

March 2020

Ofwat's forward programme 2020-21

Ofwat

www.ofwat.gov.uk

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.

We have planned for the year ahead, setting ourselves 12 ambitions which benefit customers and the natural world. At the time of writing, the industry and Ofwat are, like all other parts of society, impacted by and focused on responding to the COVID-19 crisis. We are committed to doing all we can to achieve our ambitions and to making strides in transforming both the industry and ourselves as a regulator in the face of the pandemic. We will keep our priorities and the timing of the outputs in this document under review as the impact on our resources becomes clearer.

We have recently put in place new, stretching performance standards and efficiency challenges for the regional water companies for the five-year period to 2025. All companies now face strong incentives to improve the service they provide for people and the environment, and have been given revenue to invest in a more resilient future. Four companies have appealed to the Competition and Markets Authority over their price review settlements and we will play our part in the process.

We have set out our own strategy for the years ahead. Alongside the new incentives, we 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 forward plan sets out the work we expect to do over 2020-21 to achieve these goals. This includes new areas such as work on environment, innovation and 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 and expect to work increasingly in partnership with the sector on the challenges posed by COVID-19 and on the longer term challenges the industry faces.



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.

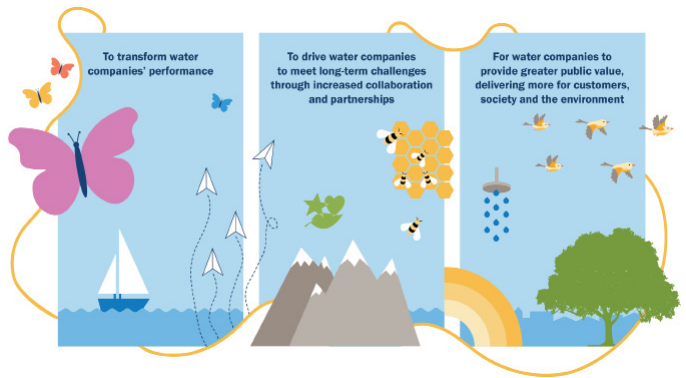
Our three strategic goals over the years ahead are to:

- 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 articulate the impact we expect our regulation of the water sector to have. We will continually review to assess progress in achieving these outcomes for customers and 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.



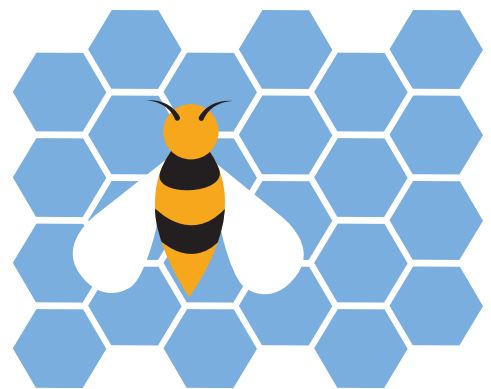
Addressing long-term challenges

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 wastewater services. The Regulators' Alliance for 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.

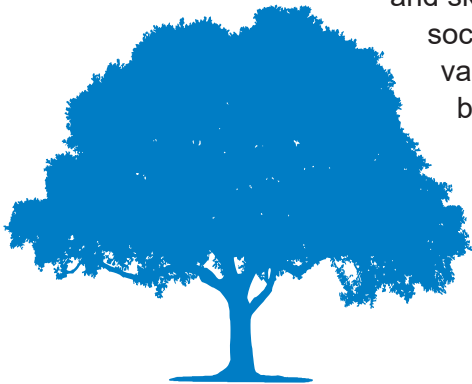


Better value for customers, society and the environment

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 companies' 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 are working with others to improve the environment	Securing long-term resilience
	We are embedding public value in the water companies	
Long-term affordability and resilience	We are securing affordable, resilient and sustainable future water and wastewater services	
Resilience	We are improving long-term asset resilience	
Affordability	We are evaluating and evolving our regulatory approach	Protecting customers
Strong customer focus	We are driving improvements in outcomes for consumers and society	
	We are developing new regulatory tools	
Markets and competition where appropriate	We understand and are listening more to customers	
	Markets are delivering more	Making markets work
Innovation	We are driving 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.

The UK Government approved a budget of £31.4 million for Ofwat as part of the last spending round. This includes funding for RAPID, which was supported by water companies, a much broader range of work than we have undertaken in previous years at this time in the regulatory cycle (as per our 12 ambitions) and increases to employer pension contributions mandated by the Cabinet Office. The cost of the additional work will require a change to the licence fee cap which we will consult on, once the outcome of the Government's Comprehensive Spending Review is known.

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 consult on our proposed Regulatory Accounting Guidelines for the 2020-21 reporting period 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 consult on outstanding policy issues for the innovation competition in the spring ahead of appointing an agency to help us run the innovation competition in the summer. In the meantime, we have asked the water and wastewater companies to develop a joint innovation strategy, to help identify gaps and opportunities for innovation across the sector and find better ways of working with each other, the supply chain and other stakeholders. This is an opportunity for the sector to consider how its architecture might change to effectively deliver innovation in the longer term.

We will publish the findings from our [review of incumbent company support](#) for effective markets and also explain our next steps.

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 from April 2022 onwards 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 the 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.

Milestones: October to December 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 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.

We will prepare for and participate in the Comprehensive Spending Review, which we intend to conclude by autumn, subject to the Government timetable.

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 aim to run the first round of the innovation competition by at the latest winter 2020-21. We will also be considering how we can further enable innovation, for example by trialling a one-stop-shop for innovation, which could provide advice to those seeking to get innovative ideas off the ground in the sector.

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.

Appendix: reducing regulatory burdens

We will use our full regulatory toolkit to achieve the outcomes we expect companies to deliver for customers. Within this context, we are mindful of the need to ensure that the burden our activities placed on companies is appropriate and necessary, and that we adhere to the requirement at section 2(4) of the Water Industry Act 1991 that we have regard to the principles of best regulatory practice. This is brought into sharper focus at the moment as we monitor the impacts of the COVID-19 crisis and give particular attention to how we can minimise regulatory burdens on the industry while it is responding to COVID-19.

The UK Government introduced the Regulatory Enforcement and Sanctions Act 2008 (the Act) to deliver better regulation. The Act placed a duty on us to:

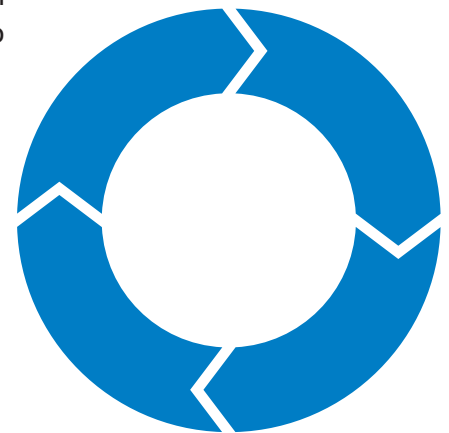
- review the regulatory burdens we impose;
- reduce any that are unnecessary and unjustifiable; and
- report on progress each year.

We are committed to driving improvements in outcomes for consumers and society and as such continue to further develop our understanding of how companies are performing. Our new strategy places a greater focus on measurable outcomes, and we will be taking forward work to establish these, building on our current ongoing monitoring activity. As part of its ongoing performance monitoring processes, Ofwat measures and reports its level of success in delivering the four strategic consumer outcomes that it wishes to see in the water sector:

- 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 incomes; 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.

We will ensure that regulatory burdens are kept to a minimum while ensuring companies deliver the best outcomes for customers. We continually review our regulatory approach to ensure we use the most appropriate mechanism to realise best outcomes and our obligations under the Act. We are also committed to tracking our own effectiveness to ensure we are having an impact on the areas most needed.

Ofwat reported its progress in delivering consumer outcomes as part of its 2019-20 annual report and its impact on business through its annual [Business Impact Target](#) assessment (published through GOV.UK). In addition to this public-facing reporting, Ofwat has developed internal-facing tools to enable it to monitor progress against the customer outcomes on a quarterly basis.



Ofwat has developed metrics on customer outcomes and this year will refresh our approach to impact assessments to ensure we take a dual approach in ensuring unnecessary burdens on companies are avoided, whilst ensuring we meet the outcomes identified that customers want to see from the water sector.

We will also further develop our approach to company performance through targeted monitoring and engagement to ensure companies improve their operational performance. We will do this through effective management of PR19 performance commitments which have been agreed with companies and further development of an early warning system to help us identify company operational and financial resilience issues.

We will refresh our approach to evaluation to ensure we have a high-quality methodology based on best practice in place and work to ensure all our people feel a sense of responsibility for the quality of the evaluation framework and methodology, and help us better articulate the impact their work is having.

As well as ongoing monitoring, Ofwat's strategy makes explicit its intention to work with the UK and Welsh Governments, the Environment Agency, Natural Resources Wales and the Drinking Water Inspectorate to develop long-term aspirations and targets for the whole sector. Establishing long-term, shared aspirations is important given the challenges facing the water sector, solutions to which will likely transcend central and devolved government policy and other regulators' remits. The aim is to develop a partnership agreement where Government and regulators are coherent in setting direction for the water industry, ensuring a proportionate regulatory framework underpins the sector to deliver positive outcomes for consumers and the environment. These aspirations will provide additional context for Ofwat's future regulatory approaches.

Our [annual report and accounts](#) sets out what we have done in the previous 12 months.

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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