

Enabling **improved customer outcomes** through a market that is **easier** to do business in



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## View from our Chairman

### On behalf of the Board, I am pleased to present MOSL's 2020/21 Business Plan.

It is important to recognise that the current year has been a challenging one for MOSL, following the completion of our move to Southampton and the transfer of knowledge to new colleagues, many of whom were new to the industry. Despite high levels of turnover in staff and the need to strengthen our senior leadership team, we have continued to deliver our core services to members and we remain on track to deliver within our approved budget for the year. However, the changes we have seen have not been without impact, and we know we need to improve delivery and rebuild trust.

The Board started this process with the appointment of Sarah McMath as MOSL's new CEO. Sarah's energy, her depth of knowledge across the water industry, the relationships she has in the market and her eagerness to meet with you to understand your concerns, all reflect the Board's drive to address the challenges MOSL faces.

Since joining MOSL in June, Sarah has already taken steps to address members' concerns and to ensure that we are an organisation that is fit to deliver both our core services and the necessary market improvements which, through our collective experience since market opening, we all now agree are needed. At the CEO Forum in November I was very pleased to see so many of us aligned on the market issues on which we need to work together to address.

“In developing this business plan, MOSL has undertaken a comprehensive review of all its current services, obligations, projects and activities to inform an evidence-based plan.”

In developing this business plan, MOSL has undertaken a comprehensive review of all its current services, obligations, projects and activities to inform an evidence-based plan. We have listened to the feedback provided through the consultation, and we have challenged ourselves as to how we can be more efficient in delivering against the commitments we are making. This has resulted in a comprehensive, robust and credible plan for the coming year. It will ensure that any gaps in MOSL's delivery of core services are resolved, that we deliver improvements to reduce the overall time, effort and cost of operating in the market for our members, and that we deliver our core services better.

I hope that you are encouraged by the robustness of the plan and the outcomes that we are committing to deliver. I now ask you, as both members and trading parties, to formally support this business plan to help deliver on our collective goal of making it easier to do business in the non-household market for the ultimate benefit of customers.

Jim Keohane



# Introduction from our Chief Executive



“Our primary objective for this business plan is to make the market an easier place to do business in.”

**I am proud to lead MOSL, an organisation with dedicated, enthusiastic and skilled experts providing essential services for the operation and development of the non-household retail water market.**

MOSL has undergone significant change over the past twelve months and we now have a team in place that is committed to delivering and enhancing those essential services for the market and ultimately for customers.

Since joining the organisation earlier this year, I have been struck by the energy and desire both within our team and across the market to move things forward and to ensure the market delivers on its promises to customers.

My team and I have engaged extensively with the market at all levels and it is clear that the issues that have prevented this to date are well known and understood. Our stakeholders have told us that the overall cost and complexity of operating in this market is greater than in other comparable markets, and that in particular, the high indirect cost of operation for its participants is impacting on its overall success. Our market accounts for around a quarter of the national water supply in England and Wales, and it is essential that we make it work. We need a market in which participants are able to create value and drive customer benefits, rather than one characterised by issues and frictions that reduce value. There is now a healthy impatience across the market for us all to ‘just get on and fix the issues’, however intractable they may have appeared up until now. We are encouraged by the feedback we have had from stakeholders on the role they expect MOSL to take and the drive for us all to work collaboratively to make this a reality.

In order to drive greater value for the market, our primary objective for this business plan is to make it an easier place to do business in. We will achieve this through the improved delivery of our core services and by fully delivering against the commitments we make to move the market forward.

To achieve this, we have set a budget of **£11.2m**. This represents an **increase of 4.7 per cent** versus our forecast outturn for 2019/20 (£10.7m) and will ensure a more sustainable market operator that will deliver on the commitments and the key themes of this plan: service excellence, market assurance, market improvement, governance and building capability. To put this in context, our budget represents an average cost of 17.3p per wholesaler and retailer for each of their SPIDs (compared to 16.5p in 2019/20).

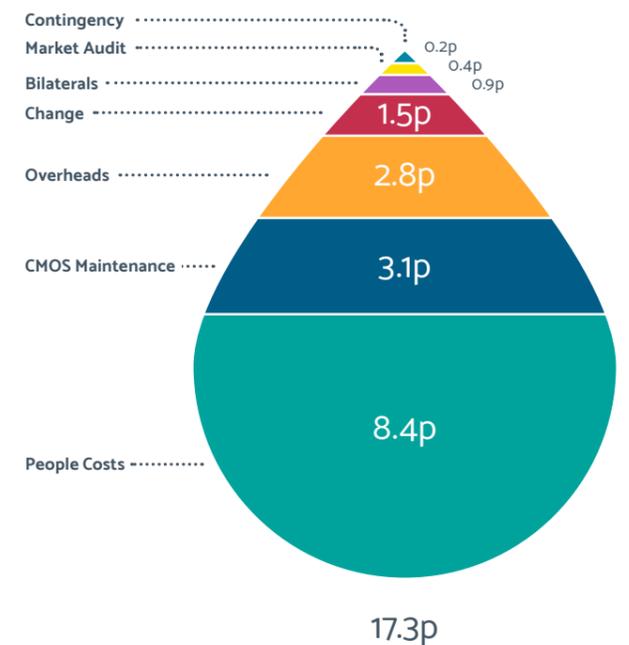
We have reached this position following the most comprehensive and robust business planning process we have undertaken to date. This included a review of our purpose, core services and capabilities, an assessment of the projects that will be required next year, the development of a detailed bottom-up workplan to drive our resourcing and budget forecast for 2020/21, and a comprehensive consultation exercise with our members and other key stakeholders. The feedback provided through the consultation has been particularly valuable in helping us to refine and finalise this plan. We have been encouraged by the broad support offered for our priorities and commitments and we have also welcomed the constructive challenges provided.

The most significant market improvement that many members and the regulator want is a faster, simpler, more reliable way of managing bilateral interactions between wholesalers and retailers. This will be the most fundamental development since market opening. The project team costs for 2020/21 have been included within the budget.

With the benefit of almost three years’ experience of market operation to inform us, and the open and constructive dialogue we have had with stakeholders throughout the business planning process, this plan is the result of a more mature and evidence-based approach to business planning for 2020/21. I am excited to share it with you and look forward to working with you as we deliver it.

**Dr Sarah McMath**

## Average cost to wholesalers and retailers per SPID per month



# Our approach to 2020/21 business planning

Since market opening, MOSL’s business-as-usual operation has been based around the delivery of the core services, as well as a series of additional services that can be accessed by trading parties on demand.

We have also been called upon to support wider activities to improve and develop the market, taking us beyond a purely transactional market operator role. In setting our business planning approach for this year, we have fully reviewed the activities that we deliver, ensuring we have a plan, resource profile and budget that will enable us to meet all of our commitments to our members and the market.

Considering the evidence from operating in the market and feedback from stakeholders, it is clear that we are currently at a critical point for both MOSL and the overall market.

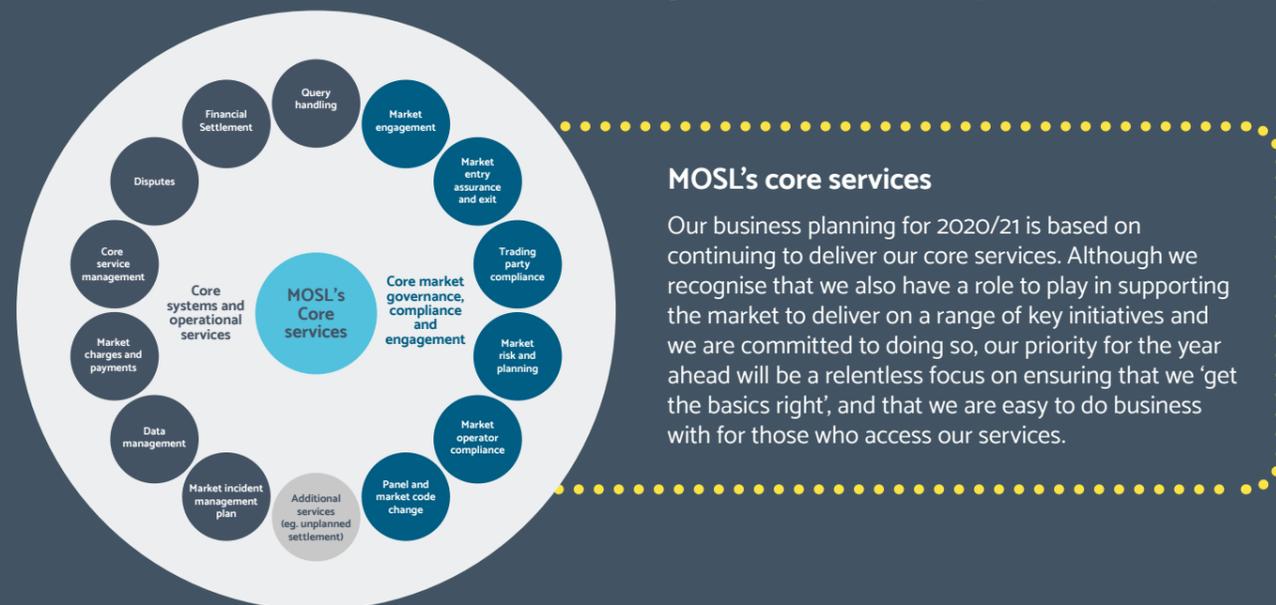
**In summary:**

- We recognise your feedback that MOSL can and must continue to improve our core services and the way in which we operate and that the 2020/21 business plan must focus on delivering fully against our service commitments.
- We recognise that for the market to deliver the benefits promised to non-household customers prior to market opening, we must work collectively with stakeholders to address the issue that operating in the water market ‘is just too difficult’.

We concluded that it was vital to take a new approach in terms of what success could, and should, look like for both MOSL and the market. To help achieve this, we have adopted a thorough and more mature business planning process for 2020/21.

This approach has included a review of our purpose, core services and capabilities, an assessment of the projects that will be required next year (which we have aligned with the Panel Plan), the development of a detailed bottom-up workplan to drive our resourcing and budget forecast for 2020/21, and a comprehensive consultation exercise with our members and other key stakeholders. Our approach to business planning reflects the evolving nature of the market itself.

This business planning process is now being embedded within our business-as-usual operation and is a core part of how we will plan, manage and track our activities on an ongoing basis. From next year we will extend our planning horizon to a three-year period. This recognises that many of the initiatives we are engaged in will be delivered over multiple years, and it responds to feedback we have received from members who have indicated that they would value greater visibility of our forward plans and cost trajectory.



**MOSL’s core services**

Our business planning for 2020/21 is based on continuing to deliver our core services. Although we recognise that we also have a role to play in supporting the market to deliver on a range of key initiatives and we are committed to doing so, our priority for the year ahead will be a relentless focus on ensuring that we ‘get the basics right’, and that we are easy to do business with for those who access our services.

**A more mature business planning approach for an evolving market**

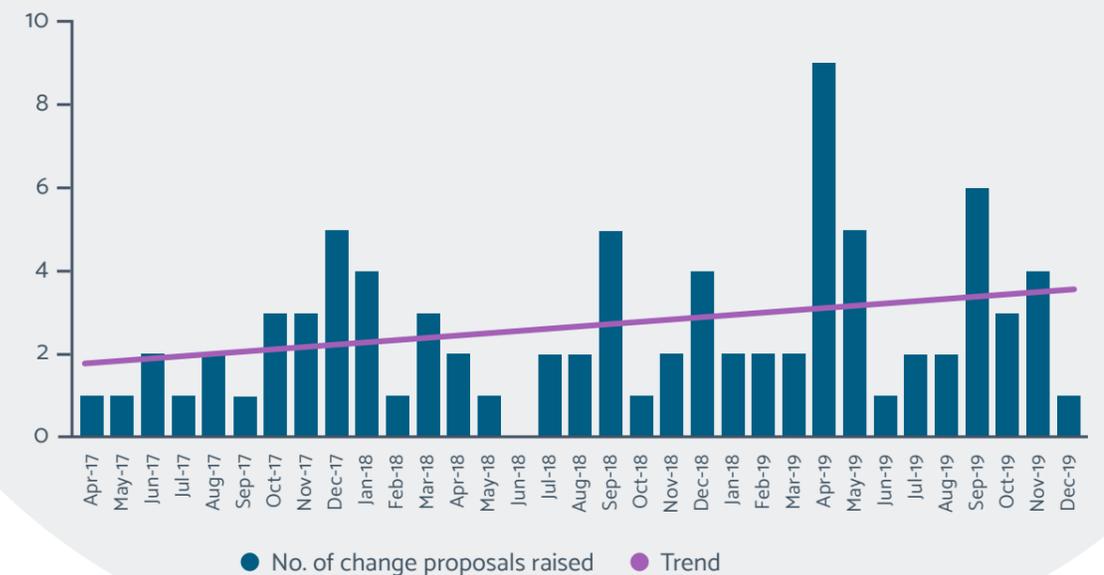
Since market opening, the number of trading parties has grown by over 20 per cent. The average number of transactions being processed each month through CMOS has increased by over 25 per cent, supported by developing new solutions such as the Medium Volume Interface (MVI). Our role in monitoring performance in the market has also continued to develop, for example, with the use of Initial Performance Rectification Plans (IPRPs).

We are also seeing an increasing volume of change in the market: on average we now process around three times as many changes per month as we did in the early life of the market. As evidenced by the bilateral transactions project, the materiality of many of these changes is also starting to increase as we collectively begin to address some of the more fundamental issues that are frustrating progress.

These market changes are reflected in our plan: we are building our capacity to deliver our core services in the context of increasing demand, as well as ensuring that we are resourced to support the market to deliver against its strategic improvement priorities. As well as providing us with greater confidence in our ability to manage, track and report on delivery against the commitments we are making, working through this process has provided us with an improved understanding of the role MOSL needs to play in moving the market forward. We have reflected this in the key themes of our business plan, all of which combine to make it ‘easier to do business’ for our members.



**Change proposals**



# Easier to do business: an overview of our plan for 2020/21



## As the market operator, we recognise that MOSL has a central role to play in a vibrant market that is delivering benefits for customers.

We commonly hear that operating in this market is ‘just too difficult’, with too much complexity and too many frictions between parties. We understand that at times we have contributed to this, as have the rules and the structure of the market itself and the performance and actions of trading parties within it.

We are therefore placing ‘easier to do business’ at the centre of our 2020/21 plan, where we will:

- Make it easier to interact with MOSL, reducing the indirect cost to members of doing business with us.
- Provide greater openness and transparency regarding the services we offer and our performance against them.
- Work proactively and collaboratively with stakeholders to identify and address issues in the market and to make it an easier place to do business.

By putting this at the centre of our plan, we will deliver greater overall value for money for both our services and for the market itself.

## Reducing the time, effort and overall cost of operating in the market

This plan is driven by the recognition that across our diverse membership – whether wholesalers or retailers, large or small, nationally or regionally-focused – there is a common need for the market to become a place where everyone can operate more efficiently, with less effort, and ultimately at a lower overall cost. As an example, a retailer that also operates in the Scottish water and UK energy markets has highlighted to us that their indirect costs of operating in each of these markets are lower than in the English non-household water market. This is reflected in the relative size of its internal operations teams that manage the day-to-day running of activities associated with each market. We acknowledge that more work needs to be done to make the reduction in indirect costs that we are committing to more transparent and quantifiable. With trading party support, we will continue examining this in more detail.

We have listened to feedback from our members about the areas where we as MOSL can make the largest impact, and we are prioritising our resources and investment accordingly to ensure that we leverage our central position to drive value for all our members. This will be informed by our improved understanding of indirect cost benefits to trading parties.

The commitments we are making to achieve this are set out through this plan under each of the key themes below. By delivering on these through 2020/21, we are confident that many of the issues driving cost and complexity can be addressed, helping the market to become a more attractive place that enables both commercial success for its participants and great service and value for its customers.

## Our five key themes

- 1 Service Excellence:** We will place a relentless focus on providing transparent, measurable and value for money core and additional services, supported by improvements in how we engage and interact with trading parties.
- 2 Market Assurance:** We will use a range of tools to measure, understand and provide evidence-based assurance of the performance of the market, including MOSL's own performance, and we will take action where necessary to address both individual trading party and overall market issues and risks.
- 3 Market Improvement:** We will work proactively with trading parties, governance groups, Ofwat and other stakeholders to identify solutions and make improvements that contribute towards a simpler, better functioning market that works in the interests of participants and customers.
- 4 Governance:** We will provide support and, where appropriate, evidence-based input and challenge to the market governance groups to facilitate and promote an effective and value for money model of governance for the market.
- 5 Building Capability:** We will build MOSL's people, data insight and technology capabilities, seeking to foster a culture of learning, collaboration and innovation across the market to help to move the dial in all areas of market operation and improvement.

“ We are committed to making MOSL easier to do business with, and to working proactively and collaboratively across the market to help develop a simpler, more efficient and better functioning overall market that is easier to do business in. ”

# Service Excellence



**Our priority focus for 2020/21 will be to ensure that the services we provide on behalf of the market are delivered seamlessly, efficiently and transparently.**

This extends across all our core services, as well as those additional services that we provide as required to the market.

We are placing a specific focus on Service Excellence because we recognise how important it is that the services we provide are value for money. By providing excellent services, we can keep the indirect cost of dealing with MOSL as low as possible. This will enable trading parties to spend less time on administration and more time delivering value added services to customers.

In many areas, we will be building on what we are already doing today, for example, the new reporting on meter read validation that is contributing to a reduction in the number of unplanned settlement runs and the successful 'catch up' of final (RF) settlement runs following the decision to defer these last year.

However, to fully deliver on our commitment of Service Excellence, we have identified a number of areas where we need to make changes and we have included those as key commitments in our plan.

**“ We will place a relentless focus on providing transparent, measurable and value for money core and additional services, supported by improvements in how we engage and interact with trading parties. ”**

**Our key Service Excellence commitments:**

- ◆ **Easier to engage:** Through the course of 2020/21 we will implement a simplified set of communication channels to deliver our services. This will include a specific focus on how we manage and respond to queries and service requests and improvements in how we make information and data available.
- ◆ **Clearly defined services:** We will review and update MOSL's services and how performance against these will be measured and reported during 2020/21, informed by the feedback provided by trading parties through the survey completed between November and December 2019.
- ◆ **Greater transparency:** We will provide transparent reporting against our service delivery performance throughout 2020/21. We will also repeat the Net Promoter Score (NPS) survey completed this year, with the aim of receiving a continuously improving score.

**Clearly defined and measurable services, delivered through a simplified set of channels**

To build confidence that we are committed to service excellence, both internally and amongst the organisations we serve, we will complete a range of activities before the end of 2019/20 to give us the platform for delivery in 2020/21 and beyond.

We recognise the need to focus our approach to Service Excellence on well-defined core services, so as a first step prior to the start of 2020/21 we will refresh how we describe and communicate our full suite of core services. These refreshed descriptions will also include the Service Level Agreements (SLAs) associated with our services, as well as how we will measure and report on performance against them. We are committed to reporting openly and transparently through 2020/21, with a consistent set of metrics being used with our Board, with our employees and with our members.

We will also improve how these services are accessed. The refreshed service definitions will also enable us to confirm the channels through which we make these services available, as part of a new channel strategy that we are developing prior to the start of 2020/21. This will outline how we will consolidate the range of channels currently in place for interacting with MOSL (understanding that there are currently multiple routes, teams, individuals, processes and tools involved) into a simplified set of channels. This will include, but will not be limited to, a review of our website and how we make information available, which will make it easier for members and other stakeholders to interact with us. Completion of this preparatory work prior to the start of 2020/21 will enable us to implement refreshed services and simplified channels as we progress through the year.

**Improved query handling and better 'self-serve' access to data and reports**

One of the clearest areas for improvement is the query handling service. This is currently accessed via multiple channels, which results in queries being routed through different parts of MOSL and its service providers. This makes it challenging for trading parties to identify the most appropriate means of accessing the service and makes it challenging for MOSL to provide a consistent and measurable standard of service.

To address these issues, we are working on transitioning our internal query management processes and systems towards a more service desk and case management-based approach across MOSL. This work will continue into 2020/21 and will go live as a part of the implementation of the refreshed query handling service.

In other areas, we understand that more substantial changes are required, for example, in relation to the extent to which we enable trading parties to 'self-serve' their data and reporting requirements and where they need to access key information or documents such as policies or forms. We will be taking a value-oriented approach to this, ensuring that we actively engage with stakeholders to define, design and deliver the elements of self-serve which deliver most value for them in 2020/21.



# Market Assurance



**By providing robust, intelligent assurance about the performance of the market and its participants, we can actively contribute to making it a more efficient and effective place for our members to do business.**

We currently undertake a range of activities that enable performance to be measured, understood and, where necessary, challenged. These include, for example, our reporting and analysis of the Market Performance Standards (MPS) and Operational Performance Standards (OPS) and our management of the annual market audit.

During 2019/20 we have taken steps to increase the level of market assurance. For example, we have provided increased transparency of trading party performance through the six monthly publication of league tables and we have introduced performance charges and public peer reporting of wholesalers against OPS.

We have done this under the auspices of the existing Market Performance Framework (MPF), however we accept that the framework itself is imperfect. We recognise a need for urgent changes to address a number of clear issues in the framework, while also progressing delivery of strategic changes over the longer term to ensure there is a holistic, integrated assurance framework in place for the market. As part of this, we have therefore also been working this year with the Market Performance Committee (MPC) to develop a three-year roadmap to improve the framework, while also progressing priority changes. This roadmap, which was completed and submitted to Ofwat for review in December 2019, will ensure a more joined up, accountable framework with better links to customer and market outcomes and smarter incentives and intervention tools.

**Our key Market Assurance commitments:**

- ◆ **Improving the MPF:** We will continue to work with the MPC to develop and intelligently apply the MPF, in line with the roadmap developed in 2019/20.
- ◆ **Targeted market audit activity:** We will adopt a more targeted approach to the market audit in 2020/21, directing audit activity towards new concerns as they are identified (and deliver financial savings in so doing). Proportionally, greater MOSL effort will go towards addressing the findings and recommendations that remain open from the market audits completed to date.
- ◆ **Developing the future market audit approach:** We will complete a review of the role, scope and delivery of the market audit for future years, as part of our overall approach to integrated market assurance.

For 2020/21, we will progress towards a more integrated and risk-based market assurance service, fully capturing the synergies between our market performance and market audit activities. We will continue to help deliver improvements to the design of the MPF, based on the roadmap developed this year, and we will also draw on enhanced data and analytical capabilities to ensure that we are applying it intelligently. In doing so, we will focus on identifying risks and issues at both the individual trading party and market level, for example, in relation to data quality. We will call these out with clear accountabilities and impacts, leverage insight to identify root causes, and assess how these can best be addressed through the right interventions or use of rectification tools.

## Accelerating progress towards an integrated market assurance framework

We have been working closely with the MPC this year to develop a roadmap for the future development of the MPF. Through this work, we have been seeking to address the key issues that have been highlighted to us by trading parties in relation to the current market performance and market audit regimes. These have included, for example, concerns regarding the weak incentives currently in place to address data issues, the lack of alignment between the existing performance measures and customer outcomes, the absence of qualitative and service quality measures, and the under-developed nature of the mechanisms and tools available for intervention and escalation.

This three-year roadmap will form the basis for us moving towards a more integrated market assurance framework, which will incorporate our existing market performance and market audit activities.

Throughout 2020/21, we will work on designing and implementing the necessary set of provisions in the market codes required to give effect to the framework, while also continuing our business as usual monitoring, reporting and rectification activities in line with the current framework. Supported by improved analytical capabilities, we will apply the framework intelligently, taking a proportionate, risk-based, value for money approach to our combined market performance and market audit activities.

## The role of the market audit in 2020/21

In response to consistent feedback from trading parties, we intend to adopt a new approach to the market audit during 2020/21. We will focus more activity on addressing the findings and recommendations that remain open from previous market audits, for example, in relation to data quality – thus maximising our existing investment in these audits – as opposed to completing a further widescale audit at this stage.

In terms of the individual strands of the market audit, we will adopt the following approach:

- ◆ We will commission targeted audit activity (e.g. as a result of concerns identified through the performance rectification process) to monitor and address trading party compliance.
- ◆ We will independently assure the accuracy of the settlement engine to ensure confidence in this essential part of market operation.
- ◆ We will examine the possibility of integrating the audit of MOSL's own compliance with the codes within our wider statutory audit activity. Our compliance reporting in relation to this will continue to be supported by an independent, third-party audit report.

In parallel, we will continue to review the role, scope, delivery and value for money of the market audit for future years, as part of the overall approach to developing an integrated market assurance framework.



“ We will use a range of tools to measure, understand and provide evidence-based assurance over the performance of the market, including MOSL's own performance, and we will take action where necessary to address both individual trading party and overall market issues and risks. ”

# Market Improvement



**As we progress into the fourth year of market operation, we understand that there is a growing but healthy impatience to address a number of important issues in the market and to ensure that it starts delivering the customer benefits that were promised.**

This has already been evident this year, with a strong desire from all stakeholders to move beyond the ‘market opening’ and ‘bedding down’ phases and to start delivering tangible improvements.

As noted throughout this business plan, MOSL is committed to playing its role in making sure that we become easier to do business with as the market operator. However, that alone is not enough. We also commit to working proactively and collaboratively across the market with stakeholders to help develop a simpler, more efficient and effective market that is an easier place to do business.

Our approach to market improvement will build on much of the work that is already underway while also reflecting known concerns of our members, and will be integrated with the Panel’s own strategic roadmap (the Panel Plan).

**“ We will work proactively with trading parties, governance groups, Ofwat and other key stakeholders to identify solutions and make improvements that contribute towards a simpler, better functioning market that works in the interests of participants and customers. ”**

**Our key Market Improvement commitments:**

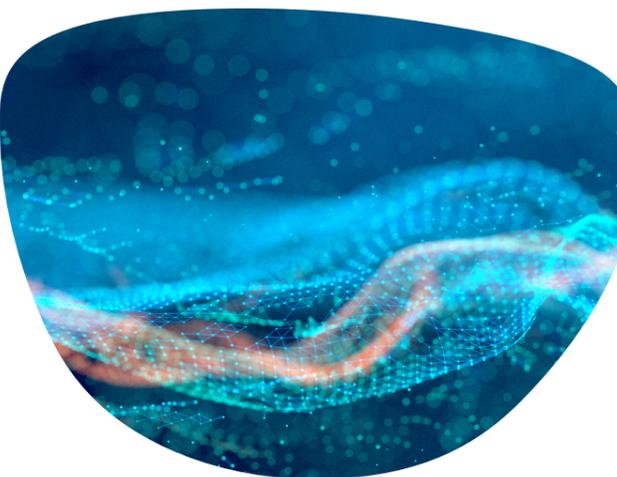
- ◆ **Metering:** We will facilitate strategic level engagement to address current metering and consumption data issues, in line with the activities set out in the Panel Plan and reflecting the output of the CEO Forum.
- ◆ **Data and performance improvement:** We will continue to drive improvements to data quality and performance, building on the work completed to date through the Market Performance Operating Plan (MPOP), for example, in relation to long unread meters and vacant premises.
- ◆ **Improved wholesaler-retailer interactions:** We will continue to drive the delivery of the bilateral transactions project, in line with the governance arrangements and timetable agreed with Ofwat.
- ◆ **Open data:** We will seek to make data more accessible to trading parties in ways they can efficiently use and act on it. We will also assess how access to data could be further extended to provide wider stakeholder access to key market data and insights.

## Delivering efficient wholesaler-retailer interactions

In 2020/21 we will continue to progress work on improving bilateral transactions, delivering significant improvements to the way in which wholesalers and retailers interact with each other, via a range of solutions which will span technology, ways of working and standardisation of processes.

The project has made positive progress during the current year, establishing a new project team that has focused its efforts on a significant stakeholder engagement exercise, researching best practice across the industry and understanding the investments trading parties have already made in technology. This collaborative approach has yielded valuable insight we can build on to deliver a solution which enables seamless transactions between trading parties and improves the service to customers.

The work we have done with trading parties has identified a need for additional data and insight to complete the industry-wide cost benefit analysis. This will be a key deliverable before any solution will be implemented. By making informed decisions we will create an enduring solution to facilitate better performance, and we will integrate this into the review of the MPF.



## Facilitating strategic level engagement to address metering and consumption data issues

Challenges in relation to metering and the completeness and quality of consumption data continue to be identified among the highest priority areas for market improvement.

There is a recognition that the status quo will not secure delivery of the benefits that customers were promised in the lead up to market opening. These issues are also hindering the market in delivering against expectations to support water efficiency.

Extensive work completed to date has confirmed that the root causes are complex and multi-faceted, including issues with data, inadequate incentives and the existence of disincentives, a constrained meter reading market, and challenges with the market design itself. Metering was specifically included within the Panel Plan as an area to be addressed during 2020/21 and accordingly has been factored into our business plan.

We recognise that such a review of metering will require a truly cross-market approach, which will demand levels of collaboration similar to that seen in the run up to market opening.

We will continue to drive activities through our programme of market improvement, building on the work currently being completed to review reasons for missed meter reads, to reduce the number of reads being rejected by CMOS, and to encourage the submission of more reads by setting the MPS charge for the submission of ‘old’ reads to zero. We will also seek to facilitate increased senior level, strategic engagement to drive the policy and strategy changes that will be required if we are to successfully move the dial on consumption data, ensure customers and trading parties settle and bill accurately, and set a clear future vision and direction for metering in the market.

We look forward to building on the recent commitment and energy that was evident at the CEO Forum, and reiterated through the business plan consultation, to engage further on this topic, establishing an approach that brings together stakeholders, and makes 2020/21 a year that delivers a step change in this area.

# Governance



**Robust, efficient and effective governance is an essential component of a well-functioning market, as well as being a key enabler for the change and improvement agenda that is required to deliver a step change in the success of the market.**

Through the Panel, its committees and sub-groups, the industry invests significant time and resources into the governance of the market. As an active participant in these groups, as well as being the provider of administrative and secretariat services to them, MOSL recognises that it has a key role to play in supporting the market’s governance arrangements and ensuring they function effectively and efficiently.

For 2020/21, this will include the governance arrangements associated with the use of MPS and OPS charges to fund special projects. MOSL will work with the Panel to implement and administer the arrangements set out in the code change.

In parallel, it is important that MOSL’s own governance arrangements are robust. To support this, we are planning to commence a Board effectiveness review during the final quarter of 2019/20. The review will cover the Board and its committees, and the findings will be finalised in early 2020/21.

“ We will provide support and, where appropriate, evidence-based input and challenge to the market governance groups to facilitate and promote an effective and value for money model of governance for the market. ”

**Our key Governance commitments:**

- ◆ **Good working practice:** We will continue to work with the Panel to improve the existing governance arrangements, building on the work completed this year to clarify and standardise the Panel’s approach to assessing change proposals, to implement new Panel voting rules to support efficient decision-making and to add a voting customer representative to the Panel.
- ◆ **Enhanced change service:** We are planning for an increase in the volume of market changes arising from market improvement work and consistent with the current upward trend in change proposals being raised. We will also take a new approach to make it easier for trading parties to raise and engage on market changes.
- ◆ **Dedicated secretariat:** We will establish a dedicated secretariat function to deliver improved administrative and secretariat services to the Panel and its committees.
- ◆ **Strategic approach:** We will continue to work jointly with the Panel to develop and deliver against a strategic, multi-year roadmap for the market – the Panel Plan.

## Simplification and streamlining of the market governance and change processes

During 2019/20, MOSL has worked with the Panel to streamline and improve market governance.

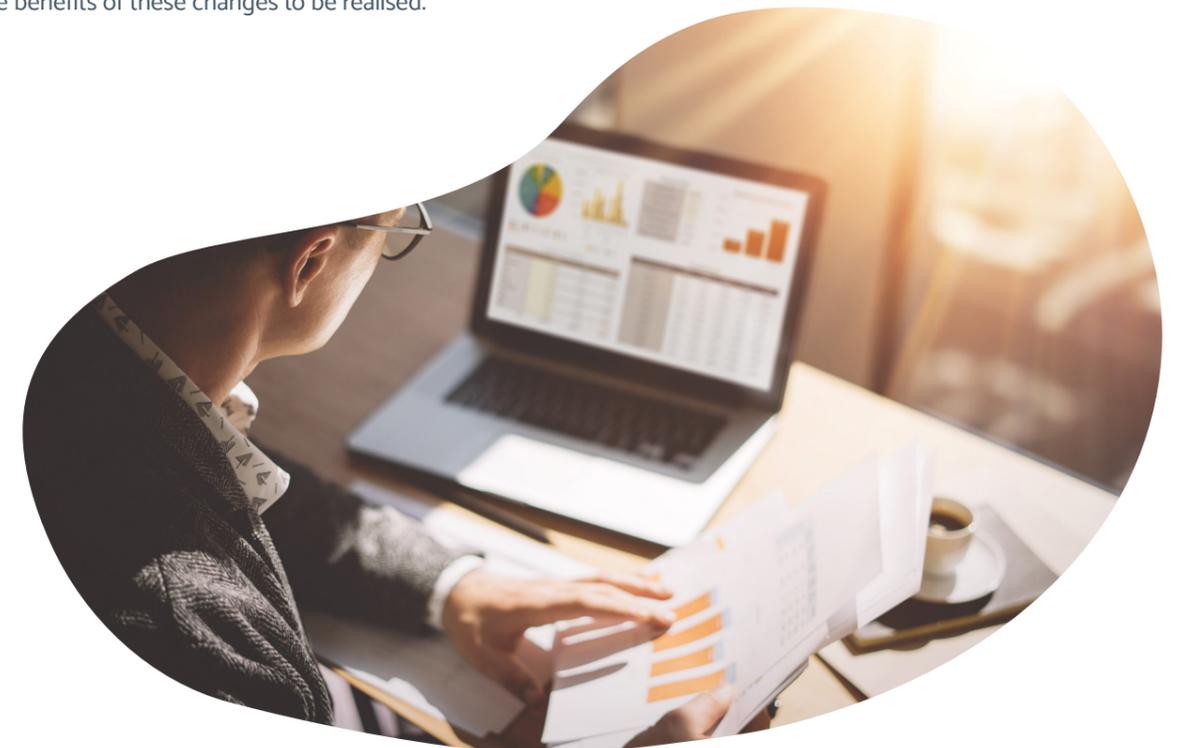
This has included MOSL raising a number of change proposals. As a result, there is now a customer representative with voting rights on the Panel to increase the voice of the customer in decision-making. There has also been a simplification of Panel voting rules, with a simple majority plus one now required to pass votes. This has replaced the previous high bar which required almost unanimous (or in certain circumstances unanimous) support for a vote to pass and is encouraging more active debate and participation, enabling more decisions to be passed.

Two further changes raised by MOSL are currently progressing through the assessment process. If agreed, the first of these will enable urgent changes to be considered under a clear and expedited timetable. The second change will introduce a more efficient process for considering low-materiality changes. This will enable the overall time taken for considering change to be reduced and allow Ofwat more time to focus on material amendments. These changes provide a robust basis to move into 2020/21, during which we will work with the Panel to embed ways of working that allow the benefits of these changes to be realised.

## Improved MOSL service provision to governance groups and those engaging in the change process

As part of our overall approach to help drive efficient, value for money market governance and change, for 2020/21 we will also be implementing a new approach to how we provide our secretariat services. We will be consolidating our provision into a single secretariat function that will serve the Panel and all of its committees. This approach will ensure that we are properly valuing and developing the capabilities required to provide an excellent secretariat service. This aligns with our commitment to greater professionalisation of our key disciplines.

Our new approach will also cover how trading parties engage with the change process. In line with our focus on Service Excellence and improving our channels, we will work, for example, on improving code drafting and on making it easier for trading parties to raise changes, to track changes through the process, and to respond to consultations.



# Building Capability



## People and culture

During the course of this year we have completed our transition to Southampton and seen significant numbers of new colleagues successfully recruited at all levels of the organisation.

We will continue to develop the right people, data insight and technology capabilities for MOSL and the market, supported by a culture that is open and honest, and which actively encourages learning.

We will continue to recruit permanent staff into enduring roles. We have also established a link with the University of Southampton and will continue to develop our internship programme with them and other local universities. Our Secondment General Principles, published in January 2020, also introduce the opportunity for trading parties, industry bodies and key stakeholders to work with MOSL through secondments. These principles outline how we plan to work with the market to share learning and gain experience through specific projects and market operations. This approach will support a drive towards providing a more seamless service and developing our working relationships with trading parties and key stakeholders.

## Technology and data

Technology is an essential enabler for a market that is easy to do business in and it underpins each of the key themes in our business plan. We will be developing our people capabilities in this area as a priority. In line with our focus on Service Excellence, we will improve the technology we have access to internally through better workflow and case management. We will also be looking at how we can improve the technology and systems that we provide for the market as part of our plan to develop and publish a multi-year technology roadmap. We will seek to build on the enhancements we have recently made to the Medium Volume Interface (MVI) to CMOS, which is now routinely being used to process in excess of 200,000 transactions per month.

### Our key Building Capability commitments:

- ◆ **Building a learning organisation:** We will be working through the year on embedding a learning culture within our organisation and across the market.
- ◆ **Technology roadmap:** We will develop and publish a multi-year technology roadmap for the market, covering CMOS and all other systems which support the market or are key to MOSL delivering its core services.

“ We will build MOSL’s people, data insight and technology capabilities, seeking to foster a culture of learning, collaboration and innovation across the market to help move the dial in all areas of market operation and improvement. ”

## A learning organisation that will continue to evolve and improve

We are proud of the organisation that we have built in Southampton. Our diverse workforce includes colleagues who have been with MOSL since before market opening working alongside new colleagues who are excited to be starting their careers in the industry. A number of the team bring direct water sector experience working alongside new joiners who champion best practice and ideas from other industries including energy, telecommunications and financial services. Moreover, all but one of our substantive roles are now filled by permanent employees in line with our policy to build MOSL’s permanent capability.

**Learning and development:** We will continue with our professionalisation of key roles by investing in accredited training for our people in key disciplines such as analytics and project delivery. Our learning and development tools are well-established, and we will maximise the return on investment in these to enhance the use of the tools across the organisation to improve efficiencies.

**Sector expertise:** We will promote joint working and knowledge sharing between our members, our suppliers, Ofwat and other stakeholders such as the Consumer Council for Water. This will include an extension of the ‘masterclass’ series of events we have initiated this year and, where appropriate, opportunities for secondments between our organisations in line with the Secondment General Principles issued in January 2020.

**Establishing key links:** We will continue to be an increasingly active and established participant in the local business community, including partnerships with local universities. We will use this to promote MOSL as an employer of choice, offering internship and potential career development opportunities.



## Our technology roadmap: developing capability for MOSL and the market

Technology is an essential enabler for a market that is easy to do business in and it underpins each of the key themes in our business plan.

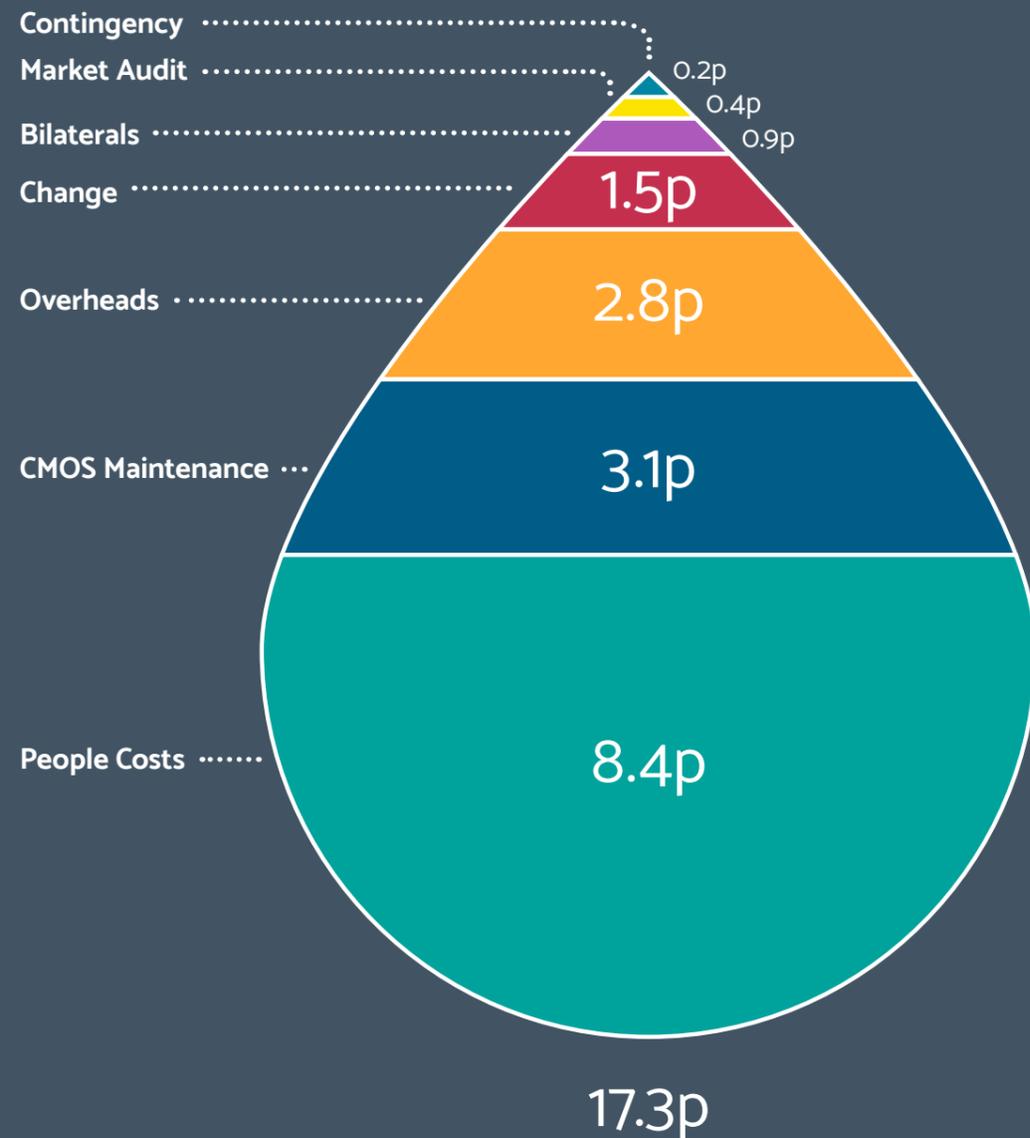
At the core of the service we provide to the market is ‘CMOS’, the Central Market Operating System that underpins the calculation of more than £200m of settlement each month. We have been taking steps this year to extend our relationship with CGI to ensure continuity of that service into 2020/21 and beyond. New contractual arrangements will be in place for the start of the 2020/21 financial year. These will be better aligned to our services and will help us to reduce the cost of change. This will also include a review of the approach to releases so that we identify ways to work with CGI, the Panel, Ofwat and trading parties to deliver a more agile approach to the development of CMOS.

In parallel, we recognise that the systems underpinning the market must continue to keep pace with wider technology developments and deliver value to trading parties. During 2020/21, we will be exploring options for the future provision of the core systems capability as part of our development of a longer-term, multi-year technology roadmap for the market. We will be engaging fully with trading parties and wider stakeholders as we develop this to ensure we have a joint understanding of each other’s strategy and roadmaps so synergies can be maximised and exploited. The scope of this roadmap will include CMOS and all other systems which support the market, including the use of tools, new and emerging technologies and collaborative platforms.

We are also placing a particular emphasis on the tools and capabilities that allow us – and trading parties – to access, analyse and understand the market data. Internally, we are committed to building the capabilities that allow us to spend less time producing reports and more time deriving insights that will support our assurance, improvement and governance activities. The same improvements that enable us to analyse data better will also underpin a move to increased self-service reporting for trading parties.

# Budget overview

Average cost to wholesalers and retailers per SPID per month



**We are setting out an ambitious but achievable plan for 2020/21, supported by a budget of £11.2m that has been developed through a detailed, bottom-up business planning process.**

This budget will enable us to deliver on the commitments we are setting out in this plan: to deliver service excellence, to provide robust market assurance, to drive market improvement, to ensure effective governance for MOSL and the market, and to build our collective people, data insight and systems capabilities.

Taken together, we are confident that these commitments will deliver a market that is easier to do business in, reducing the overall time, effort and indirect cost of participation for our members and helping us, collectively, to further develop the market for the benefit of customers.

This budget represents an **increase of 4.7 per cent** versus our forecast outturn for 2019/20. It currently excludes costs associated with the technical solution for the bilateral transactions project.<sup>1</sup>

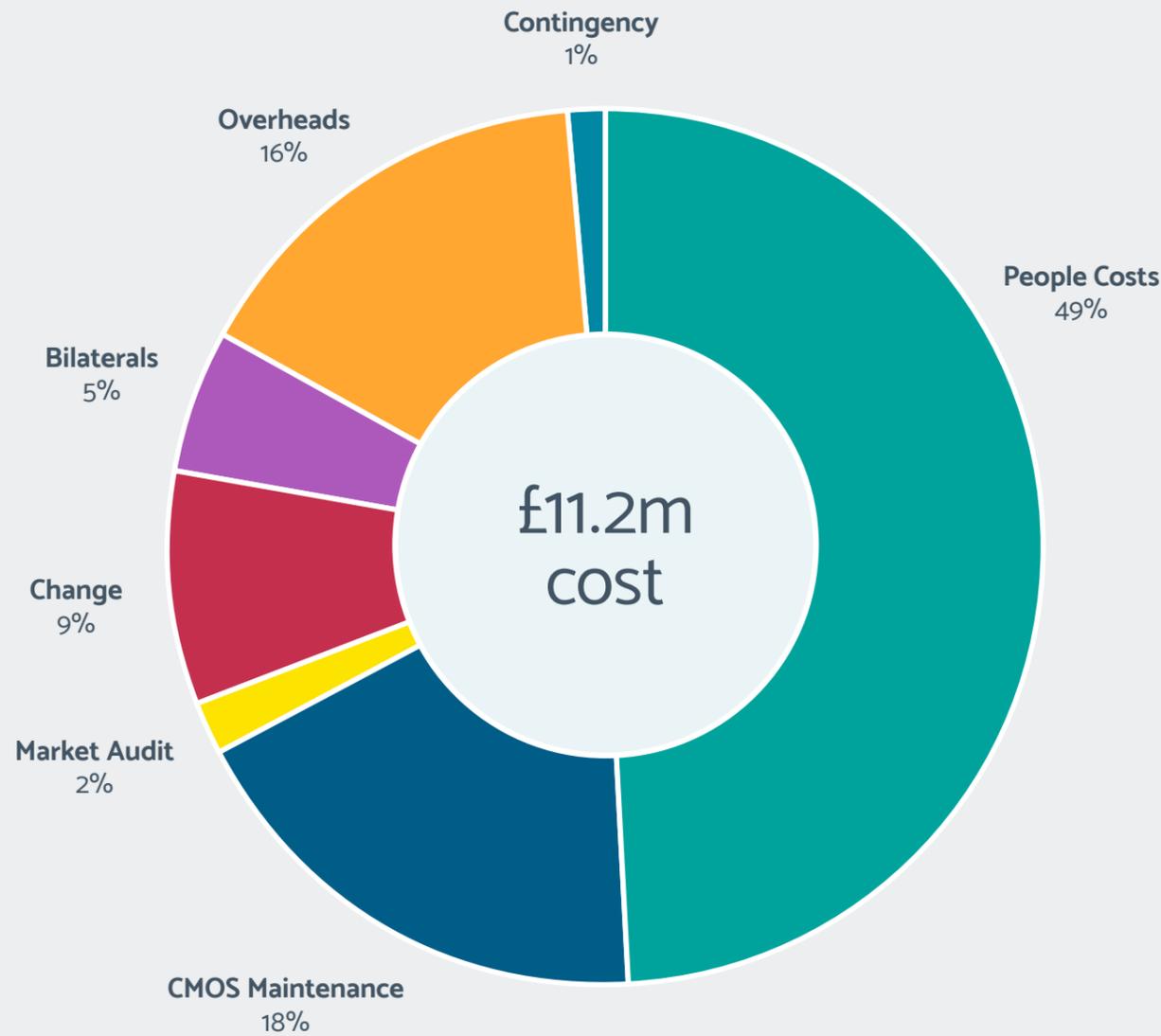
	2019/20 Budget £,000s	2019/20 Forecast £,000s	2020/21 Budget £,000s	Increase / (decrease) vs 2019/20 forecast
People Costs	4,484	5,190	<b>5,410</b>	+4.2%
CMOS Maintenance	1,937	1,920	<b>2,000</b>	+4.2%
Market Audit	500	500	<b>250</b>	-50.0%
Change	1,000	850	<b>1,000</b>	+17.6%
Bilateral Transactions Project <sup>1</sup>	600	400	<b>600</b>	+50.0%
Overheads	2,175	1,770	<b>1,790</b>	+1.1%
Contingency	-	65	<b>150</b>	-
<b>Total Spend</b>	<b>10,696</b>	<b>10,695<sup>2</sup></b>	<b>11,200</b>	<b>+4.7%</b>

(1) The current budget reflects the cost of the project team to manage the bilateral transactions project, but excludes the cost of the solution itself, which will be subject to further consultation once additional data analysis is complete.

(2) The 2019/20 forecast excludes £250k of relocation spend funded by amounts retained from the previous year's Market Operator (MO) charges.

# Cost breakdown

## 2020/21 budget



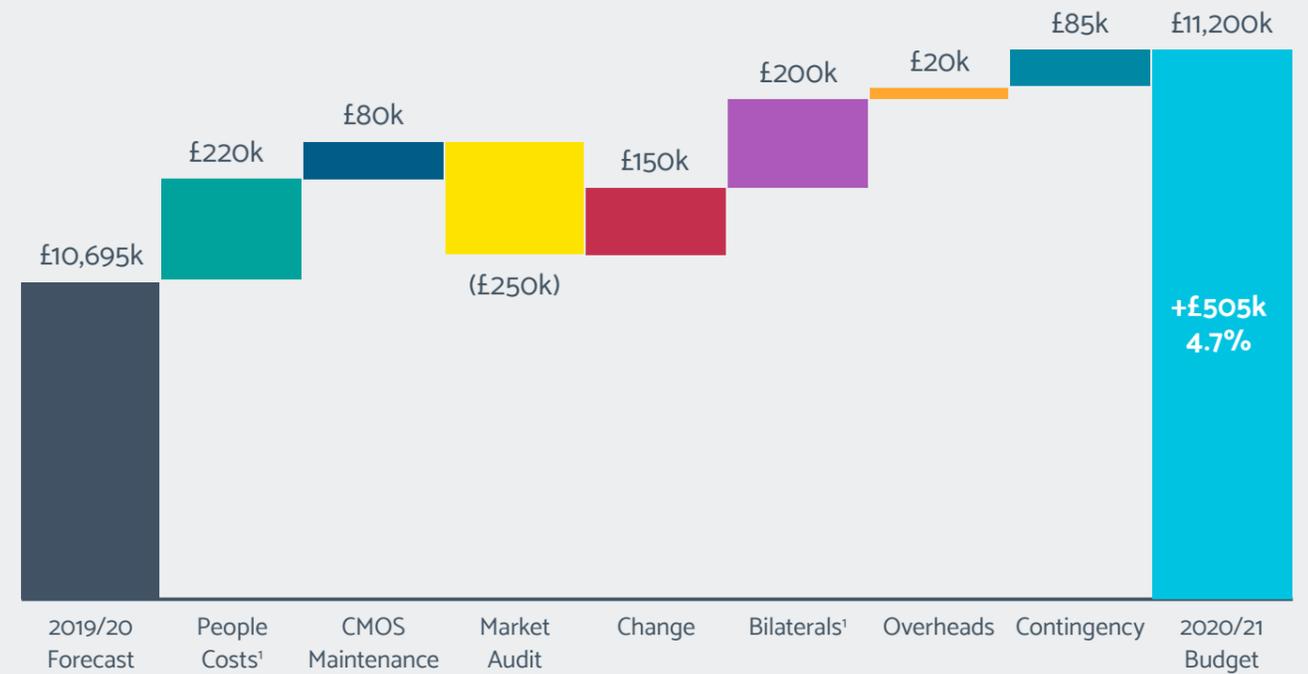
Our primary cost driver for 2020/21 continues to be our people costs, accounting for just under half of our overall budget and representing a 4 per cent increase on our current year forecast. As described in the following section, this increase will enable us to grow our headcount by 14 per cent to ensure we have the capacity and capability in place to deliver on the commitments set out in this plan.

Our market audit costs are forecast to reduce by £250k (50 per cent) in 2020/21 and will subsequently account for 2 per cent of our total budget.

Set against a trend of increasing market change, we are retaining our change budget of £1m noting that the current year spend is forecast to be £850k.

Further details on each of the cost elements are provided in the following sections.

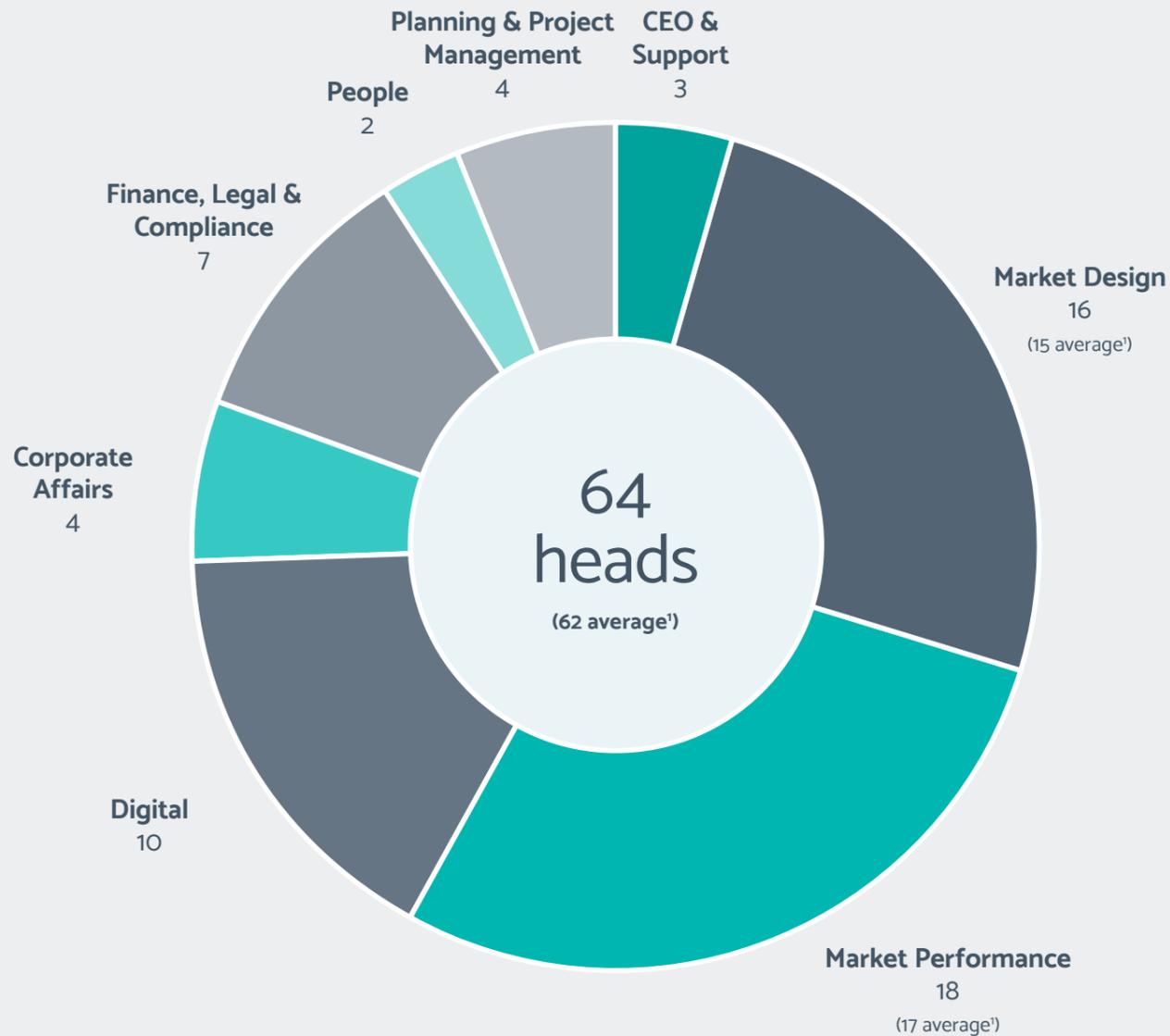
## Increase/decrease in total cost



(1) Our core headcount and people costs do not include the team hired or seconded from member companies for the bilateral transactions project which is included in the bilaterals budget.

# People costs

## 2020/21 budget

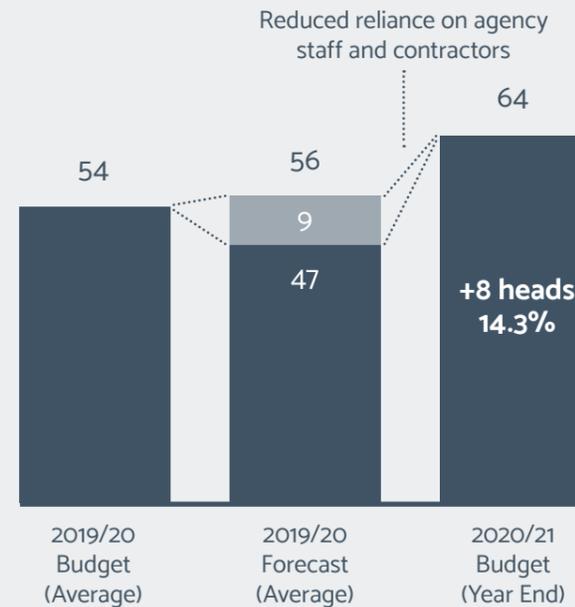


(1) The average number of people employed over the course of the year reflects the phasing of planned recruitment.

During 2019/20 we have taken steps to build MOSL's permanent capability, with all but one substantive role now filled by permanent employees. This will continue to be our policy in 2020/21 as we take further steps to build capacity and strengthen our capabilities in key areas of the organisation, with recruitment activity being phased throughout the year. This will ensure that we have capacity to deliver our core services excellently in the context of increasing demand, as well as to ensure that we are resourced to support the market to deliver against its strategic improvement priorities.

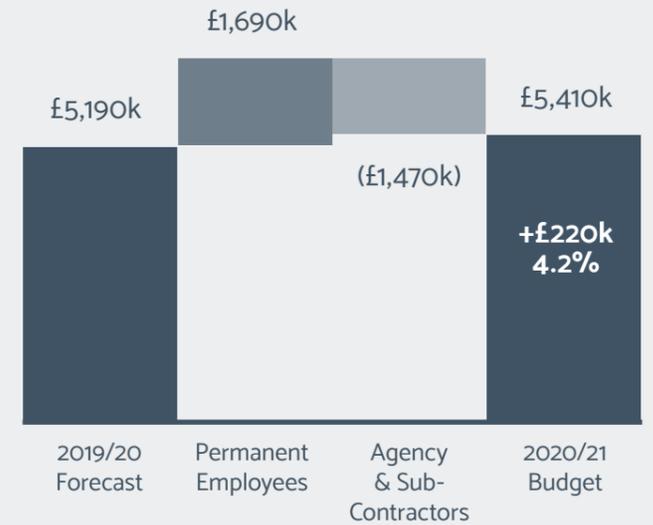
Our increase in permanent staff costs will be partially offset by a significant reduction in sub-contractor and agency costs. This allows us to drive greater value for money – securing 14 per cent increase in resourcing for a net increase in cost of just 4 per cent – at the same time as further developing our enduring, permanent organisation in Southampton.

## Change in headcount<sup>1</sup>



- Permanent employees
- Agency & Sub-Contractors

## Increase/decrease in people costs<sup>1</sup>



(1) Our core headcount and people costs do not include the team hired or seconded from member companies for the bilateral transactions project which is included in the bilaterals budget.

# People costs continued

## Market Design

Our Market Design capability will grow to a headcount of 16 during 2020/21. This growth reflects the increasing volume of change activity in the market, with an assumption of 50 changes to be delivered per annum (a 25 per cent increase on the assumed rate of change compared to previous business plans). It also takes account of commitments under our Governance theme to embed good working practice, provide a dedicated secretariat, deliver an enhanced change service and facilitate resolution of strategic challenges.



## Digital

Our Digital capability will grow to a headcount of 10 during 2020/21. This provides IT expertise to our internal design and change boards, supporting market and MOSL-driven change. The team also works closely with our IT providers to deliver system releases, carry out MOSL testing and facilitate market testing. They will play a key role in delivering against our Service Excellence and Building Capability themes in 2020/21, particularly in terms of enabling our new channel strategy, service desk and case management approach, and driving greater automation of our systems and processes.



## Market Performance

Our Market Performance capability will grow to a headcount of 18 during 2020/21. Informed by two and a half years of operating the market, this increase reflects a level of resourcing required to efficiently deliver our cyclic and demand-led services covering MPS and OPS governance, market entry assurance, settlement, disputes and queries. In addition to these services, this team will lead in driving improvements in market data quality and trading party performance and delivering the first elements of the three-year MPF roadmap.



## Corporate Affairs

Our Corporate Affairs capability will remain at a headcount of four during 2020/21. This drives our stakeholder engagement strategy and ensures that we share information in an effective, managed and consistent way. The Corporate Affairs team will also play a critical role as we move towards a simplified, more effective set of channels in line with our Service Excellence theme for 2020/21.



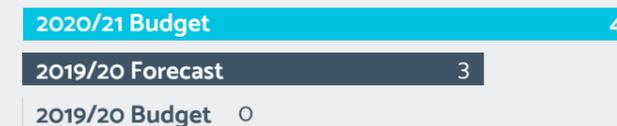
## Finance, Legal and Compliance

Our Finance, Legal and Compliance capability will reduce to a headcount of seven during 2020/21. The finance team processes all of our accounts payable and receivable and provides budgetary oversight and reporting to the senior leadership team and the Board and is responsible for our statutory filings. The legal and compliance function provides the business with the necessary expertise to ensure we fulfil our legal and compliance requirements and provides the Company Secretariat function.



## Planning and Project Management

Building on what has been established this year, we will grow our Planning and Project Management capability to four people in 2020/21. This capability provides critical planning and project management support to ensure successful delivery of both internal and external-facing projects, contributing in particular to our Service Excellence and Market Improvement themes. It will also play a key role in delivering against our commitment to provide robust, transparent reporting to our stakeholders throughout 2020/21.



## People

Our People capability will remain at a headcount of two during 2020/21. This ensures that the people strategy and plan is aligned with the business plan. The People team supports managers to ensure that talent can be successfully recruited, and that colleagues receive the right training and support to deliver in their roles. Building capability of the relatively new Southampton team is a key area of focus for 2020/21.



## Other costs

### CMOS costs

Our contractual service and licence cost for CMOS for 2020/21 is forecast to be £2m based on our current view of the contract negotiations with CGI and the scope of the new contract which will take effect on 1 April 2020. The total budget also includes costs related to escrow, licences, support, testing tools and environments and CMOS training for new members.

<b>2020/21 Budget</b>	<b>£2,000k</b>
2019/20 Forecast	£1,920k
2019/20 Budget	£1,937k

### Change costs

The change budget is used to fund the costs incurred by MOSL in the assessment and implementation of changes to the market rules and updates to our market operator systems. The volume of activity and spend required is therefore demand driven. Consistent with previous years, we have allocated £1m in the 2020/21 budget for change.

<b>2020/21 Budget</b>	<b>£1,000k</b>
2019/20 Forecast	£850k
2019/20 Budget	£1,000k

### Other overheads

Our budget for overhead costs will reduce in 2020/21, reflecting the position we have reached in 2019/20 and based on more robust assumptions than were available prior to the completion of our move to Southampton. This is primarily driven by reductions in the forecast costs associated with scheduling Panel and committee meetings, with fewer meetings now assumed to be held in London.

<b>2020/21 Budget</b>	<b>£1,790k</b>
2019/20 Forecast	£1,770k
2019/20 Budget	£2,175k

### Market audit costs

Market audit costs will reduce from £500k in 2019/20 to £250k in 2020/21. This reflects our revised approach to the market audit for 2020/21 (as set out under the Market Assurance section), where we will take a more targeted approach to audit activity in support of trading party compliance, market operator compliance and the audit of the settlement engine.

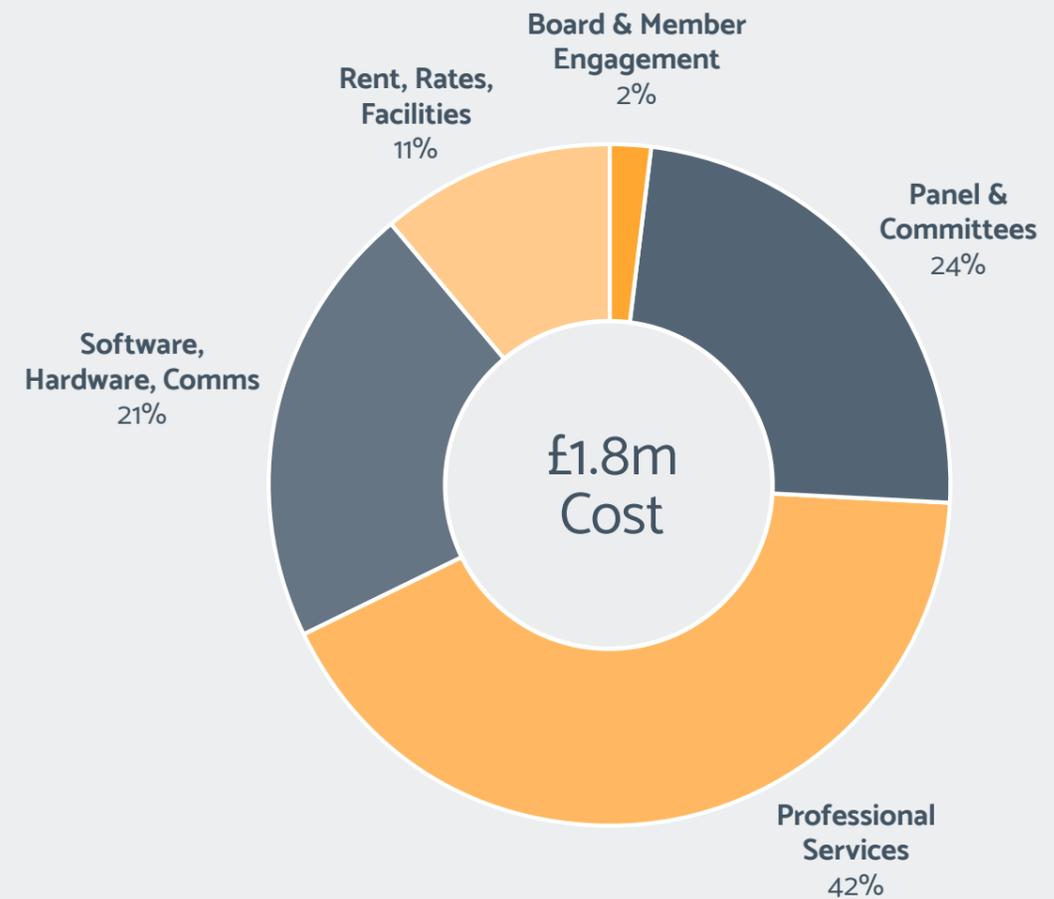
<b>2020/21 Budget</b>	<b>£250k</b>
2019/20 Forecast	£500k
2019/20 Budget	£500k

### Bilateral transactions project costs

The current budget reflects the cost of the project team to manage the bilateral transactions project, but excludes the cost of the solution itself, which will be subject to further consultation once additional data analysis is complete.

<b>2020/21 Budget</b>	<b>£600k</b>
2019/20 Forecast	£400k
2019/20 Budget	£600k

## Analysis of other overheads



- Board and Member Engagement:** Costs associated with running Board and committee meetings.
- Panel and Committees:** Costs associated with Panel and committee meetings, including venue costs, expenses, and remuneration for independent members.
- Professional Services:** Costs associated with legal, consultancy and audit and assurance fees. This covers expertise required to ensure compliance with our code obligations and the law, access to specialist skills for project and non-enduring work, external assurance to maintain our business continuity accreditation and internal and external audit costs.
- Software, Hardware and Communications:** Costs associated with the licences, subscriptions and infrastructure we require to operate our non-CMOS systems.
- Rent, Rates and Facilities:** Costs associated our office facilities including rent, rates and maintenance.

## Funding principles

### Allocation of costs

The funding principles are set out in Section 10 and Schedule 6 of the Market Arrangements Code (MAC).

The market operator costs for 2020/21 of £11.2m (excluding VAT) will be borne 50:50 by wholesalers and retailers. Wholesalers' costs are allocated based on the number of supply points, while retailers' costs are allocated one third based on the proportion of supply points registered and two thirds based on the proportion of primary charges levied, plus a £250 monthly fixed charge.

Wholesalers (Schedule 6, Section 2)	Retailers (Schedule 6, Section 3)
(A/B) x C	£250 fixed fee
<b>Where</b> A = Supply points registered to wholesaler B = All supply points in market C = Total monthly charge to wholesalers	plus (1/3) x (D/E) x (F-G)
	plus (2/3) x (H/I) x (F-G)
	<b>Where</b> D = Supply points registered to retailer E = All supply points in market H = Amount of primary charges to retailer I = All primary charges in market F = Total monthly charge to retailers G = Fixed fees paid by all retailers (£250 per retailer)

### Invoicing of members

The MAC allows MOSL to determine the profile of the MO charges. For 2020/21, we will continue to invoice members at the rate of one twelfth (1/12) of the annual budget amount per month based on the principles set out in Schedule 6 of the MAC.<sup>1</sup> We will keep this approach under review and may consult on changes where we identify opportunities to make the process or the funding of our working capital requirements more efficient.

### Redistribution of excess funds

The 2020/21 budget is based on our expectation of cost for the year to enable MOSL to meet our obligations as set out under the codes and deliver on the initiatives and projects outlined in the plan. As in previous years we will continue to keep the budget under review and will return any surplus funds to members (unless otherwise agreed in consultation through the Panel).

(1) Invoices for MO charges are issued one month in advance. For example, the April invoice is issued in March and is based on the number of supply points registered / primary charges raised in February.

## Notice of General Meeting

Members will have the opportunity to attend a General Meeting on Friday 31 January 2020 to vote on whether or not to accept the business plan. Formal notice of the meeting is set out below and has been emailed to members.





**MOSL**

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