

## OFFICE OF WATER SERVICES

### EXTERNAL REVIEW OF REPORTERS – PR04 DRAFT BUSINESS PLAN

#### TERMS OF REFERENCE

##### 1. Outline of the study

In MD185 Ofwat set out the arrangements for external reviews of the work done by the reporters. These terms of reference relate to the review of the reporters' scrutiny and challenge of the companies' draft business plans to be submitted to Ofwat in August 2003.

The review shall be carried out by a team led by a partner/director with extensive experience in management process review, and include a consultant with in depth knowledge of water industry processes and practices. Up to two Ofwat staff will participate in the review as members of the team.

The output of the review shall be a report to Ofwat that will cover:

- The consistency of reporter reports across water and sewerage companies' draft business plans.
- The work carried out by reporters and reporting teams in preparing their reports to Ofwat on companies' business plan submissions.

Ofwat will distribute the consultant's report to reporters, water companies and to senior colleagues and ministers in the Department for Environment, Food & Rural Affairs, the Welsh Assembly Government, the Environment Agency (EA), the Drinking Water Inspectorate (DWI). The consultant will be asked to explain the findings of the team and associated conclusions at a meeting with interested parties. The team shall submit progress, draft and final reports to the Ofwat Board. The final report will be made public in quarter 3 of 2003-04.

##### 2. Introduction and background: Ofwat's regulatory objectives

Ofwat is the economic regulator of the water and sewerage industry in England and Wales.

Ofwat's duties are laid down in section 2 of the Water Industry Act 1991. The Director's primary duties include 'to act in a way he considers is best calculated to ensure that:

- the functions of a water and sewerage company are properly carried out in all areas of England and Wales; and
- companies can finance their functions’.

The approach to the periodic review is described in the document ‘Setting water and sewerage price limits for 2005-10: Framework and approach’. The business plan information requirements were published on 27 March 2003. The information requirements set out general and detailed guidance to the reporters about our expectations of their work and reports to us. Ofwat has also issued to each reporter guidance specific to his company.

The quality and reliability of the information submitted by each company about its future strategies, projected expenditure, activities and revenues is important. It informs Ofwat’s decisions about price limits that will apply to each water company for at least the five years from April 2005. The information must be scrutinised by the reporters to examine and test the compliance, robustness and reliability of the information and report their opinions of it to Ofwat. Their reports inform the degree of confidence that Ofwat can place in the companies’ submissions.

### 3. Scope and objectives of the proposed work

The review will involve:

- visits to company sites and reporters’ offices to examine reporters’ processes and documentation.
- interviewing reporters and their teams on their approach to the task. This should identify the benefits or problems arising from:
  - the reporter protocol issue 2;
  - reporter guidance in the draft business plan information requirements;
  - reporters’ participation in Ofwat’s technical and joint workshops;
  - reporters’ relationships with their companies, financial auditors, the EA and the DWI, Ofwat policy teams and Ofwat’s reporters’ coordinator.

**The objective** is to assess the effectiveness of Ofwat’s process of using Reporters to audit water companies’ draft business plans. The review team is not required to assess the technical aspects and reliability of companies’ cost estimates.

The consultant will focus on whether or not the reporters' scrutiny of the companies' business plans, and exposure and challenge of their material assumptions, enables the reporters to confirm that the companies' strategies and projected costs, activities, revenues and expenditure are consistent with the Ofwat business plan guidelines, and are reasonable.

The consultant will give Ofwat their opinion on the confidence that Ofwat should place on the reporters' opinions about the companies' business planning process and the quality of their draft business plans. The consultant's opinion must be evidence-based using the quality of the reporting process demonstrated by the reporters and companies.

The consultant will make recommendations on any changes necessary in the reporter process to provide improved assurance to Ofwat in reporter scrutiny of the final business plans.

#### **4. Tasks**

The tasks are to:

- examine and assess the approach taken by the reporters for their work on the draft business plan;
- assess the approach for compliance with the protocol and reporting guidance issued by Ofwat;
- evaluate, assess, compare and report upon the consistency of reporters' approaches and performance, including costs;
- assess and report upon the effectiveness of the arrangements for reporters, set out in the protocol and in the draft business plan information requirements, for:
  - building confidence in the reporters' role in the companies' submission of soundly based and valid information and
  - achieving value for money from the reporters.

The review team will notify the reporters in advance of the contents of the review programme.

The reporters will be invited to review and challenge the review team's statements of their findings of fact.

## 5. Control of the review

The Ofwat project board for the review will comprise one Ofwat Board Director – Bill Emery, Director of Costs & Performance, Head of Finance & Services, and Irene Millward, Reporters' Coordinator. This group will act as client for the purposes of the study and will establish the direction of the review.

## 6. Timetable and outputs

1. Commence work	30 June 2003
2. Progress report & initial assessment of reporters' approach	TBC
3. Draft report on approach	TBC
4. Final report and recommendations for Implementation in guidance for final business plan	TBC

## 7. Confidentiality

The consultant may be required by any reporter or water company to sign a confidentiality agreement regarding any material shown or given to the consultant during the course of the review.