

Information notice

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Delivering proportionate and targeted regulation

Ofwat's risk-based approach

Protecting consumers is central to our role as the economic regulator of the water and sewerage sectors in England and Wales – it is one of our primary statutory duties.

In 'Delivering sustainable water – Ofwat's strategy', we explained that we face a number of major new challenges that could affect the services we all rely on every day.

To continue protecting consumers in the face of these challenges we need to ensure we have the capability to be agile in responding to emerging or changing risks, and (where necessary) take swift and decisive action.

That is why, in October 2011, we published our consultation 'Regulatory compliance – a

proportionate and targeted approach', which set out our proposals to adopt a risk-based approach – a significant change in how we collect and assess data, and in how we manage risk.

This approach would mean changes in culture for both us and the companies, and in our relationship with the companies.

Respondents welcomed the aims of our proposals, the focus on outcomes for customers and the emphasis on results, not process. Respondents also appreciated the challenges of the cultural changes and that success will depend on how well we all respond.

In view of the positive response to our consultation, we have not needed to make major changes to our proposed risk-based approach, which is described in 'Delivering

proportionate and targeted regulation – Ofwat's risk-based approach'.

We are already prioritising our workload using the 'Gateway' outlined in the policy document. This is a structured process designed to assess the costs and benefits of the work we do in the round, informed by our assessment of risks.

Respondents looked beyond our proposals, commenting on the implications of the risk-based approach for our future regulation programme and strategic objectives.

We are taking forward these comments through our future price limits and implementing price limits projects (for example, through changes to the business planning process for the next price review).

Decisions at a glance

Risk-based approach

We have not needed to make major changes to our proposals. Our risk-based approach is described in more detail in: 'Delivering proportionate and targeted regulation – Ofwat's risk-based approach'.

Changes to regulatory reporting tools

We will no longer collect the June return.

The companies will submit an annual risk and compliance statement (for 2011-12, to the same timetable as their regulatory accounts).

We expect the companies to publish a suite of key indicators at least annually, and by 15 July 2012.

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

Changes to regulatory reporting tools

To support our risk-based approach, we also proposed several changes to regulatory reporting tools, which we are now implementing for the 2011-12 reporting year.

- We will no longer collect the June return.
- The companies will instead submit a risk and compliance statement and publish a suite of key indicators.
- Companies will take responsibility for assurance of their data and systems.

Risk and compliance statement

We expect each company to produce an annual risk and

compliance statement that sets out how they have complied with relevant statutory and regulatory obligations.

Key indicators

We expect each company to publish a suite of key indicators, which reflect a balanced view of company performance.

The suite of indicators is a minimum set that companies may add to in order to reflect what their stakeholders would expect to see.

The indicators include those proposed by the Environment Agency as part of the consultation; it will use these indicators to assess water company performance and protect the environment.

Next steps

We will keep our risk-based approach under review and assess regularly how well our approach is working. We will use any lessons learned to help us decide whether it could evolve further. We will then work with the sectors to determine the best way forward.

We will review how the new reporting tools are working (including the timing of future regulatory submissions) following this year's company submissions.

Review of our approach to enforcement

We recognise that adopting a risk-based approach is a significant change to the way we regulate. We will continue to use our approach to enforcement and review it once our risk-based approach has bedded in.

More information

[Delivering proportionate and targeted regulation – Ofwat's risk-based approach](#)

[Risk and compliance statement – guidance](#)

[Key performance indicators – guidance](#)

[Summary of consultation responses](#)

[Regulatory compliance – a proportionate and targeted approach](#)

[Ofwat's approach to enforcement \(March 2009\)](#)



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Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We are responsible for making sure that the water and sewerage sectors in England and Wales provide consumers with a good quality and efficient service at a fair price.