

Information notice

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Regulatory compliance – introducing a risk-based approach

When we published our updated [strategy](#) in March this year, and again at our sustainable water event in October, we stressed our commitment to changing our approach to regulatory compliance. In particular, we shared our view that we should move towards a more risk-based approach, which would reduce the regular reporting we require from the companies.

In our focus report, '[Getting it right for customers – how can we make monopoly water and sewerage companies more accountable?](#)'

we published more information on how this might work, and we asked stakeholders for input and comments. We have also met with the companies and held several stakeholder workshops to explore this further.

We welcome the broad support we received in those discussions, and we note the concerns that have been raised. We are particularly conscious of the companies' concerns about moving too quickly to a new approach, the potential for uncertainty about their obligations under a new approach, and the fear that removing some of our

data collection could lead to less transparency in the water and sewerage sectors.

We think it is important to manage the trade-off between these concerns and the need to develop a sustainable, less data intensive, more targeted approach to regulation. In our work, we are considering not only how we monitor and review compliance with obligations, but also the data requirements and processes for price reviews and our approach to targeted reviews or audits.

June return 2011

One specific aspect of this project is to examine the data we collect regularly (in the June return). We are considering how we use the data, the value it adds for customers, and the cost and burden of collecting and reviewing it. A crucial part of this work is to understand how other stakeholders use the data we collect, the value it has for them and their future data requirements. This includes the companies themselves.

While this work is ongoing, we think there is potential to take a

first step towards reducing the burden of data reporting. In the work we have done so far, the companies have made it clear that the commentaries they provide alongside the data in the June return tables are particularly time-consuming and expensive to produce. They say they identify clearly the key issues for their company in the executive overviews, so the commentaries do not add significant value.

So for 2010-11, we are not asking the companies to provide detailed commentaries for each chapter of the June return. We only require an executive overview along with the tables. This also means that we only require reporters to prepare a summary report that sets out any issues they identified during their audit, rather than an overview and detailed commentaries as in previous years.

We will issue the draft information capture system for the data return

Regulatory
compliance



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.

by 17 December. We will issue the guidance that accompanies the data requirements in January so that we can be sure that it reflects our revised approach and is directed at material issues. The guidance will also set out what information the companies will need to provide to meet the requirements of other bodies (such as the Environment Agency, the Consumer Council for Water and the Health and Safety Executive).

Unit costs and relative efficiency comparisons

Another aspect of our review of the overall data intensity of our work is the collection, collation, analysis and publication of unit cost and relative efficiency on an annual basis. This links very closely to the review of our current use of comparators and our approach to cost assessment as part of our project on future price limits. That review may

affect how we assess efficient costs in the future. We will consult extensively on alternative approaches.

Again, as a first step, we have decided that we will not publish unit cost and relative efficiency information for 2009-10. We would like to thank the companies for the work that they have carried out this year to help to provide data that is sufficiently robust for modelling purposes. This will allow us to use the 2009-10 data in our work, should we need to. The [June return data](#) is currently available on our website.

If you have any questions about the approach we are taking to the 2011 June return, please send them to quality.assurance@ofwat.gsi.gov.uk in the first instance.

If you want to know more about our regulatory compliance project, please contact Ingrid Olsen, Project Manager, at ingrid.olsen@ofwat.gsi.gov.uk.

More information

'Getting it right for customers – How can we make monopoly water and sewerage companies more accountable?', Ofwat's focus report on our risk-based approach to regulatory compliance

'Improving regulatory reporting and compliance', Keith Harris, July 2010

[June return data](#)

[Sustainable water event](#), 20 October 2010

For details of our future regulation programme, go to www.ofwat.gov.uk/future



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