
Strategy and proposals for 2016/17 Work Programme

Consultation

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OFFICE OF RAIL AND ROAD

Making a positive difference for energy consumers



LEGAL SERVICES BOARD



About this document

This is a consultation on our proposals for the 2016/17 work programme for the UK Regulators Network (UKRN).

We would welcome views on our new approach by Friday 11 March 2016. For further information on how to respond please refer to Annex 1 of this document.

Please contact the UKRN Office with any queries: Claire.Simpson@ofwat.gsi.gov.uk

About the UK Regulators Network

UKRN is a network formed by 13 of the UK's sectoral regulators:

- The Civil Aviation Authority (CAA)
- The Financial Conduct Authority (FCA)
- the Payment Systems Regulator (PSR)
- Office of Communications (Ofcom)
- Office of Gas and Electricity Markets (Ofgem)
- Water Services Regulation Authority (Ofwat)
- Office of Rail Regulation (ORR)
- Northern Ireland Authority for Utility Regulation (Utility Regulator)

Monitor, the sector regulator for health, participates in the network and its projects as appropriate. The Water Industry Commission for Scotland (WICS) and Legal Services Board (LSB) are contributing members which generally participate as observers.

Further to this we are pleased to announce the addition of two new contributing members, the Single Source Regulations Office (SSRO) and the Financial Reporting Council (FRC).

Contributors to this document

This document has been produced by the UKRN Office in consultation with all UKRN members.

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I. Foreword – Working together

Welcome to the UKRN proposals for our strategy and work programme for 2016/17. Over the past two years we have made significant progress in a more collaborative approach across the membership of UKRN; whilst recognising the varied nature of the sectors which we each individually regulate. This has enabled us to build the foundations for a more enduring network and developing a future programme of work which continues to encourage this is essential. Over the coming year we will focus on delivering results in those areas where we can make the most impact by working together. Not just in policy, but also engagement and opportunities arising from the network in respect of managing our people and resources.

We have delivered significant progress since we established UKRN in March 2014 against the UKRN objectives. This includes:

- Investor guide – This guide gave an accessible overview of the UK’s regulatory landscape, providing greater clarity to those interested in investing in British infrastructure
- Infrastructure interactions – a UKRN led, industry adopted a self-regulatory solution to make building new infrastructure quicker, easier and cheaper
- Accessibility leaflet – vulnerable consumers have been able to use a leaflet produced by UKRN to identify the free support service available to them from different utility, telephone and transport companies
- Cost of capital – Members were able to adopt joint principles on the calculation of the cost of capital, as well as improving the information available to investors on the methodology used by different regulators.

We have also seen within our own organisations the benefits to our own staff from broadening personal networks; sharing intelligence; and the wider opportunities for collective engagement with stakeholders.

Not all areas of policy are cross-cutting but where we can deliver better outcomes for our stakeholders by working together we firmly believe we should. We have evidenced this over the last two years and our new programme of work will look to build upon this over the next 12 months. It reflects the UKRN objectives and also aims to provide value to all of our members, whilst recognising that the portfolio of work for each member will vary depending on the relevance to the work they do. We will keep the work under review as we go through the year and re-prioritise if necessary.

During the coming year we will be growing the UKRN office and evolving our governance arrangements to deliver in line with our new strategy and work programme. The Business Improvement Group gathers experts with an operational background and will be responsible for the delivery of our People and Resources workstream. In November we welcomed our new UKRN Director, Claire Simpson and she will be drawing upon our staff within the network to put together

a new team of people as the existing secondments come to an end. We will also carry out further work to ensure that our office infrastructure best supports the network.

At the end of March, I will be handing the Chair of UKRN post to Dermot Nolan, Ofgem Chief Executive but look forward to continued active involvement in UKRN.

A handwritten signature in black ink, appearing to be 'Cathryn Ross', written over a faint grid background.

Cathryn Ross

2. Introduction

- 2.1. UKRN was established by its members on 19 March 2014, and since this date members have developed strong links with each other and introduced a culture of collaboration across the network. UKRN has provided the structure for regulators to deliver unique policy projects, which combine their strengths and assist them in providing benefit to stakeholders including consumers and investors. Figure 1 below sets out some of UKRN's achievements to date.
- 2.2. UKRN aims to build upon this success by developing a programme of work which seeks out opportunities for collaboration between members in a flexible and efficient way. Our aim is to develop a challenging programme of work, driven by the priorities and issues that members are facing within their own organisations. For example, we all have to find better, smarter ways to make best use of resources that are available. Through our 'People and Resources' workstream we will look to "unlock" some of the issues currently inhibiting us from looking to the network to support that more.
- 2.3. Our programme will recognise the varied nature of the sectors we regulate and not all policy projects will be relevant to everyone. This programme will allow members to participate at a level best suited to their needs and operate flexibly enough for members to proactively identify collaborative projects and engagement opportunities which deliver benefits.
- 2.4. There will also be more opportunities for our stakeholders to play an active role in UKRN through our 'Engagement' workstream. We will look to put together more events with opportunities for collaboration, such as the UKRN and Whitehall and Industry Group event we held in February 2016. During the year we will also be looking at how stakeholders can more actively participate in some of our policy projects.

Working together - UKRN's strategy and objectives

- 2.5. We have proven that we can achieve a lot when we work together. We do recognise the varied nature of the sectors that we regulate and the work we have done to date has identified specific areas where we can deliver better outcomes together rather than apart. For example, producing the Accessibility leaflet (which outlined the free support services offered to vulnerable customers by transport, telecoms and utility companies) demonstrated we could get a far greater coverage of consumers and their representatives by working together.
- 2.6. UKRN's objectives are as follows:
 - *Coherent and consistent economic regulation across sectors*: we will give a clear joint view where cross-sector regulatory agreement or consistency is needed and will ensure that our actions deal effectively with cross-sector issues.
 - *Affordability and empowerment*: we will work to understand cross-sector issues related to affordability of services, and work on consumer empowerment to ensure that consumers in regulated markets have the information and other tools necessary to engage effectively in markets.

- *A positive environment for efficient investment:* we will work together to improve the environment for efficient investment in the UK’s infrastructure.
- *Efficient regulation:* we will make better use of scarce expertise and resources in order to improve outcomes or reduce cost.
- *Promotion of competition in the interests of consumers:* we will work, including with the CMA and through the UKCN, to improve the use of competition and regulatory levers where appropriate, making markets work better to improve outcomes for consumers.
- *Better understanding of the effectiveness of economic regulation:* we will explain and make best use of economic regulation, helping to raise understanding of what independent economic regulation can achieve, when it works best and how we can improve.

Figure 1: UKRN achievements to date

Year 1	
'Investor Guide'	An accessible overview of the regulatory framework for UK's infrastructure sectors
UKRN Expert Panel	A panel bringing independent expertise to the network from academia, investment banking, consumer issues and regulation
Reaching out to investors	UKRN presented to large groups of investors to explain the benefits of the independent regulatory regime in the UK at the InfraNews Infrastructure Investors' Forum in February 2015 and the Infrastructure Investor Berlin Summit in March 2015
Sharing best practice	Joint reviews of work undertaken by members on major consumer issues to enable sharing experience on tackling common issues. These included barriers to consumer switching and engagement and understanding affordability pressures .
Facilitating networking	The first UKRN networking event and conference strengthened ties between colleagues from different sector regulators
Creating the framework for cooperation at all levels	Regular meetings of CEOs, Senior Representatives, Principals and UKRN project leads from across the network.

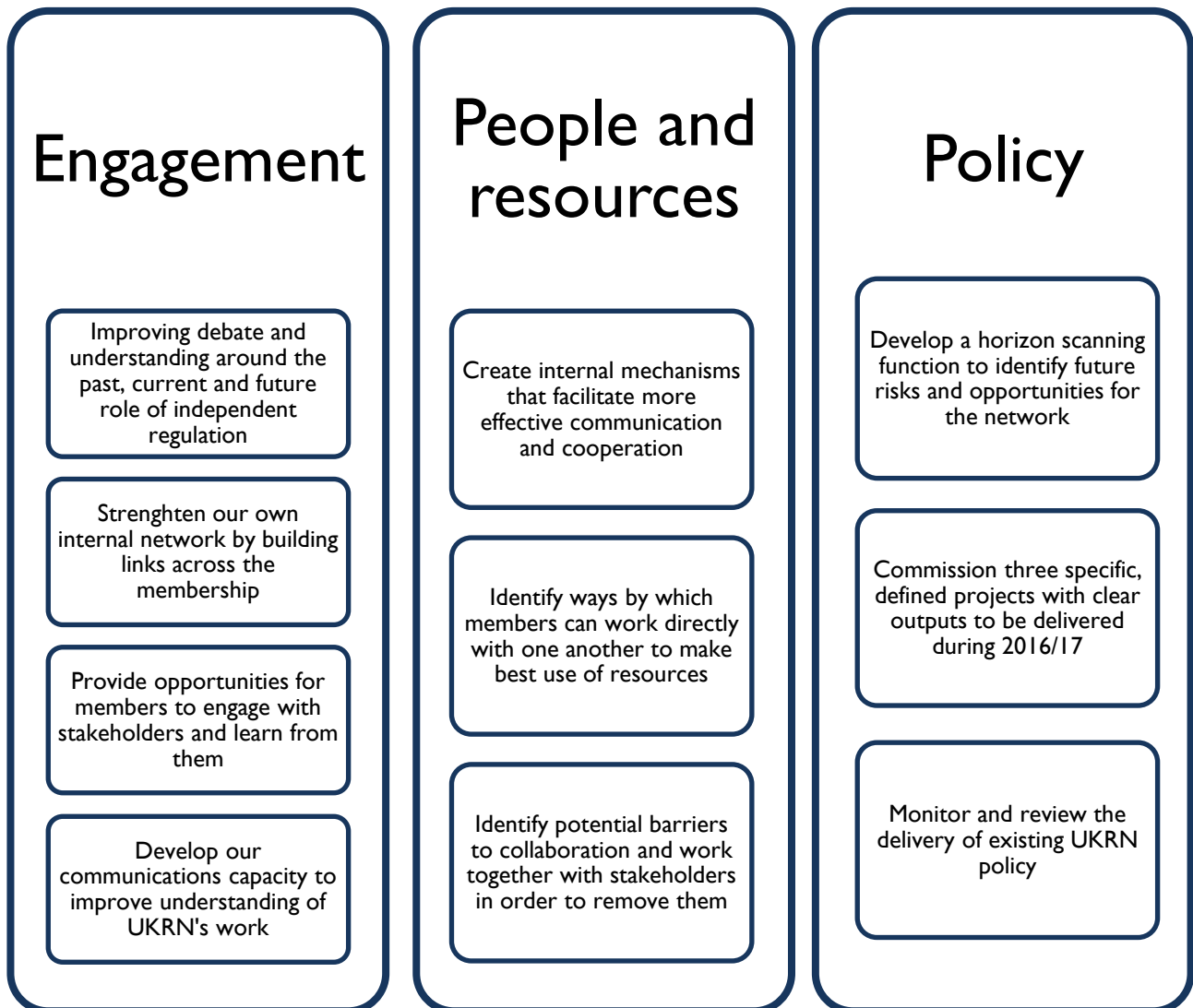
Year 2

Fostering collaboration in devolved regions	<p>A UKRN hosted networking event in Glasgow bringing together regulators and the Scottish Government enabled attendees to discuss issues regulators are currently grappling with in devolved regions</p>
Improving interactions between network operators	<p>A self-regulatory solution aimed to make building new infrastructure quicker, easier and cheaper in particular for network operators during the installation of new infrastructure</p>
Enhancing the joint resilience of members	<p>The Cross Regulator Emergency Plan provides the protocol for engagement between regulators in the event of an emergency</p>
Continued collaboration on the cost of capital	<p>The production of an annual comparison document and the maintenance of a central depository of relevant information have also bolstered transparency</p>
Strengthening stakeholder relationships	<p>Delivering a successful roundtable event with “Whitehall and Industry Group” to discuss the economic regulation regimes and consideration of the future challenges it faces.</p> <p>Co-hosted the Regulatory Policy Institute annual Westminster conference to discuss the evolving purpose and functions of independent regulation, the role of regulation in facilitating investment and regulatory challenges in the financial sector</p>
Improving transparency of help available to consumers with accessibility issues	<p>Five regulators worked together to produce a leaflet which provided the elderly, ill and disabled with information on how to access support when dealing with support services</p>
Building on our shared work on consumer issues	<p>Consumer policy specialists from across the membership came together during a workshop to discuss how regulators can progress the regulatory debate on the most effective means of serving consumers’ interests</p>

3. Structure of the work programme

3.1. Our forward programme will consist of three workstreams; ‘Engagement’, ‘People and Resources’ and ‘Policy’. The structure aims to enhance how the network engages with stakeholders; utilise joint resources more efficiently and share expertise to strengthen the quality of the policy work we deliver. Figure 2 sets out the objectives of each of those workstreams.

Figure 2: Workstreams within the new UKRN work programme



4. Engagement workstream

- 4.1. UKRN has a role in facilitating joint engagement with stakeholders and promoting the value of independent economic regulation. Further strengthening internal relationships within the network also creates opportunities to share expertise and experience on a wide range of policy issues.
- 4.2. The UKRN office does not have an advocacy role on behalf of its members, however where it is possible to co-ordinate interaction from members and stakeholders we will seek to do so. For example, during BIS' consultation on the inclusion of economic regulators within the ambit of its Business Impact Targets, the UKRN office was able to facilitate communication between the regulators and the Better Regulation Executive and Regulatory Policy Committee who are driving this forward.

Evolving Independent Regulation project

- 4.3. This is an important engagement project introduced in 2015/16 and it delivered opportunities for discussion and debate such as the WIG-UKRN event in February 2016. This event engaged stakeholders in discussions about the challenges facing economic regulation. We believe there is still more work we can do engaging with stakeholders on an evolving and longer term basis, including:
 - Improving understanding among policy-makers around the past, current and future benefit of independent economic regulation.
 - Encouraging discussion with stakeholders around economic regulation and how it should evolve in the future.

Communicating the work of UKRN to our stakeholders

- 4.4. We are looking to increase our ability to access stakeholders through communications. This includes:
 - Raising awareness of the benefits delivered by UKRN through improved use of publications and communications (e.g. use of digital comms, targeted campaigns with stakeholders.)
 - Building on the skills of the UKRN office by appointing a UKRN communications lead
 - Creating a network across the communications teams of individual members

Joint engagement with external stakeholders

- 4.5. We will look to increase our joint engagement with key external stakeholders, In addition to the engagement around “evolving independent regulation” we will also facilitate events and discussion of issues affecting the following areas:
 - Consumer policy

- Investment
- Innovation
- Infrastructure

4.6. Where appropriate we will partner with other organisations.

Strengthening our internal network

4.7. Over the past two years we have developed a number of working groups on specific policy or operations issues and strengthened networks across the UKRN membership. These groups build links across the network, while also delivering defined outputs such as horizon scanning and policy updates for the benefit of our members. We are looking to build upon this and develop new networks. For example, we are developing a graduate network; a strategy network and hope to foster links across investor relations teams across the regulators where appropriate.

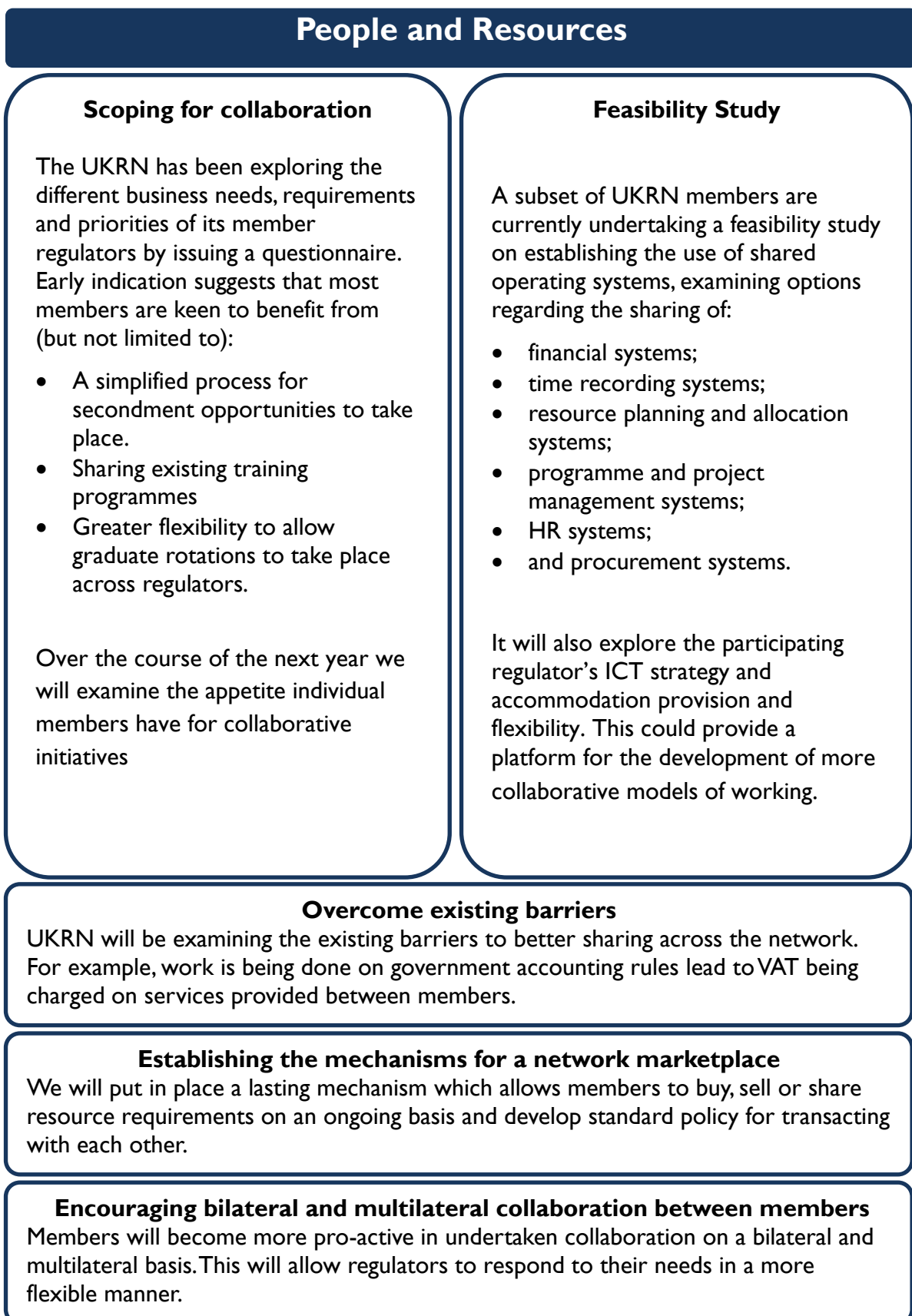
UKRN Annual Conference

- 4.8. The UKRN is holding its Annual Conference in April 2016 which brings together colleagues from across the membership of regulators. This is the opportunity for staff across the regulators to learn more about the current topical issues in regulation from notable speakers including the Secretary of State for Business Sajid Javid, the incoming and outgoing UKRN Chair and the UKRN Expert Panel.
- 4.9. Colleagues will have the opportunity to participate in a number of workshops to share expertise and build stronger networks across the membership. Through the benefit of being part of the membership, this full day event is open to staff from across the UKRN and will showcase the work of the UKRN to date as well as providing individual regulators a platform to promote their work to their peers.

5. People and resources workstream

- 5.1. As regulators, we all have to find better, smarter ways to make best use of resources that are available.
- 5.2. UKRN has a role to encourage and facilitate arrangements to share people and resources across the network. We have already explored new sharing opportunities through a questionnaire fielded to members. Furthermore, we will be exploring ways to encourage more direct means of collaboration between members on a bilateral or multilateral basis.
- 5.3. We will also look to “unlock” some of the issues currently making sharing and collaboration difficult.
- 5.4. HM Treasury published “A better deal: boosting competition to bring down bills for families and firms” in November 2015 in which UKRN committed to producing firm plans in spring 2016 for identifying and delivering business improvements on a bilateral and multilateral basis. The programme of work we propose below (Figure 3) will look to facilitate the sharing of expertise and specialist skills, as well as putting in place lasting mechanisms to embed collaboration into members’ workforce and resource planning.

Figure 3: Summary of the people and resources workstream



6. Policy Workstream

- 6.1. UKRN's policy projects have allowed regulators to examine cross-sectoral issues. Working on these policy projects has given individuals at regulators practical experience of analysing issues from a breadth of perspectives and collaborating with experts from different fields.
- 6.2. In many instances, UKRN has been able to deliver outcomes that address issues in multiple sectors. For example, during the infrastructure interactions project we were able to deliver a voluntary regime which facilitated improved communication between network operators across different sectors. We were able to consult with major water companies, as well as National Grid and Network Rail, allowing us to construct a solution that appreciated the issues that each sector faced.
- 6.3. In order to build on our past achievements, we intend to take a new approach. Instead of our previous approach of working on seven to eight projects per year, we intend to commission a smaller number of specific projects – three to four projects each work programme year.
- 6.4. These projects will operate on a narrowly defined scope with clear outputs and on shorter time frames. Projects will produce valuable insight and research into issues which are relevant to the work already being carried out in different sectors.
- 6.5. A member regulator would lead each project and be responsible for its delivery. In addition to collaboration between members on projects, we will seize opportunities to partner with other organisations.
- 6.6. We are seeking an agile approach to our forward programme. We intend to ensure we can respond to pertinent issues coming out of horizon scanning and change direction when necessary.
- 6.7. We currently have a draft structure of the three year plan, although it is still in development and we would be open to proposals on topics that would be of relevance. In order to be agile in our approach, we will review the programme and changes will be made if agreed with the network. We will clearly state in the forward programme that this is indicative rather than confirmed.

Price Comparison Websites

- 6.8. We will continue our work on consumer switching through our work on online intermediaries, such as Price Comparison Websites (PCWs). We will assess the key benefits and risks to consumers of using online intermediaries for shopping around and switching. We will consider the actions that regulators have taken to address these risks, and ways in which the use of online intermediaries has been promoted in certain sectors. We are working closely with the CMA and this work will feed into their market study on PCWs that is to commence in mid-2016

Tools for measuring future trends in the Cost of Capital

6.9. This will be a review of the tools available to regulators for anticipating the likely cost of debt in the future, in particular, those utilised for investors, lenders and others in the wider financial community. This is important given that the cost of debt allowance is a crucial component in estimating the appropriate cost of capital. This review will assess (alongside a potential move away from RPI-based indexation) the costs, benefits and risks associated with adopting new tools.

Other proposed projects

6.10. Several other projects have been proposed as part of a work programme over the coming year:

- **Sharing data on customer vulnerability** – Building on our previous work focused on vulnerable consumers, UKRN could facilitate the design and implementation of a process where data capturing the specific needs of consumers in vulnerable circumstances could be shared by companies operating in different sectors.
- **Consumer engagement and challenge** – UKRN could consider how regulated companies have engaged with their consumers by using consumer challenge groups to certify the quality of their consumer engagement. We could identify new approaches to using consumer challenge groups, share knowledge and expertise and potentially the use of trials.
- **Alternative Dispute Resolution** – We will develop a shared understanding of the good characteristics for ADR, surveying both the benefits/risks they pose to consumers. We will also assess the overall effectiveness of the emerging ADR landscape, evaluating the variety of providers and models that are currently available.

Other projects proposed for the next three years

6.11. Other projects have been suggested as possible UKRN projects over the next three years:

- **Value of customer data as an asset** – An examination of whether there is a role for regulators in how this asset is managed. We will consider issues for regulators surrounding its collection, use and interface with consumers.
- **How customers make decisions about services** – An examination of the key factors that consumers consider when selecting a provider and extent to which information that is available to them.

Ongoing work by project teams and working groups

6.12. Weighted Average Cost of Capital (WACC) – The Cost of Capital Working Group will be continuing its ongoing work to improve the transparency of regulators' WACC calculations. This will involve:

- Publishing annual comparison documents that outline decisions relevant to WACC calculations

- Supporting fellow regulators to make comparisons of cost of capital decisions when required
- Introducing a bi-lateral or multi-lateral ‘peer-review’ process for relevant cost of capital decisions
- Seeking opportunities for commissioning joint external research where the benefits can be shared
- Encouraging and supporting secondments or loaning of staff between regulators

6.13. Cross Sector infrastructure interactions – Further to having agreed with network operators the production of an ‘access statement’ for the benefit of clients, the UKRN will be monitoring the success of its self-regulatory scheme that was adopted by industry. This will involve assessing the annual reports produced by network operators from December 2016 onwards.

6.14. Raising awareness of support services for vulnerable consumers – The UKRN will build on its work with the Accessibility Leaflet by leading a voluntary initiative with utility companies. The project team has already secure support from the major energy and water companies for a scheme to improve the availability of support services to their consumers who are vulnerable or disabled.

6.15. A cross-sector review of reward and penalty regimes to ensure resilience to extreme weather
The UKRN Adaptation working group will be carrying on its ongoing work of co-ordinating a cross-sector review by its core members (Ofwat, Ofgem, CAA, ORR and Ofcom) of the penalties and incentives that they have in place to encourage increased resilience to weather change.

Horizon Scanning

6.16. Using our links across the network to horizon scan issues relevant to members. This intelligence will then be disseminated throughout the network. It will also inform our forward work programme and where it is appropriate a joint approach may be taken to review any risks or opportunities. For example, a joint policy project or stakeholder engagement.

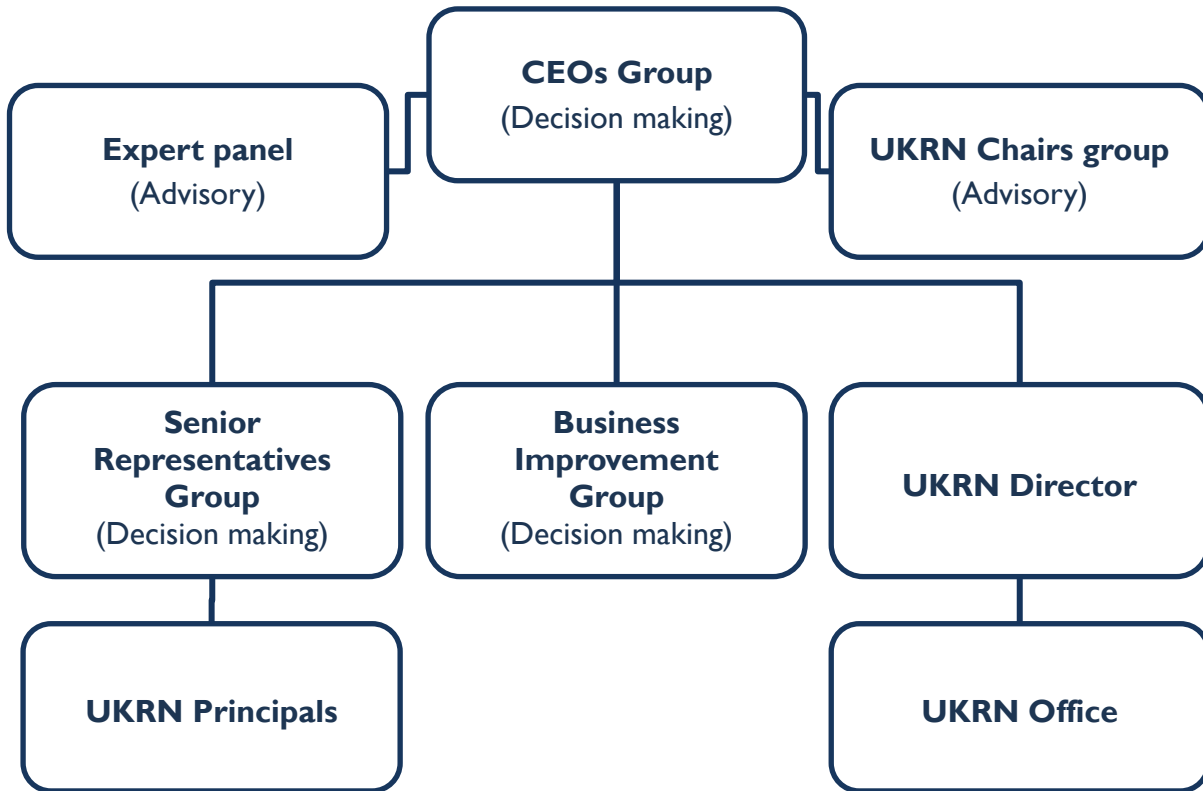
Small businesses as consumers

6.17. HM Treasury published “A better deal: boosting competition to bring down bills for families and firms” in November 2015 in which UKRN was committed to consider the protections needed by the smallest businesses across regulated sectors as part of its work in 2016. In our consumer focussed projects, such as price comparison websites, we will also consider the protections for small businesses.

7. About Us

- 7.1. UKRN is a member organisation. The strategy and forward programme is determined by the CEOs who meet on a quarterly basis. The Chair of the CEO group rotates on an annual basis.
- 7.2. The CEOs are advised by the UKRN Expert Panel which consists of four independent advisors who hold expertise in different fields. The Expert Panel also provides feedback and challenge to the programmes. They are:
 - Chris Bolt (former Chairman of ORR),
 - James Wardlaw (head of infrastructure investment practice at Campbell Lutyens),
 - Sharon Darcy (council member at Which? and member of Ofgem’s Consumer Challenge Group); and
 - Catherine Waddams (Director Centre for Competition Policy at University of East Anglia)
- 7.3. The Senior Representatives Group (SRG), which consists of Director level staff at each member regulator and is UKRN’s main steering group. It monitors delivery of the engagement and policy workstreams as well as the operation of the UKRN Central Office.
- 7.4. The Business Improvement Group, which consists of Director level staff with an operational focus, will monitor delivery of the People and Resources workstream. Both groups meet on a monthly basis.
- 7.5. Principals act as the point of contact for all UKRN matters within each member organisation. As well as managing matters related to the policy projects, Principals also help with any general enquiries from other regulators regarding their organisation.
- 7.6. The day to day work is managed by the UKRN office. The UKRN office undertakes secretariat duties for all the panels, manages the progress of the work programme and has oversight of all of UKRN’s activities.
- 7.7. Across UKRN we have established a number of working groups and networks. These allow colleagues to build relationships, work together and discuss topics of common interest. Some of these groups include the:
 - Adaptation working group
 - Consumer working group
 - Cost of capital working group
 - Graduate working group
 - Strategy working group
 - UKRN Lawyers network

Figure 4: UKRN structure



Annex I – responding to this consultation

7.8. We invite stakeholders' responses to this consultation to be made by 5pm on 11 March 2016.

7.9. Responses can either be emailed to claire.simpson@ofwat.gsi.gov.uk or posted to:

Claire Simpson

UKRN Office

Ofcom, Riverside House

2a Southwark Bridge Road

London SE1 9HA

7.10. If you have any questions, you can email claire.simpson@ofwat.gsi.gov.uk.

7.11. All responses should be accompanied by a covering sheet setting out:

- the name of the respondent, the organisation being represented and relevant contact details;
- whether you consider that part, or all, of your response should be treated as confidential, with any relevant explanation; and
- that you agree to the publication of your response on the UKRN website.

7.12. We will seek to publish all responses to this consultation on the UKRN website (where appropriate). If part of your response is confidential, it would be helpful if you could also submit a non-confidential version of your response redacting all confidential information.