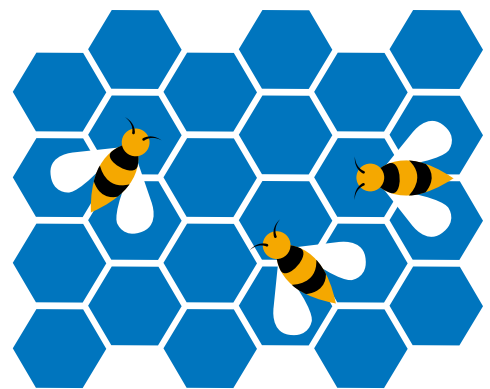
Addressing long-term challenges

We are driving innovation. We have set up an innovation fund and are ready to run the first competition in 2021. We are playing a stronger part in co-ordinating and driving innovation, alongside the incentives in PR19, to help the industry address some of the strategic challenges it is facing on climate change and population growth.

We are working with others to improve the environment. We have scoped out and started joint projects with the Environment Agency, Defra, Natural Resources Wales to better protect the environment. This includes work to protect valuable habitats such as chalk streams and improving the environmental benefits from the next Water Industry National Environment Programme.

We are securing affordable, resilient and sustainable future water and waste services. The Regulators Alliance Progressing Infrastructure Development (RAPID) is fully established to secure resilient water supplies while keeping water affordable and reducing the impact on the environment of public water supply. Ofwat is engaging well with the policy issues that RAPID is identifying as the strategic infrastructure projects progress through their approval process. We are joining this work up with our own work on wholesale markets and direct procurement for customers infrastructure investments identified by PR19.

We are improving long-term asset resilience. We have set up the frameworks needed to improve asset management in the sector over the long term including how companies predict the impact and manage risks to their networks arising from climate change.

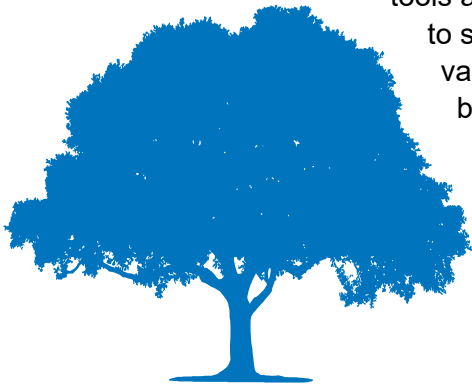


Better value for customers, society and the environment

We are embedding public value in the water companies. We have given feedback to companies on how they are implementing the new Board Leadership principles. Through this and other means we are helping the industry to fulfil its commitment to embed social value. This will help to make the sector an attractive proposition for investors.

We understand and are listening more to customers. We have developed a consumer research function and this is helping us understand how well the industry is meeting society's expectations as well as shaping our priorities as a regulator.

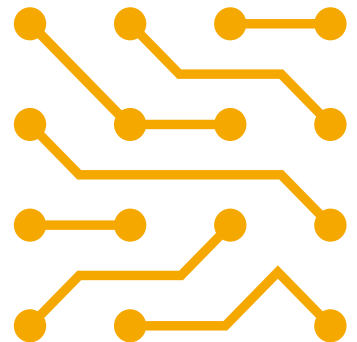
We are developing new regulatory tools. We are building the analytical tools and skills required to allow us to assess the company's contribution to society and the environment and incentivise them to provide greater value. The importance of protecting and improving the environment is becoming embedded across Ofwat's policy agenda.



Enablers

We are making better use of data. We have scoped out a data strategy, have run data pilots and are building the data skills that will allow us to be more efficient and effective as a regulator.

We have stronger partnerships and are more outward looking. We have built partnerships with other regulators, consumer bodies and policy makers in the UK and Welsh Governments on cross cutting issues, jointly setting long targets for the industry and driving more coherence in the regulatory approach across sectors where appropriate. We have opened a Welsh office. We are getting out more learning from other organisations and other industries.



How our work aligns with the UK and Welsh Governments strategic priorities

Under the Water Industry Act 1991, the UK and Welsh Governments may issue statements setting out strategic priorities and objectives for us. We are required to act in accordance with these statements when discharging relevant functions relating to companies wholly or mainly in England and Wales respectively. Updated strategic policy statements from the UK and Welsh Governments to Ofwat were finalised and came into effect during 2017-18. We are required to report annually on our compliance with their objectives and priorities which we provide as part of our annual report.

We are also required in the Forward Programme to signal how our activity for the forthcoming year aligns with the objectives and priorities in the Strategic Policy Statements. The diagram below shows broadly how this aligns to the work we plan to undertake under each of our ambitions for 2020-21.

Welsh SPS objectives	Our ambitions	Defra SPS objectives
Sustainable management of natural resources	We will work with others to improve the environment	Securing long-term resilience
	We will embed public value in the water companies	
Long-term affordability and resilience	We will build arrangements to secure affordable, resilient and sustainable future water and waste services	
Resilience	We will drive the industry to improve its asset resilience	Protecting customers
Affordability	We will evaluate and evolve our regulatory approach	
Strong customer focus	We will drive improvements in outcomes for consumers and society	
	We will embed wider public value in all we do	
Markets and competition where appropriate	Markets will deliver more	Making markets work
Innovation	We will enable innovation	

Expenditure

We aim to fulfil our responsibilities effectively and efficiently. The cost of Ofwat in 2020-21 stands at £1.20 per customer and will support the delivery of the aims and milestones set out in this document.

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 through our [strategy](#) in the value for money we deliver and innovation in the ways we work, how we can be even more efficient and effective, including by working with other regulators and improving our use of automation and IT in general.

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.

Licence fee	£ million
Core Ofwat budget	29.6
Water Supply and Sewerage Licensing (WSSL)	1.3*
Thames Tideway*	0.5
Total	31.4

* Estimate

Milestones: April to June 2020

We will publish final Regulatory Accounting Guidelines 2020-21 to ensure that the annual performance report is prepared consistently and in line with our overall regulatory reporting framework.

We will establish a permanent presence in Wales, to strengthen our engagement with Welsh Government, Natural Resources Wales and other stakeholders.

We will publish and lay our annual accounts 2020-21 before the UK Parliament and National Assembly for Wales to account for our work and expenditure during the year. This will also explain how we have contributed to delivering the strategic priorities and objectives set for us by the UK and Welsh Governments.

Milestones: July to September 2020

We will publish the final 2019 price review reconciliation rulebook.

We will publish key lessons learned from delivering the 2019 price review. We will engage with companies and other stakeholders to inform this analysis and publication.

We will consult on options for improving our new connection charging rules for companies operating wholly or mainly in England. This is to help ensure charges for developer services support competition, promote environmental protection and that they are fair and transparent.

We will build on stakeholder feedback from our 2019 call for information to consult with stakeholders on our policy approach for water resource bilateral markets.

Annual State of market assessment – We will publish the results of our assessment of competition in the third year of the business retail market. This is to understand how well the market is delivering benefits for customers.

We will prepare for and participate in the Comprehensive Spending Review – the timing of which is yet to be confirmed.

Milestones: October to December 2020

We will publish key findings on the policy impact and benefit realisation of PR14.

We will publish monitoring and performance reports, covering financial monitoring, Board governance and service delivery.

We will consult on initial proposals for key PR24 areas and building blocks, with possible additional specific consultations on key areas if appropriate.

To facilitate the timely and co-ordinated development of large-scale water resources infrastructure schemes, we will make our decision about further funding for the development of strategic solutions that address the water supply deficit in Hampshire, by assessing the initial concept design stage for the proposed solutions.

Milestones: January to March 2021

We will publish an Annual Information Notice on Performance Reporting to set out the way in which we expect all companies to report their performance for 2020-21.

We will carry out a review and publish the lessons learned from the assessment of the initial concept design stage of the strategic solutions that address the water supply deficit in Hampshire.

We will prepare the innovation competition process and governance framework following the outcome of our innovation consultation in July 2019. The innovation competition fund is designed to stimulate innovation and collaboration to benefit water sector consumers over the longer-term, complementing individual company investment.

We will consult on new connection charging rules for Welsh companies ahead of the charging rules coming into effect in April 2022.

We will consult on our draft forward programme of work for 2021-22 to get feedback from our stakeholders on our plans, and publish the final version ahead of the new financial year.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales.

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January 2020

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