

25 October 2013

Dear CEO

PR14 business plans – key issues

Thank you very much for coming in to meet me recently. I found all of the conversations with companies to be very helpful and informative. As you may be aware we have recently undertaken a 'red run' to test our assessment of business plans post 2 December. We have also looked at the information that company's submitted through the August data set. I thought it would be helpful to share with you some key points that have come out of both of these exercises as you finalise your business plans.

Evidence

As you are aware we have intentionally not specified the format of companies' business plans. We expect companies to take the lead in providing a business plan which delivers the outcomes that their customers want, as well as appropriately balancing the need to meet each company's statutory obligations. Crucial to this will be the supporting evidence provided by the company to support each element of its business plan. We expect a clear, coherent and evidenced 'golden thread' to run through the whole business plan so it is clear how each element of the plan fits together. This should demonstrate how the evidence gathered from customer engagement and other sources supports the whole plan set out by the company. If a company is explaining that it is likely to fall outside of cost corridors it will be very important to explain how you have decided on the efficient investment solution, including any benchmarking that you have undertaken.

Data quality

We have experienced real problems with the quality of the data we received from the majority of companies. We really appreciated the efforts of the minority of companies to get data in the format we requested in the final methodology tables. The best performing companies received queries from us that meant that less than 2% of their data needed to be altered. This is in stark contrast to some other companies where queries we raised with their data resulted in over 40% of the data needing to be altered.

In total we needed to send a total of 191 queries to companies and in some instances companies were required to resubmit entire tables of data. We will shortly be issuing an information note setting out the concerns with the August data and stating that companies need to implement improved data assurance processes to ensure that the data provided to support companies business plans is robust. Quality data is an essential element of a quality business plan and there is no time available post 2 December for an extensive exercise for Ofwat to quality assure data because this responsibility has been placed with companies. Poor data is therefore a significant risk to the risk-based review process. If data provided by companies is of poor quality, this will have an impact on the timing of the risk-based review and may cause delays in providing all companies with the outcome of our assessment of their plans. I hope you will help in ensuring that the data that your company submits is of the highest possible quality.

Board assurance

We expect companies to adopt high standards of board leadership, transparency and governance in order to retain the legitimacy of the sector. As set out in our methodology we consider that companies' board assurance statements will allow them to demonstrate that they take full accountability for their business plan. The methodology set out our expectations on the content of the board assurance statement and the way in which companies set out how they comply with the UK Corporate Governance Code. We have recently published '[Board leadership, transparency and governance – principles](#)' under cover of a letter from Jonson Cox. A number of companies have asked how they should take the principles into account in their board assurance statements. On 24 October we issued an information note [IN 13/13](#) that provides guidance on the alternative approaches available to companies to demonstrate that they operate to high standards of board leadership and governance.

Past performance

We will be assessing companies' past performance when we review their business plans. Companies with a poor record of past performance will need to work harder to evidence that they are able to deliver the outcomes set out in their business plan. We will be providing you shortly with a dashboard which highlights any issues we consider to be relevant for your company. However for the avoidance of doubt it is important you consider all your current KPIs under your compliance statement and any regulatory action that has been taken or is pending.

I hope this additional information is helpful. If you have any queries about this letter please do not hesitate to contact me or your Portfolio Lead.

Yours sincerely

Sonia Brown
Chief Regulation Officer