

March 2015

Ofwat's forward programme 2015-16



www.ofwat.gov.uk



About this document

This document sets out our forward work programme for the coming financial year. It excludes routine work.

This document reflects changes since, and as a result of, the consultation on our draft forward programme for 2015-16. We held the consultation between 15 January and 5 February 2015.

Under the Water Industry Act 1991 (as amended), we have a duty to consult on, and publish, our forward work programme ahead of the coming financial year.

The [Water Act 2014](#) recently introduced new expectations for how we fulfil our role. This includes requiring us to act in accordance with any new UK and Welsh Government priorities. Until this part of the legislation comes into effect and the new priorities are introduced, we will continue to have regard to the existing priorities of both Governments. This includes reporting in our forward programme how our work aligns with those priorities.

Where this document uses the term ‘the Government’, this refers to both the UK and Welsh Governments as appropriate, unless otherwise stated.

Further information about what we do is on our website at www.ofwat.gov.uk.

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Foreword

Welcome to our final forward programme for 2015-16. This work programme is designed to help us meet our new strategy, 'Trust in water', which we set out in January 2015. It describes the:

- areas where we can make the biggest impact for customers in helping to deliver our collective vision for the water sector and achieve our vision for Ofwat ('our priorities'); and
- work we will do to help us deliver those priorities ('our programmes').

Securing trust and confidence in vital public water and wastewater services will benefit us all. But it is an ambitious and complex task, which will take time to deliver. Also, we cannot deliver it alone. We need the water sector in England and Wales – and everyone with an interest in it – to work with us and together, listening and communicating to build trust and confidence among customers, investors and within society.

Our new strategy, which builds on our statutory duties and functions, will determine what we do and how we work from now until 2019-20. In describing our work over the next year, this forward programme sets out a number of early and important building blocks that will help deliver our collective vision for the sector.

Building on the approach we developed during the 2014 price review, our new strategy and our work programme for 2015-16 relies on active engagement with our stakeholders, including the water companies we regulate. We are looking to those companies to step up and take ownership of the need to build and maintain trust and confidence in water and wastewater services. We are looking for them to think carefully about what this means, what they need to do to achieve it, and engage us proactively in a mature dialogue about how we, with them, can help move the sector forward.



Since we published our strategy we have welcomed the positive and open response from our stakeholders. This includes the responses we received to our draft forward programme consultation, which we have used to develop this final work programme. We welcome this engagement and look forward to working with you all as we begin the journey towards trust in water.



Jonson Cox
Chairman



Cathryn Ross
Chief Executive



Overview 2015-16

Across England and Wales we all rely on water, drainage and sanitation services that the water sector delivers every day – in our homes, our work and our environment. But a number of challenges threaten the services we receive, such as:

- population growth;
- water scarcity;
- more volatile weather;
- climate change;
- higher expectations of tailored services; and
- affordability.

To meet these challenges, customers, the environment and wider society need to have trust and confidence in the vital public services they receive. It means water in the tap, waste flushed away and the price customers pay. But it also means:

- the resilience of our water and wastewater services;
- value for money and how affordable services are;
- good customer service and fair dealing; and
- decisions we take today treating future generations fairly.

To achieve trust and confidence, the sector must listen to customers, the environment and wider society and deliver the outcomes they want at every stage of the water cycle. It needs strong relationships with the supply chain and investors, and it needs to engage with government and regulators.

Our priorities

Trust and confidence in water and wastewater services can only be achieved by the sector, working with its stakeholders. As the economic regulator of the water sector in England and Wales, our role is to help it build trust and confidence with customers, the environment and wider society. This means:

- provoking, challenging and where appropriate leading the sector, to ensure it has clarity on what customers and society expect;
- overseeing how the sector is performing;
- seeking assurance that water companies are acting efficiently, on the basis of good information, a good understanding of the responsibilities and



relationships they have and that they are maintaining a mature relationship with Ofwat;

- being ready to step in, if water companies fall short;
- using the right tools from our available toolkit to achieve the best results; and
- acting clearly and predictably.

We have identified a number of areas where we can make the biggest impact for customers in 2015-16. We set these out below.

Ofwat's strategic priorities for 2015-16

- 1. Implementing Water Act reforms and preparing for the 2019 price review.** Deliver the reforms provided for in the Water Act 2014 and help to ensure that they deliver real benefits for water customers and society. This includes putting in place the arrangements for the opening of the non-household retail market to competition in April 2017, ensuring these customers enjoy benefits from choice and are protected where necessary. This also includes supporting the development of water trading and abstraction reform. Doing these things will require further changes to the way we set prices in our 2019 review. It will also require changes in our approach to casework.
- 2. Maintain customer confidence through a period of change.** Recognising the changes that are coming in the sector and to our regulation of it, ensure that service providers and others across the sector, including us as the regulator, maintain the confidence of customers in provision of these vital public services. This includes ensuring that the changes in the sector deliver demonstrable benefits for customers, now and in the long term.
- 3. Maintain investor confidence in the sector through a period of change.** Recognising the changes that the Water Act will bring to the sector and our regulation of it in order to benefit customers, maintain the confidence of investors in the sector and the economic regulatory framework. This includes continuing to discharge our statutory duty on financeability, to ensure that efficient companies can access capital.
- 4. Monitoring sector performance.** Develop the means by which we monitor the sector's performance against our vision of trust and confidence, and receive assurance from the sector. This information will inform our decisions on where, when and how we intervene, and may also prompt action by the sector directly. It will be beneficial if this information also prompted others to challenge the sector and hold it to account. It will include the development of a risk-based approach to assurance, which will reflect the risk associated with different aspects of the sector and different service providers.
- 5. To ensure that Ofwat has the skills, experience, systems, processes and culture that support our new strategy.** Develop the people, infrastructure and governance to deliver the new strategy and vision for the sector, and develop the tools, information and approaches to regulation that Ofwat needs to deliver its duties efficiently, effectively and using best regulatory practice.



We will review these priorities each year to make sure we are delivering the maximum benefit to customers using our available resources.

Improving how we work

To deliver our strategy, the way we work, the way we behave and the values we live by will be as important as the work that we do. Our vision is to be trusted and respected, working at the leading edge, challenging ourselves and others to build trust and confidence in water and wastewater services.

In 2014-15, we put all of our work into a programme and project structure to improve our capability to deliver our new strategy. This has helped us to:

- improve the alignment of our work to our new strategy;
- work more efficiently; and
- focus on delivering benefits to customers.

Our work during 2015-16 includes several programmes to help continue to improve our capability in line with our new strategy. These are:

- strategy and planning;
- business transformation; and
- compliance and assurance.

These programmes will enable us to manage the implementation of our strategy, and to learn from our own experience and the experience of others.

Delivering value for money

We aim to carry out all of our work efficiently and effectively. From 2015-16 onwards, Ofwat will be part of the UK Government's Comprehensive Spending Review (CSR). And we have a significantly reduced budget.

Our licence fee for 2015-16 is £21.159 million – with a further £2 million for the Thames Tideway. This will be about £7 million lower than 2014-15 but, with the agreement of the Chief Secretary to the Treasury, reflects an increase on our original 2015-16 CSR settlement to enable us to progress Water Act 2014 reforms and changes in the profile of our work on Thames Tideway. This excludes work on Open Water – the programme of work to co-ordinate the development of the market rules, framework and systems required for an effective non-household retail market as set



out in the Water Act 2014 – which represents additional work over and above Ofwat’s usual work. This work is funded from a separate, ring-fenced licence fee. For 2015-16, this fee will be £7.13 million.

The progress we have made on our business transformation during 2014-15 has helped reduce our costs. It has also enabled us to work in a more focused and flexible way. We will continue to seek efficiencies in delivering our work to secure even better value for money. For example, during 2015-16 we will reduce our office space. We are also looking for opportunities to share resource with other regulators.

We are seeking further value for money through our membership of the [UK Regulators Network \(UKRN\)](#). Among other things, UKRN will strengthen work across sectors to develop shared approaches to regulation in the interests of consumers and the economy. This is without compromising the independence of individual regulators and the differences of disparate sectors. Cathryn Ross, our Chief Executive, will be the UKRN Chair in 2015-16.

We will continue to review our progress in delivering our programmes and may reschedule or re-prioritise our work during the year. We remain committed to delivering the better regulation principles of:

- proportionality;
- accountability;
- consistency;
- targeting; and
- transparency.

We will notify our stakeholders if we decide to change our plans significantly during 2015-16.

Managing risks and opportunities

To deliver our strategy successfully, we will need to manage risks and opportunities proactively, effectively and proportionately. We have a new risk framework to support our more agile, programme- and project-based ways of working. This follows the principle that everyone at Ofwat has a responsibility to identify and manage risk and opportunities proactively and dynamically, and in a way that reflects our new strategy. Our broad approach is as follows.

- Our people within each programme are responsible for identifying and managing risks and opportunities in their work.



- Our Senior Leadership Team is responsible for reviewing, identifying and taking decisions on strategic risks and opportunities across Ofwat's portfolio of programmes and to the organisation as a whole. These risks are in the following three areas.
 - Delivering benefits for customers.
 - Stakeholder engagement and collaboration.
 - Organisational capability.
- Our Board challenges, scrutinises and approves our strategic risks and opportunities, including Ofwat's risk appetite. It receives risk reports every three months to enable it to review and challenge our Senior Leadership Team's analysis and management of strategic risk and opportunity.

Measuring progress

We are working with key stakeholders, including other water sector regulators, to develop an assessment framework and performance dashboards for monitoring the progress that the sector makes towards our vision for it. We are also developing a framework that will enable us to monitor our own progress towards our vision for Ofwat. This will also help us monitor the benefits we are delivering as part of our work programme. And it will help improve the conversations we have and work we carry out with strategic partners and other stakeholders in securing trust in water, recognising that Ofwat cannot deliver this working alone. We will publish more details on our assessment framework during 2015-16.

Possible changes to our work

We have an ambitious strategy and a reduced budget. We have made changes to the way we are structured and work to accommodate this, but we still need to be able to work flexibly and re-prioritise throughout the year. While we plan based on previous experience and our understanding of how our landscape will evolve in future, we may need to do more or less than we currently anticipate. This may affect the resources we have available and the work we are able to carry out.

For example, we are required to carry out certain types of casework – investigations, enforcement cases and disputes. This forward programme excludes this work, as we cannot predict its nature and volume. We have provided for it in our resource planning; to the extent that the casework we receive is different from our assumptions, this may affect resource available for our other work.



We also operate within the overall policy framework that the UK and Welsh Governments set for the sector. Over the coming year, a number of factors could change our plans.

- There will be a General Election in May 2015. The newly-elected UK Government will have its own priorities for the water sector in England.
- We expect the Welsh Government to publish its final water strategy in 2015. This may have new or altered expectations for how we fulfil our role in Wales.
- In 2014, the UK Parliament passed the Water Act 2014. Different parts of the Act must formally pass into law (be 'commenced') before they can be used. This includes necessary laws to implement a market to allow all non-household customers in England – and eligible customers in Wales – to choose their water and wastewater service provider. The commencement of relevant parts of the Water Act 2014 will determine the scale and pace of our retail market opening programme in particular.
- The Development Consent Order granted for the Thames Tideway Tunnel is currently subject to four applications for judicial reviews. Our work on this programme is dependent on:
 - the UK Government's decisions;
 - any legal proceedings; and
 - the progress of the Thames Tideway Tunnel project itself.

Our work programme for 2015-16

We plan to carry out the following interlinked programmes to deliver our strategy.

- Strategy and planning.
- Casework.
- Finance and governance.
- Retail market opening.
- Water 2020.
- Thames Tideway.
- Business transformation.
- Compliance and assurance.



On pages 21 to 43, we describe for each programme:

- what it is;
- what we aim to achieve;
- how we will deliver it; and
- the key dates in 2015-16.

We thank those stakeholders that responded to our draft forward programme consultation. We set out a summary of the main issues raised on pages 45 to 49 and our response. We will also consider comments we received on specific programmes as we deliver them.

In delivering our work programme we will seek to involve all relevant stakeholders. This includes but is not limited to:

- customers and their representatives;
- environmental bodies;
- water companies;
- the UK Government;
- the Welsh Government; and
- other regulators.

We welcome the continued contribution that all stakeholders make to our work.



Key dates in 2015-16

Ofwat programme	Work programme key dates 2015-16			
	April to June 2015	July to September 2015	October to December 2015	January to March 2016
Strategy and planning	<p>Publish an assessment framework for the sector and for Ofwat for monitoring the state of progress against the visions for the sector and for Ofwat</p> <p>Consult on the approach to our resilience duty</p>	<p>Publish our five-year strategic business plan for 2015-16 to 2019-20</p>	<p>Consult on arrangements to protect eligible customers for the new non-household retail market, including new guaranteed service standards and deemed contract arrangements</p> <p>Host the first cross-sector strategic discussion, using our new sector assessment framework</p>	<p>Publish findings of our work looking at customer vulnerability, including issues for the sector to take forward, and potentially changes to how we regulate</p> <p>Publish the final approach to our resilience duty</p>
Casework ¹	<p>Publish our new casework strategy for focusing on strategic cases</p> <p>Publish the first of our bulletins to inform stakeholders about our casework</p>	<p>Publish guidance on our approach to using settlement in resolving individual cases</p> <p>Publish guidance on our service standards for cases, including indicative timeframes for the types of cases that we most usually handle. This guidance will also set out the roles and our expectations for water</p>		<p>Publish guidance for the water sector on competition law and, in particular, the challenges of the new non-household retail market</p> <p>Complete all current strategic cases by 31 March 2016</p>



Ofwat programme	Work programme key dates 2015-16			
	April to June 2015	July to September 2015	October to December 2015	January to March 2016
		companies and other parties.		
Finance and governance	<p>Share our developed approach on how we collect, store and share information, including how we will engage with the sector</p> <p>Publish an assessment of whether water companies and their holding companies have implemented our board leadership, transparency and governance principles, and follow up on any issues</p> <p>Publish the outcomes of our review of special administration</p> <p>Consult on our proposed approach to assessing mergers</p>	<p>Publish the findings of our analysis of water companies' and their holding companies' regulatory reporting</p> <p>Seek views and set up a working group to review water companies' licences</p>	<p>Publish our findings on water companies' regulatory reporting and implementation of our board leadership, transparency and governance principles</p> <p>Share collection requirements for 2015-16 information</p>	<p>Initiate and carry out a targeted review of a service area</p>



Ofwat programme	Work programme key dates 2015-16			
	April to June 2015	July to September 2015	October to December 2015	January to March 2016
Retail market opening	<p>Publish updated guidance on customers eligible to choose their retail water and wastewater supplier</p> <p>Complete the first review of programme management ('gateway review')</p> <p>Complete the transition of programme management from Open Water Markets Limited (OWML) to Ofwat</p>	<p>Design the new retail water and wastewater licensing arrangements</p> <p>Consult on the supplier of last resort arrangements to support the UK Government's retail exit work</p>	<p>Consult on the full suite of documents for the operation of the new market</p>	<p>Finalise licences for service providers operating in the new market</p> <p>Open the licence application process for new service providers</p>
Water 2020	<p>Provide evidence to the Competition and Market Authority's process for deciding Bristol Water's price controls for 2015-20</p>	<p>Capture the key learning from delivering the 2014 price review</p> <p>Consult on short- to medium-term challenges facing the sector and the scope for using the Water Act competition framework and regulating differently to address these challenges</p> <p>Consult on charging rules following guidance from the UK and Welsh Governments</p>	<p>Consult on initial proposals for areas for regulatory change in the 2019 price review, showing how our approach to regulation of water and wastewater services is expected to evolve further over time. And carry out possible additional specific consultations on key areas if appropriate.</p>	<p>Publish a consultation on our proposed approach to setting non-household price controls from 2017.</p> <p>Publish charging rules taking account of guidance from the UK and Welsh Governments</p>



Ofwat programme	Work programme key dates 2015-16			
	April to June 2015	July to September 2015	October to December 2015	January to March 2016
		<p>Publish final 2014 price review reconciliation rulebook</p> <p>Provide further evidence to the Competition and Market Authority's process for deciding Bristol Water's price controls for 2015-20</p>		
Thames Tideway ²	<p>Consult on the award of a licence to the preferred bidder for the Infrastructure Provider</p> <p>Amend Thames Water's licence to ensure that it works in parallel with the Infrastructure Provider's licence</p>	<p>Award the licence to the preferred bidder for the Infrastructure Provider and make associated amendments to Thames Water's licence</p>		
Business transformation	<p>Implement an improved casework management system</p> <p>Implement our leadership and management programme</p> <p>Implement our new internal governance framework and principles</p>	<p>Reduce our office space and implement a new open plan, flexible working space</p> <p>Implement a new corporate website</p>	<p>Implement our approach to talent management, acquisition and retention</p>	<p>Implement a public portal to view the register of the Water Services Regulation Authority</p>



Ofwat programme	Work programme key dates 2015-16			
	April to June 2015	July to September 2015	October to December 2015	January to March 2016
Compliance and assurance	The key dates for this programme are a combination of internal and external reporting requirements and meeting schedules (for example, our annual report and accounts, and Board meetings), which we have not included in this forward programme.			

Notes:

1. We expect to issue draft and final decisions on individual cases throughout the year. But these are not included here because their timing will reflect the conduct of the cases.
2. The timing of our key dates for the Thames Tideway Tunnel programme will depend on the timing of decisions from the UK Government and the procurement process for an Infrastructure Provider.



How our work contributes to our strategic priorities

The table below sets out how each of our programmes contributes to our strategic priorities for 2015-16.

Ofwat programme	Priorities for 2015-16 (see notes)				
	1	2	3	4	5
Strategy and planning		✓	✓	✓	✓
Casework	✓	✓	✓	✓	✓
Finance and governance	✓	✓	✓	✓	✓
Retail market opening	✓	✓	✓	✓	✓
Water 2020	✓	✓	✓	✓	✓
Thames Tideway		✓	✓	✓	✓
Business transformation					✓
Compliance and assurance					✓

Notes:

Our strategic priorities for 2015-16 are as follows.

1. **Implementing Water Act reforms and preparing for the 2019 price review.** Deliver the reforms provided for in the Water Act 2014 and help to ensure that they deliver real benefits for water customers and society. This includes putting in place the arrangements for the opening of the non-household retail market to competition in April 2017, ensuring these customers enjoy benefits from choice and are protected where necessary. This also includes supporting the development of water trading and abstraction reform. Doing these things will require further changes to the way we set prices in our 2019 review. It will also require changes in our approach to casework.
2. **Maintain customer confidence through a period of change.** Recognising the changes that are coming in the sector and to our regulation of it, ensure that service providers and others across the sector, including us as the regulator, maintain the confidence of customers in provision of these vital public services. This includes ensuring that the changes in the sector deliver demonstrable benefits for customers, now and in the long term.



3. **Maintain investor confidence in the sector through a period of change.** Recognising the changes that the Water Act will bring to the sector and our regulation of it in order to benefit customers, maintain the confidence of investors in the sector and the economic regulatory framework. This includes continuing to discharge our statutory duty on financeability, to ensure that efficient companies can access capital.
4. **Monitoring sector performance.** Develop the means by which we monitor the sector's performance against our vision of trust and confidence, and receive assurance from the sector. This information will inform our decisions on where, when and how we intervene, and may also prompt action by the sector directly. It will be beneficial if this information also prompted others to challenge the sector and hold it to account. It will include the development of a risk-based approach to assurance, which will reflect the risk associated with different aspects of the sector and different service providers.
5. **To ensure that Ofwat has the skills, experience, systems, processes and culture that support our new strategy.** Develop the people, infrastructure and governance to deliver the new strategy and vision for the sector, and develop the tools, information and approaches to regulation that Ofwat needs to deliver its duties efficiently, effectively and using best regulatory practice.



How our work aligns with Government priorities

The tables below set out how each of our programmes aligns with the UK and Welsh Governments' priorities respectively.

Ofwat programme	UK Government priorities (see notes)									
	1	2	3	4	5	6	7	8	9	10
Strategy and planning		✓		✓	✓	✓	✓	✓		
Casework	✓	✓	✓	✓	✓	✓	✓		✓	
Finance and governance	✓	✓	✓					✓		✓
Retail market opening	✓	✓		✓	✓	✓	✓		✓	
Water 2020	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Thames Tideway	✓	✓		✓	✓		✓		✓	
Business transformation ^a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Compliance and assurance ^a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes:

These priorities are available in full at www.gov.uk.

1. Impacts of regulatory changes on sector investment prospects.
2. Proportionality of the regulatory framework.
3. Impacts of the regulatory framework on sector investment profile.
4. Contribution to the Government's sustainable development objectives.
5. Impacts of the regulatory approach on the sector's preparation for long-term challenges, such as climate change.
6. Impacts of the regulatory approach on company innovation, such as catchment management.
7. Impacts of the regulatory approach on sector resilience and sustainable water resource management.
8. Sufficiency of company action to help customers struggling to pay bills.
9. Progress on competition, to ensure this is in step with the Water White Paper and Government boundaries.
10. Effectiveness of the 2014 price review in delivering outcomes sought by customers and other stakeholders.



- a. These programmes do not address directly the policy priorities the UK Government set out for us. But they will help us improve our efficiency and effectiveness in carrying out our work, which includes addressing the Government's priorities.

Ofwat programme	Welsh Government priorities (see notes)									
	1	2	3	4	5	6	7	8	9	10
Strategy and planning	✓		✓	✓		✓		✓	✓	✓
Casework	✓	✓	✓		✓	✓	✓		✓	
Finance and governance				✓	✓		✓			
Retail market opening ^a	✓				✓		✓			
Water 2020	✓	✓	✓	✓	✓	✓	✓	(✓)	✓	✓
Thames Tideway ^b	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Business transformation ^c	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Compliance and assurance ^c	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes:

These priorities are available in full at www.wales.gov.uk.

1. Regulatory proposals: assess impacts of regulatory changes on consumers and investors.
 2. Environmental and statutory obligations: facilitate compliance with domestic and European legislation.
 3. Sustainable development: contribute to the Welsh Government's sustainable development objectives.
 4. Affordability: take account of affordability issues in Wales.
 5. Efficiency and cost effective solutions: drive innovation within the boundaries set by the Welsh Government to ensure improvements in efficiency.
 6. Resilience and joined up outcome-based solutions: enable resilience against natural and other hazards.
 7. Research and evidence-based decisions and policy making: take account of research and costs in making decisions.
 8. Drinking water quality: ensure compliance with drinking water quality obligations.
 9. Integrated water management solutions: encourage sustainable and innovative water management solutions.
 10. Future resource management: encourage integrated long-term planning and solutions.
- (✓) It is for water companies to ensure compliance. But our regulation encourages them to do this efficiently.



- a. The impact relates to non-household customers of service providers wholly or mainly in Wales that can choose their supplier under the existing water supply licensing provisions compatible with the new market arrangements in England – in line with the Welsh Government's policy position.
- b. The Welsh Government's priorities are not appropriate to this programme as it relates specifically to infrastructure in England. But we will have regard to the Welsh Government's priorities where we apply the approaches and lessons learned to infrastructure in Wales in future.
- c. These programmes do not address directly the policy priorities the Welsh Government set out for us. But they will help us improve our efficiency and effectiveness in carrying out our work, which includes addressing the Government's priorities.



Our programmes

Strategy and planning

What it is

This programme will establish our vision for the sector and our vision for Ofwat, what we will do to deliver progress towards these visions and, more widely, what the sector will do. It includes projects in the following areas.

- Assessing progress towards achieving the vision for the sector and the vision for Ofwat.
- Identifying strategic risk, capturing intelligence and insights from across Ofwat and the sector.
- Developing our and the sector's understanding of future water customers' identities and needs – and gathering intelligence around our role in ensuring that future customers play an active role in the provision of sustainable water and wastewater services. In due course, this may feed into further work.
- Building on the success of the 2014 price review, developing a framework within which we can capture the customer voice to improve our understanding of what are the most important and strategic issues that all customers face, and embedding the culture of using the customer voice when developing policies in our programmes of work (including, but not exclusively, when developing the framework for the 2019 price review).
- Developing our and the sector's understanding of issues in relation to affordability and customer vulnerability. This may lead to further work in future.
- Developing customer protection arrangements to protect eligible customers for the new non-household retail market.
- Developing our and the sector's understanding of resilience issues. This will inform our new statutory duty on resilience and feed into further work in future.
- Developing our approach to communicating and engaging with stakeholders.
- Developing Ofwat's long-term, robust approach to business planning.



- Promoting better, independent regulation.

With a focus on promoting better regulation, this programme will drive our business and programme planning internally and explore opportunities for joint working externally with stakeholders. It also includes our contribution to the UKRN.

We will continue to deliver this programme after the end of 2015-16.

What we will deliver

Our strategy and planning programme sets out how we will:

- work to build and maintain trust and confidence in water and wastewater services; and
- ensure Ofwat is a trusted and respected regulator, working at the leading edge.

In particular, we will deliver the following.

- An improved understanding of the potential for customers to play a more fully engaged and empowered role in the provision of water and wastewater services. Clarity on issues the sector needs to address to make this happen, and any potential implications for our regulation of the sector. This will be supported by the framework that we will use to incorporate customers' views in our decision making.
- An understanding of the different dimensions of customer vulnerability, their drivers, and what works and does not work in helping vulnerable customers. An understanding of issues the sector needs to tackle, such as affordability, and any potential implications for how we regulate the sector.
- Arrangements to protect eligible customers for the new non-household retail market.
- Clarity on what resilience means for the sector, issues that it needs to address, and any potential implications for how we regulate the sector.
- A focus on clear and accessible communication, and making sure we have effective relationships with our stakeholders.
- An efficient and effective contribution from Ofwat to the work of UKRN, which helps to deliver its objectives.



- A clear, robust and long-term approach to planning our work that is transparent and gives stakeholders trust in us.
- Approaches to regulation that reflect best regulatory practice.

How we will do it

- Work with the sector, regulators and other stakeholders to develop and implement an assessment framework for monitoring the state of progress against the visions for the sector and for Ofwat. This framework will:
 - be shared with the wider public because transparency in itself aids trust and confidence, and sharing the framework will also allow other stakeholders to scrutinise the sector;
 - enable discussions across different water sector regulators and more widely about who may be best placed to take action to help improve trust and confidence in water and wastewater services; and
 - inform decisions within Ofwat as to when, where and how we should intervene in the sector.
- Look for opportunities to develop strategic partnerships where these will enable issues to be dealt with more efficiently and/or effectively than Ofwat acting alone.
- Develop and implement systems, approaches and a culture that gathers intelligence from a wide range of perspectives and sources as a way of recognising external developments and themes that impact on our programmes – and take appropriate action.
- Learn from an independent group we have established, chaired by Jacob Tompkins, Managing Director of [Waterwise](#), to consider resilience issues. This group will engage with the sector and more widely, to consider the definition of resilience, issues for the sector to consider and issues for Ofwat to consider in its regulation. We will consider its findings in developing our approach.
- Review our approach to how we communicate with all our audiences, including looking at social media to reach our audiences, while also improving our systems and processes for engaging with our stakeholders.
- Develop necessary arrangements to protect eligible customers for the new non-household retail market, including:
 - a code on mis-selling;
 - new guaranteed service standards; and



- deemed contract arrangements.
- Develop a robust and long-term approach to business planning that is transparent and gives stakeholders trust in us and our work. This includes publishing a five-year rolling business plan each year to give stakeholders transparency about our future plans and highlight opportunities for joint working.
- Collaborate actively with the UKRN and others to:
 - share learning and best practice in the use of regulatory tools; and
 - explore opportunities for joint working where this would improve efficiency and effectiveness.
- Ensure a focus on best regulatory practice throughout our work.

Key dates in 2015-16

- Publish an assessment framework for the sector and for Ofwat for monitoring the state of progress against the visions for the sector and for Ofwat (April to June 2015).
- Consult on the approach to our resilience duty (April to June 2015).
- Publish our five-year strategic business plan for 2015-16 to 2019-20 (July to September 2015).
- Host the first cross-sector strategic discussion, using our new sector assessment framework (October to December 2015). Consult on arrangements to protect eligible customers for the new non-household retail market, including new guaranteed service standards and deemed contract arrangements (October to December 2015).
- Publish findings of our work looking at customer vulnerability, including issues for the sector to take forward, and potentially changes to how we regulate (January to March 2016).
- Publish the final approach to our resilience duty (January to March 2015).



Casework

What it is

Our casework relates to the use of a number of our regulatory tools, in particular:

- issuing licences, including water supply licences;
- granting new appointments and variations;
- enforcing water companies' obligations under sector-specific legislation and in licences, and in general competition and consumer law;
- the conduct of market studies;
- dispute resolution; and
- the determination of price and non-price terms in certain contracts.

We will use our casework tools to:

- ensure that markets in water and wastewater services work effectively;
- protect customers; and
- hold water companies to account overall for discharging their obligations.

In particular, we will use our casework in the coming months to ensure that the opening of the non-household retail market to competition is effective and delivers benefits for customers as provided for in the Water Act 2014. We will also carry out work in 2015-16 with a view to ensuring our casework will support the development of water trading and abstraction reform, again as provided for in the Water Act 2014.

We know that the policy framework on the basis of which we conduct our casework, and the systems and process we use for it, will be key to delivering the Water Act reforms both in the non-household retail market and wholesale services ('upstream reforms'). So, we will also carry out work during 2015-16 to ensure that these elements will support efficient and effective casework in future. And we will improve the communication of our casework, including creating a quarterly casework bulletin, which will update stakeholders on progress and any learning points from cases.

We will continue to deliver this programme after the end of 2015-16.



What we will deliver

Our casework programme is critical to the delivery of our strategy. Through the changes we make to how we regulate, we see the potential for some water companies or some parts of the market to enjoy more flexibility and less intrusive regulation. In this context, our casework plays an increasingly important role. It helps to safeguard the customer experience and promote well-functioning markets in the sector, both of which are critical for trust and confidence.

Many of our cases directly affect customers' experience of the sector. We expect water companies to get services right first time, and we will encourage them to do so – and take ownership of the relationship with their customers. But where they fall short, we stand ready through our casework to provide an important safety net for customers, which is essential for their trust and confidence in the sector.

As water companies in the next control period focus on delivering outcomes and take advantage of the greater flexibility they now have to deliver efficiencies, we expect more transactions to take place within the wholesale part of the value chain, between the monopoly water companies and other service providers. Through our casework, we will be clear in setting out and enforcing our expectations in relation to those transactions, in ways that promote:

- efficient solutions;
- dynamic markets; and
- ultimately, good outcomes for customers.

Our casework will have a particularly important role to play in making sure that the opening of the non-household retail market to competition is effective and delivers benefits for customers as provided for in the Water Act 2014. It will also play an important role in helping to deliver the upstream reforms envisaged in the Water Act 2014, including water trading.

We will ensure that through all of our casework we make clear why we have taken the decisions we have and what the wider implications of those decisions are for the sector. In this way, we will enable the sector to learn, which will help to avoid unnecessary casework in future.

In particular, we will deliver the following.

- Robust and timely decisions on individual cases.



- A continued focus on strategic cases, which will bring the most benefit to customers now and over the long term.
- A sector that more fully understands its obligations under general competition law, and the implications of these in the context of non-household retail market opening.
- A more wide-ranging and pragmatic strategy for our casework. This will see us using all the tools in our tool kit – including timely conversations with water companies to resolve issues in ways that are no less satisfactory to customers but which may be quicker and less burdensome than formal action.
- Support water companies and Water UK in implementing an [alternative consumer dispute resolution scheme](#) for water customers. This includes making sure water companies use the outputs of that project effectively to reduce the numbers of complaints that are escalated externally.

How we will do it

- Create a body of strategic decisions that demonstrate our commitment to targeting the most serious customer harm and detriment within the water sector.
- Our casework programme will work closely with our Water 2020 programme to ensure that our regulatory approaches complement and reinforce each other. This will include reviewing our casework-related policies and making sure that they are aligned with:
 - our strategy;
 - the 2019 price review; and
 - any future regulatory developments.
- Overhaul our ways of working to find quicker and/or less resource intensive ways of dealing with non-strategic cases, and improve our horizon scanning function to identify potential strategic cases.
- Create effective working arrangements with a third party for transferring certain of Ofwat's non-strategic cases to them for adjudication, subject to the enactment of the relevant parts of the Water Act 2014.
- Encourage the sector to provide a better service for customers, including supporting the establishment of an alternative consumer dispute resolution scheme.



- Work with stakeholders to inform and reflect further changes arising from the Water Act 2014 and the 2014 price review in our determination of cases. This will likely include a review of our [framework for resolving pricing disputes involving bulk supplies](#) to ensure it reflects both the 2014 price review and any charging rules and guidance that the UK Government issues.
- Work with the Competition and Markets Authority (CMA) to encourage the sector to understand and think through the implications of the opening of the new non-household retail market in England, including the implications of these changes for water companies' obligations under UK and EU competition law.
- Improve the effectiveness of our communication in relation to casework. This includes being clearer about our expectations and the wider implications of specific cases.
- Work towards the introduction of a third party for transferring certain of Ofwat's non-strategic cases to them for adjudication, subject to the commencement of the relevant parts of the Water Act 2014.
- Gather intelligence from cases and feed them into other Ofwat programmes to inform priorities, policy and practice.
- Continue to develop an approach to casework delivery within Ofwat that focuses on good customer service and making robust decisions that are:
 - evidenced based;
 - intellectually rigorous;
 - delivered efficiently; and
 - timely.

Key dates in 2015-16

- Publish our new casework strategy for focusing on strategic cases (April to June 2015).
- Publish the first of our bulletins to inform stakeholders about our casework (April to June 2015).
- Publish guidance on our approach to using settlement in resolving individual cases (July to September 2015).



- Publish guidance on our service standards for cases, including indicative timeframes for the types of cases that we most usually handle. This guidance will also set out the roles and our expectations for water companies and other parties (July to September 2015).
- Publish guidance for the water sector on competition law and, in particular, the challenges of the new non-household retail market (January to March 2016).
- Complete all current strategic cases by 31 March 2016 (January to March 2016).

Finance and governance

What it is

The scope of this programme covers:

- the ways in which water companies report on their performance;
- water and wastewater company financial and regulatory accounting issues;
- board leadership, transparency and governance; and
- our approach to assessing mergers.

It builds on our recent governance work with appointed water companies, and their holding companies, and will include monitoring compliance with companies' codes in this area.

The programme will ensure that water companies' licences are:

- up to date;
- clear;
- consistent; and
- supportive of the development of markets and effective regulation.

It also includes any mergers and acquisitions that may take place. Where this happens, we will use our tools to ensure that changes in ownership benefit customers, and support the development of markets and more effective regulation.

The programme includes:



- regulatory reporting, including performance reporting and regulatory accounting guidelines;
- reviewing our approach to mergers in light of the Water Act 2014 requirements;
- board leadership, transparency and governance;
- publishing the outcomes of and picking up the implications of any lessons learned from the test of the special administration regime; and
- reviewing water companies' licences and making consequent changes from the Water Act 2014.

We will continue to deliver this programme after the end of 2015-16.

What we will deliver

This programme will help build trust and confidence in how water companies operate and meet their obligations and commitments. This takes into account the extent to which they apply high standards of board leadership, transparency and governance. Indeed, as evidenced by the 2014 price review our approach to regulation now relies on robust board leadership and governance within the regulated water companies.

Trust and confidence relies on the financial sustainability and transparency of regulated water companies over the long term. This programme will help provide assurance of the sector's financial stability and make sure we are well placed to step in as a safety net if a failure should arise.

It is likely that there will be some changes in ownership as water companies respond to the:

- challenge of delivering price controls during 2015-20;
- opening of the non-household retail market to competition; and
- information that we have revealed through the 2014 price review and will continue to reveal as we go forward.

Where this happens, we will use our tools to ensure that changes in ownership benefit customers, and support the development of markets and more effective regulation.

In particular, we will also deliver the following.

- A clear and well-developed approach to keeping water companies accountable, using targeted action to demonstrate that customers' interests and services are protected.



- Regulatory reporting that:
 - reflects the way we set price controls in 2014;
 - reflects the changing nature of the sector (Water Act 2014); and
 - provides information for setting price controls in 2019.
- Effective leadership and governance of the sector, where boards operate to high standards, take full accountability and are transparent.
- Early warning mechanisms to spot water companies experiencing financial distress, and further developing our approach to dealing with failures, should they ever arise.
- An approach to assessing potential mergers in the sector that is transparent and secures best value for customers now and in the future.
- Clear, uniform licences that reflect the way we regulate and the shape and legislative framework of the sector, are principles based and provide all customers with equivalent levels of protection. And a mature environment that brings about a constructive approach to developing and modifying licences.

How we will deliver it

- Develop a suite of monitoring tools focused on water companies' risks, supported by an effective system for reporting and escalating performance issues.
- Develop and consult on reporting guidance for water companies that is up to date and fit for purpose.
- Gain assurance that water companies operating in the sector are delivering on their commitment to meet our board leadership, transparency and governance principles – and take action, including modifying licences, should they fail to do so.
- Develop and consult on our approach to assessing water company mergers.
- Test and improve a system for handling water companies that are in financial distress.
- Develop a suite of modular licences and licence conditions that:
 - are fit for purpose;
 - correspond to the overall regulatory framework;
 - reflect our strategic objectives; and



- build on best practice in utilities licensing.

Key dates in 2015-16

- Share our developed approach on how we collect, store and share information, including how we will engage with the sector (April to June 2015).
- Publish an assessment of whether appointed water companies and their holding companies have implemented our board leadership, transparency and governance principles, and follow up on any issues (April to June 2015).
- Publish the outcomes of our review of special administration (April to June 2015).
- Consult on our proposed approach to assessing mergers (April to June 2015).
- Publish the findings of our analysis of monopoly water companies' regulatory reporting (July to September 2015).
- Seek views and set up a working group to review water companies' licences (July to September 2015).
- Publish our findings on appointed water companies' regulatory reporting and implementation of our board leadership, transparency and governance principles (October to December 2015).
- Publish final collection requirements for 2015-16 information (October to December 2015).
- Initiate and carry out a targeted review of a service area (January to March 2016).

Retail market opening

What it is

This programme will deliver a market for water and wastewater retail services that:

- allows all non-household customers in England – and those eligible in Wales – to choose their supplier by April 2017;



- ensures customers have effective protection, including those non-household customers in Wales that will not be able to switch their supplier; and
- maximises benefits for all customers.

We will continue to deliver this programme after the end of 2015-16.

What we will deliver

This programme plays an important part in building trust and confidence in water for current and future customers. In opening a new market, the programme will incentivise water companies to do the right thing by customers, wider society and the environment today and tomorrow.

This will mean that eligible non-household customers get the services they want and are willing to pay for, at the level of safety and reliability that they want, and delivered in socially, economically and environmentally sustainable ways. It will also ensure that the sector is viewed as a sustainable investment opportunity.

In particular, with our partners we will:

- deliver the design, development and implementation of regulatory arrangements to support the new non-household retail market, complementing the work of Open Water and market participants; and
- develop the necessary charging arrangements to support retail market opening.

As we announced in February 2015, [the Open Water programme will be wound down in May 2015](#). Its tasks will be allocated to Market Operator Services Limited (MOSL) and Ofwat.

How we will deliver it

- Work with our partners, including the UK and Welsh Governments, the Water Industry Commission for Scotland (WICS) and MOSL to deliver the new retail market arrangements for non-household customers in England. This includes the following.
 - Consult on the scope of the non-household retail market and which customers will be able to switch their supplier.
 - Support the UK Government in the development of arrangements to allow service providers to leave the non-household retail market ('retail exit'). This includes consultations on the supplier of last resort for when



market participants fail, new guaranteed service standards and deemed contracts.

- Design the new retail water and wastewater licensing arrangements and carry out any necessary changes to appointed water companies' licences to facilitate the new market arrangements.
- Work with our delivery partner to make sure that the codes, processes and procedures to support the new market arrangements are in place; that a Market Operator is in place to administer the market; and that the necessary market architecture and IT systems are also in place.
- Work with the Welsh Government and other stakeholders to ensure that the arrangements for the non-household customers of service providers wholly or mainly in Wales that can choose their supplier under the existing water supply licensing (WSL) provisions are compatible with the new market arrangements in England – in line with the Welsh Government's policy position.
- Work with WICS, the UK Government and the Scottish Government to ensure that the market arrangements support a seamless experience for customers eligible to choose their supplier across England, Wales and Scotland.

Key dates in 2015-16

- Publish updated guidance on customers eligible to choose their retail water and wastewater supplier (April to June 2015).
- Complete the first review of programme management ('gateway review') (April to June 2015).
- Complete the transition of programme management from Open Water Markets Limited (OWML) to Ofwat (April to June 2015).
- Design the new retail water and wastewater licensing arrangements (July to September 2015).
- Consult on the supplier of last resort arrangements, to support the UK Government's retail exit work (July to September 2015).
- Consult on the full suite of documents for the operation of the new market (July to September 2015).
- Finalise licences for service providers operating in the new market (January to March 2016).



- Open the licence application process for new service providers (January to March 2016).

Water 2020

What it is

Through the implementation of the Water Act 2014 and the delivery of the 2015-20 price controls, the water sector will see significant changes over the next five years. These changes provide real opportunities to improve how services are delivered to customers and for the environment in the longer term. By using all of our regulatory tools and considering a broad package of changes, we can help ensure the sector continues to be incentivised to deliver the best service for customers.

In line with the new legislation, this programme will deliver a roadmap for introducing markets for wholesale water and wastewater services in England to increase the scope for entry and more efficient outcomes and innovation.

To ensure that the regulatory framework facilitates these changes and continues to protect customers, the environment and wider society, the programme will also develop the framework for a proportionate price setting process for the 2019 price review that builds on the success of the 2014 price review and includes a review of lessons learned. The new framework will:

- build on what we, and others, have learned from the 2014 price review;
- continue to place engagement with customers about the outcomes they want at the heart of the process;
- enable these providers to deliver services that customers want in an efficient way at prices they can afford;
- be consistent with our enduring principles for setting price limits;
- take account of water companies' statutory environmental and quality obligations; and
- take account of our statutory duties and the guidance we receive from the UK and Welsh Governments. This includes any new policy guidance that is issued during the next five-year period.

The programme will also include our evidence to the CMA on our final decision ('final determination') on Bristol Water's price controls for 2015-20. This was after Bristol Water asked us to refer our decision to the CMA.

We will continue to deliver this programme after the end of 2015-16.



What we will deliver

This programme plays an important part in building trust and confidence in water for current and future customers. In developing future markets and further reforming our regulatory approach, the programme will incentivise water companies to do the right thing by customers, wider society and the environment today and tomorrow.

This will mean that customers get the services they want and are willing to pay for, at the level of safety and reliability that they want, and delivered in socially, economically and environmentally sustainable ways. It will also ensure that the sector is viewed as a sustainable investment opportunity.

In particular, with our partners we will:

- deliver the design of the new upstream market arrangements for England, as set out in the Water Act 2014;
- set the framework and determine the price controls for non-household retail services beyond 2016-17;
- set the framework for determining the price controls for all appointed service providers in 2019, following a full review of the lessons learned from the 2014 price review;
- develop the necessary charging arrangements to support the upstream market arrangements; and
- contribute to any government reforms to abstraction licensing in England and Wales.

How we will deliver it

- Provide evidence to the CMA's process for deciding Bristol Water's final determination to help ensure an outcome that is in the best interest of customers.
- Capture and embed the key learning from delivering the 2014 price review, drawing on stakeholders' experiences of the process.
- Ensure that monopoly water companies are delivering the commitments included in their price controls for 2015-20.
- Develop and consult on our approach for resetting monopoly water companies' price controls beyond 2016-17 for providing retail services for non-household customers in England and Wales.



- Carry out a series of pilot studies with water companies to develop a better understanding of wholesale services, the costs of these services and the underlying economic characteristics.
- Develop and consult on a clear definition of the wholesale services that existing water companies deliver. This will inform the implementation of the upstream market reforms in the 2014 Water Act and the design of the 2019 price review methodology.
- Carry out an assessment of the role of markets and regulation in providing different water and wastewater services to inform both the areas where our regulatory framework would benefit from further reform for the 2019 price review – and where we will facilitate competition in the short and medium term, taking into account policy guidance from the UK and Welsh Governments.
- Develop and consult on our methodology for carrying out the 2019 price review – and implement it.
- Consult on and publish charging rules for all water companies, subject to the publication of charges guidance by the UK and Welsh Governments.

Key dates in 2015-16

- Provide evidence to the Competition and Market Authority's process for deciding Bristol Water's price controls for 2015-20 (April to June 2015, and further evidence provided July to September 2015).
- Capture the key learning from delivering the 2014 price review (July to September 2015).
- Consult on short- to medium-term challenges facing the sector and the scope for using the Water Act competition framework and regulating differently to address these challenges (July to September 2015).
- Consult on charging rules following guidance from the UK and Welsh Governments (July to September 2015).
- Publish final 2014 price review reconciliation rulebook (July to September 2015).



- Consult on initial proposals for areas for regulatory change in the 2019 price review, showing how our approach to regulation of water and wastewater services is expected to evolve further over time. And carry out possible additional specific consultations on key areas if appropriate (October to December 2015).
- Publish a consultation on our proposed approach to setting non-household price controls from 2017 (January to March 2016)
- Publish charging rules taking account of guidance from the UK and Welsh Governments (January to March 2016).

Thames Tideway

What it is

The Thames Tideway Tunnel is a large, complex investment project to reduce overflows of untreated sewage into the River Thames. The UK Government has endorsed the project as the best-value solution to reduce sewage discharges and to meet European legal requirements. Our role is to regulate the Infrastructure Provider (IP) that ultimately operates the Thames Tideway Tunnel, once it has been built, and to do so in a way that delivers value for money outcomes for customers, the environment and wider society. We are working with the UK Government, Thames Water and other stakeholders to ensure that the way in which we will regulate is well understood, which is important in supporting the delivery and financing of the Tunnel.

We will continue to deliver this programme after the end of 2015-16.

What we will deliver

Thames Water and the IP are clearly accountable for the obligations each is required to deliver for the project. We will deliver:

- a regulatory framework that enables us to regulate the Tunnel in operation in the best interests of customers, the environment and wider society; and
- new approaches for delivering and regulating large projects that produce better outcomes for customers across England and Wales.



How we will do it

We are working with the UK Government, the Environment Agency, Thames Water and other stakeholders to implement a regulatory framework for the IP so that the Thames Tideway Tunnel:

- is delivered effectively and efficiently;
- costs no more than necessary; and
- delivers for customers the best value for money possible.

While Thames Water is procuring the IP, we are monitoring the procurement and evaluation processes throughout. We will also award the successful bidder a project licence after first assessing its ability to hold a licence. We will regulate the IP under the terms of the licence.

Key dates in 2015-16

- Consult on the award of licence to preferred bidder for the Infrastructure Provider (April to June 2015). This is dependent on decisions from the UK Government and the procurement of an Infrastructure Provider.
- Amend Thames Water's licence to ensure that it works in parallel with the Infrastructure Provider's licence (April to June 2015). This is dependent on decisions from the UK Government and the procurement of an Infrastructure Provider.
- Award licence to preferred bidders of Infrastructure Provider and make associated amendments to Thames Water's licence (July to September 2015). This is dependent on decisions from the UK Government and the procurement of an Infrastructure Provider.

Business transformation

What it is

The scope of this programme includes the changes and new ways of working we need to embed to achieve our vision as a trusted and respected regulator, working at the leading edge. It focuses on making Ofwat a great place to work, and on increasing our agility and flexibility. It will ensure we have the systems, processes, structures, facilities and technology to support all of our people in making the best



contribution they can to delivering benefits for customers, the environment and society.

This programme includes work to:

- develop our people;
- develop and embed efficient and effective programme and project management; and
- implement efficient and effective governance structures and processes.

We will continue to deliver this programme after the end of 2015-16.

What we will deliver

Delivering our new strategy requires us to challenge ourselves constantly to ensure that our regulation is as effective as it can be. It also requires us to make significant changes to the way we work.

We aim to become a learning organisation, making the best use of our resources, crucially including getting maximum value from the skills and experience of all our people, and working in partnership with others to achieve our visions for the sector and for Ofwat.

In particular, we will deliver an organisation that:

- is dynamic, flexible, responsive, well led and well managed, and that supports effective programme-based working using different individuals and skills;
- has a positive culture supported by appropriate technology and infrastructure, and is a great place to work and develop;
- makes excellent strategic use of resources and demonstrates value for money;
- has compliant processes and effective and proportionate governance;
- is transparent and understands the information it holds;
- has people with the right skills, experience, values and behaviours to support the delivery of our new strategy;
- uses external resource to supplement our own people, allowing us to flex the skills and expertise to which we have access in an efficient and agile way;
- is a learning organisation that continually looks for improvement;
- values and supports great management, both in terms of delivery, through programmes and projects, and people; and
- values and supports leadership throughout the organisation.



How we will do it

- Create and support a flexible, well-skilled workforce.
- Embed culture change across the organisation through programmes and projects.
- Create and implement training and development programmes to provide Ofwat staff with the necessary skills and support to carry out their roles.
- Implement the internal technologies and systems we need to support a culture of collaboration, programme and project management and flexible working.
- Create centres of excellence for programme management, procurement and stakeholder engagement to provide guidance and support, best practice and frameworks to staff.
- Deliver a new website that will enable us to communicate with stakeholders in a more dynamic and user-friendly way.

Key dates in 2015-16

- Implement an improved casework management system (April to June 2015).
- Implement our leadership and management programme (April to June 2015).
- Implement our new internal governance framework and principles (April to June 2015).
- Reduce our office space and implement a new open plan, flexible working space (July to September 2015).
- Implement a new corporate website (July to September 2015).
- Implement our approach to talent management, acquisition and retention (October to December 2015).
- Implement a public portal to view the register of the Water Services Regulation Authority (January to March 2016).



Compliance and assurance

What it is

This programme will build on and monitor the changes we introduce through our business transformation programme. It will help improve how we assure ourselves and others that we comply with our own policies and external requirements. It will also help us respond to stakeholders' expectations.

The programme includes internal projects on developing Ofwat's:

- corporate governance;
- programme governance;
- financial management and governance;
- information governance and infrastructure;
- transparency;
- people; and
- culture of compliance and assurance, transparency and learning.

We will continue to deliver this programme after the end of 2015-16.

What we will deliver

While our strategy and planning programme will determine what we are trying to achieve and what we will do to achieve it, our compliance and assurance programme will tell us whether we have done what we said we would do.

This programme will also ensure that we operate the systems and process we have in place to ensure compliance with our obligations and report on our compliance. Many of these systems and processes, including our programme and corporate governance, are being developed as part of our business transformation programme. But once developed, they will be monitored and managed in our compliance and assurance programme.

This programme will make sure we deliver our strategy and live up to the high standards required of a public body with a leadership role in the sector. It will help maintain trust in us as an effective regulator that is:

- well run;
- operates efficiently and delivers value for money within the legal and Government frameworks;
- has a learning culture; and



- is a great place for our people to work.

In particular, we will ensure we have the following.

- Efficient and effective systems, processes and information for governance and assurance that ensure we comply – and that we can demonstrate compliance – with:
 - our policies;
 - external requirements; and
 - stakeholder expectations for the way we operate.
- An organisation that has a strong culture of compliance and assurance, and that learns from its successes and mistakes.

How we will do it

- Provide effective and timely management information on:
 - delivery across Ofwat's portfolio of programmes;
 - the implementation of our new ways of working; and
 - the embedding of our values and behaviours.
- Improve financial management, governance and compliance to maximise value for money.
- Improve our handling of customer enquiries, complaints and internal reviews.
- Ensure robust internal systems to assure our compliance, and an open and learning approach to internal and external audits.
- Encourage a sound and proportionate culture of compliance, assurance and transparency.

Key dates in 2015-16

The key dates for this programme are a combination of internal and external reporting requirements and meeting schedules (for example, our annual report and accounts, and Board meetings), which we have not included in this forward programme.



Financing the delivery of our work programme

We aim to deliver our legal duties 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. So we continuously seek improvements in the value for money we deliver and innovation in the ways we work.

In 2015-16, our licence fee will be £21.159 million. This is equivalent to about 0.02% of the sector's turnover. This will be offset by a credit note of unspent funds, which we have returned to companies in 2014-15. So, our net licence fee will be less than £20.0 million.

Our business transformation programme has already enabled us to absorb an absolute reduction in our budget of about £7 million compared with 2014-15. Value for money is a key theme of our compliance and assurance programme. It will be a key focus for us over the next five years to ensure we deliver maximum benefits to customers for the resources we have available.

Other licence fees

We will recover the cost of regulating the Thames Tideway Tunnel project separately from Thames Water. The proposed estimate for this special fee is £2.0 million.

We are also recovering the cost of the Open Water programme from water companies separately. The cost of the programme is ring fenced from our other regulatory work. The cost of the programme for 2015-16 is subject to a cap of £7.13 million.



Summary of responses to our draft forward programme consultation

We consulted on our draft forward programme between 15 January and 5 February 2015. We received 18 written responses. We also received some further feedback direct from stakeholders through discussions we had with them.

Most of the comments we received were about how we deliver specific programmes. We will consider these as we deliver our work programme over the coming year.

Below, we highlight the main themes that came out of the consultation and our response to the issues raised.

Our new strategy, priorities and overall work programme

Most respondents broadly supported our strategy, our priorities and work programme. One respondent suggested that we include a further priority on engaging with stakeholders.

We welcome support from stakeholders and the many expressions of interest in working with us. Speaking with and listening to stakeholders is central to our new strategy and how we will deliver our work. So we do not consider another priority in this area is necessary.

Our approach to the forward programme

Two respondents criticised our approach to consulting on our draft forward programme. They thought we should make our consultations more accessible and clearer to find on our website. We will be exploring how we can make our consultations more accessible as part of our project to implement a new corporate website (see page 41).

Two respondents wanted more information on our work beyond 2015-16. On page 24, we confirm that we will be publishing our five-year strategic business plan during 2015-16 to provide stakeholders with more transparency about our long-term plans and budget.



Resilience

Many respondents expressed an interest in our work on resilience and highlighted issues they hope we will consider in developing our thinking. We are considering all resilience issues strategically across our work, in the context of the strategic policy guidance we receive from Defra and the Welsh Government. We have asked an independent group, chaired by Jacob Tompkins, Managing Director of Waterwise, to advise us in the following areas.

- What is resilience in relation to the provision of water and wastewater services?
- What do service providers in the sector need to consider as they think about how best to provide resilient water and wastewater services?
- What does Ofwat need to consider as it thinks about how best to regulate the water and wastewater service providers, having regard to its statutory duties in the round (including its new duty on resilience)?

An Ofwat representative will sit on the group as an observer. We will also provide secretariat support. The group is expected to operate in an open and transparent way. It will need to engage with others, both from the sector and more widely. It will be particularly important for the group to consider early on how best to involve key stakeholders.

Better regulation

Two respondents asked if we would be carrying out any specific work on regulatory simplification. A further respondent asked about our interpretation of the better regulation principles.

We aim to follow the principles of better regulation, which includes proportionality and targeting, in all of our work. Our work on better regulation, which sits within our strategy and planning programme, includes work to make sure that the better regulation principles are understood and built into all our work.



Regulatory reporting

In our draft forward programme we proposed that we would publish collection requirements for the information that companies will need to publish about their performance in 2015-16 in January to March 2016. Some respondents highlighted this would be too late and may not allow companies sufficient preparation time to ensure that robust reporting is in place. Some respondents also asked about the link to reporting performance against their 2015-20 performance commitments.

In February 2015, we published our [reporting requirements, including the regulatory accounting guidelines for 2015-16](#). This follows our consultation in September 2014 and further engagement with the sector. It states we will be publishing our final requirements in October to December 2015. We included the reference in the draft forward programme to specifying requirements in January to March 2016 in the event that there would need to be updates to those requirements that we have already issued. This is consistent with the approach that we have adopted for the past few years.

In March 2015, we published our '[Consultation on the PR14 reconciliation rulebook](#)', which explained how we propose to take into account companies' performance over the 2015-20 period at the 2019 price review. We are also considering upstream service definitions and reporting costs of these services.

So in the update, we may signal revisions following consultation and feedback from the sector or any other changes that are required to implement new legislation. Any requirements will align with our risk-based approach and are likely to be information that companies will require themselves, such as reconciling their performance with their 2014 final determinations.

In our information requirements document, we acknowledge the problems even minor late tweaks could cause and have revised this to say we will finalise any changes to the requirements by the end of 2015.

Learning lessons from the 2014 price review

Many respondents emphasised the importance of learning lessons from the 2014 price review. Some asked whether we would be carrying out a consultation.

We have contacted the companies and other stakeholders to encourage their direct involvement in this review rather than carrying out a consultation. We will carry out the review ourselves but with some elements of independent facilitation.



Retail market opening

Many respondents highlighted the importance of opening the new retail market for non-household customers by 1 April 2017 efficiently and effectively.

To reflect its importance and the need for transparency for all stakeholders we have made the opening of the new non-household retail market a distinct programme of work. In February 2015, we also wrote an open letter to all companies to [update them on the arrangements for opening the new market](#). And we published an [integrated plan setting out the activities being carried out by Defra, Ofwat, Open Water, and water companies](#). We will update this as the programme develops.

Thames Tideway

Some respondents questioned our role in relation to the Thames Tideway Tunnel. They considered that we should be doing more to protect customers. We think that the responses largely indicate there may be a misunderstanding of the role that we and other stakeholders have in relation to the tunnel. So we will publish further information a guide for customers on our website to make this clearer. It is Thames Water's and the future Infrastructure Provider's responsibility to communicate with customers about the tunnel and its construction. And we would expect this to include working with appropriate customer representatives, such as the Consumer Council for Water.

Business transformation/Compliance and assurance

A number of respondents supported for the internal work we are doing to change our ways of working (business transformation) and embed a culture of compliance (compliance and assurance). Some respondents emphasised that we need to be transparent and proportionate in this area. We will continue to report transparently on our performance and governance in our annual report and accounts.

Financing our work programme

In our draft forward programme consultation we proposed an overall budget and licence fee of £20 million plus £1.5 million for Thames Tideway and – subject to ongoing planning work – up to £10.5 million for Open Water programme costs.



A number of respondents noted the ambitious scale of our work programme, particularly the work required to implement the Water Act 2014 reforms, making an early start on delivering it and the value that water companies and other stakeholders place on a collaborative approach to developing the 2019 price review.

We recognise the significant extra work required to implement the Water Act and the risk of delaying preparatory work for the 2019 price review. So we asked HM Treasury to consider a modest increase in our 2015-16 budget. We also requested an increase in the original 2015-16 budget for regulating Thames Tideway to recognise changes in the project timetable that are outside of our control.

HM Treasury approved our business case in full, which means that the 2015-16 overall licence fee will be £21.159 million and the licence fee for Thames Tideway will be £2 million. We will use the additional budget to largely support our Water 2020 programme. It will, among other things, allow us to make a timely start on our preparatory work for the 2019 price review, working with companies and other stakeholders. We will recover the cost of the Open Water programme from water companies through a separate licence fee. For 2015-16 this will be £7.13 million.

Some respondents – companies in particular – welcomed the budget reduction we proposed in our draft forward programme. They noted that a reduction in our licence fee would help the sector keep costs down for customers. Although it is higher than we initially proposed, our final licence fee still represents a reduction of £7 million compared with our 2014-15 budget. It is also offset by a credit note for unspent funds that we returned to companies in 2014-15.



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 leading economic regulator, trusted and respected, challenging ourselves and others to build trust and confidence in water.



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