

Information notice

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Monitoring the quality of companies' performance information – the company monitoring framework

This information notice summarises our final framework for overseeing the quality of the information that the largest 18 monopoly water and wastewater and water only companies in England and Wales provide to customers. It explains the actions that we want companies to take.

This does not affect the reporting requirements for the information that individual companies will provide by 15 July 2015 on performance in 2014-15. We set these out in [IN 15/02 'Expectations for company reporting 2014-15 – regulatory accounts, accounting separation and performance information'](#), which we published in March 2015.

Background

Our [shared vision for the water sector in England and Wales](#) is one where customers, the environment and wider society have trust and confidence in water and wastewater services, reflecting the vital nature of these public services. We want the companies that provide these services to be accountable to their customers for delivering the

services they need and want at a price they can afford.

In 2014, we set the price and service package ('price controls') that each monopoly company must deliver to their customers in the five years between 2015-16 to 2019-20. In setting prices we gave companies greater responsibility for:

- delivering the things that customers, society and the environment want ('outcomes');
- owning their relationships with their customers and stakeholders; and
- using these relationships to understand and enable delivery of these outcomes.

To improve the accountability of water companies to customers and society for delivery, we expect companies to be transparent in reporting their performance.

Having information that is easy to understand and navigate provides transparency and helps everyone build trust and confidence in water. Information forms the basis for conversations so that water companies can listen to their

customers and deliver the outcomes they, the environment and wider society want. Information reveals excellence within the sector, to provoke all companies to lift their game and deliver the best for their customers. And information helps us and others – such as customer groups, environmental groups and investors – to hold companies to account. We will do this by speaking with and listening to others to identify the biggest risks and opportunities to trust and confidence – and where action needs to be taken to avoid problems or make improvements.

We need to make sure that the information that water companies publish can be trusted. In [IN15/01 'Future company performance reporting and assurance'](#), which we published in February 2015, we set out:

- the basic information we would require monopoly water companies to report in an annual performance report from 2015-16 onwards (the 'future reporting framework'); and
- new arrangements that require water companies to take

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

ownership of the information they collect and to provide customers and stakeholders with assurance that the information can be trusted (the 'company monitoring framework').

In 'Company monitoring framework – further consultation', which we also published in February 2015, we consulted on proposals for:

- how we will set the specific additional assurance requirements; and
- how the assurance requirements on individual companies can change over time.

Below we summarise our final decisions on the company monitoring framework. More information is available in 'Company monitoring framework – final position' on our website. In 'Further consultation on company monitoring framework – summary of responses', we summarise what respondents to our consultation told us – and how we have used their feedback.

Company monitoring framework

The company monitoring framework will help us to make sure that water companies provide high-quality assurance on their performance to customers. It will also challenge water companies to put processes in place so that the underlying data can be trusted ('assurance'). Where there is a lack of confidence in the information individual water companies provide about their performance, we will step in to protect customers.

In 'Company monitoring framework – initial assessment', we explained how we have placed water companies in one of three categories:

- self assurance;
- targeted assurance; or
- prescribed assurance.

We consulted on our detailed proposals of what this would mean for companies in each of these categories in 'Company monitoring framework – further consultation'.

Most respondents broadly agreed with our proposals, although many raised detailed points. After considering these responses the details of our final framework are as follows.

- **Self assurance** – Alongside each set of information they provide, the Boards of these water companies must provide:

- explicit sign off on the assurance that they are providing;
- full transparency on the audit procedures; and
- a summary of the outcome of the assurance that their company has carried out.

- **Targeted** – Companies, in conversation with their stakeholders, are best placed to identify where the risks, strengths and weaknesses arise in providing the quality of information that stakeholders want and will trust. In addition to meeting the requirements for the self-assurance category, companies in the targeted category are required to:

- carry out an exercise with stakeholders to target issues to address; and
- publish a statement on this in the autumn of each year in advance of submitting information.

For issues a company targets, they are required to publish draft assurance plans and speak with and listen to stakeholders before confirming final plans, but only in these targeted areas.

- **Prescribed** – In addition to meeting the requirements of self-assurance and targeted categories, companies in the prescribed category are required to publish their assurance plans for all information in advance of reporting. This is so that stakeholders (including us) can gain confidence and if necessary provide comments or guidance that the company would need to respond to. The risks, strengths and weaknesses exercise that a prescribed company carries out with stakeholders will highlight the areas of reporting that have the most significance or are of greatest risk to customers. For these areas the company will need to incorporate independent external assurance as part of its assurance plans.

Where a company demonstrates that it is able to provide appropriate assurance, we will reduce the level of prescription on the process it must carry out in deciding on how it provides assurance. If a company provides information in a way that reduces the trust and confidence customers can place in it, we

will step in to increase the prescription in order to protect customers.

Next steps

It is now for companies to deliver the outcomes that customers, the environment and wider society want, and provide assurance on this. It is important that this is reported to customers in a transparent and clear way, and we expect companies to step up and take responsibility for this too.

We are developing a further tool, the financial monitoring framework, which we will use to monitor companies' financial structures and financial stability, enabling us to take proportionate and targeted action as necessary to address unacceptable risks. We also expect others to use the framework as part of their risk assessment and to inform their actions.

We are also working with key stakeholders, including other water sector regulators, to develop an assessment framework and performance dashboards for monitoring the progress that the sector makes towards our vision for it. We will provide further information on these later in the year.

As part of developing the policy framework for the next time we set companies' price controls in 2019, we are considering how best to reflect their performance in 2015-20 in their settlement at the next price review. This includes:

More information

[Information and assurance web pages](#)

[Company monitoring framework – final position, June 2015](#)

Ofwat's [strategy and approach to regulation](#)

[Further consultation on company monitoring framework – summary of responses, June 2015](#)

[IN15/01 Future company performance reporting and assurance, February 2015](#)

[IN 15/02 Expectations for company reporting 2014-15 – regulatory accounts, accounting separation and performance information, March 2015](#)

[Company monitoring framework – further consultation, February 2015](#)

[Company monitoring framework – initial assessment, February 2015](#)

- the extent to which they have delivered for customers, the environment and society;
- the quality of their continuing engagement with their customers; and
- the quality of their reporting.

So, we expect to make use of the information published by companies between 2015-16 to 2019-20 to inform our decision making in 2019. We also expect to apply higher scrutiny to the price controls of those companies that do not have a proven track record.

Enquiries

If you have any questions about this information notice, please

send them to financeandgovernance@ofwat.gsi.gov.uk.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk
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Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a leading economic regulator, trusted and respected, challenging ourselves and others to build trust and confidence in water.