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Company monitoring framework consultation response
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By email: FinanceAndGovernance@ofwat.gsi.gov.uk

10th April 2015

Dear Ofwat,

Thank you for the opportunity to respond on this consultation, and for the helpful workshop provided on March 19th to discuss these issues.

We consider that a strong approach to assurance of regulatory information is important to retain the trust and confidence of all stakeholders in the process.

As such, we envisage that Bristol Water will continue to retain a high level of external assurance for all reported data, and this is unlikely to be materially impacted by Ofwat's classification, save for specific areas of additional assurance that may be requested. Nonetheless, we consider that it is important that an appropriate framework is established to provide certainty on the process that will be followed.

We provide our responses to the specific consultation questions below, please contact us if we can be of further assistance on this.

Yours Sincerely,

Mike King
Regulatory Director

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1. Do you agree that companies in the self assurance category should provide explicit sign off on the assurance that has been provided?

Yes, we consider for all categories companies should make clear the level of assurance provided. This will provide evidence that the minimum requirements set out have been met.

2. Do you agree that the assurance process, and the outcome of that assurance process, should be transparent? Do you have any suggestions of how this could be accomplished?

We agree that the outcome of the assurance process should be transparent, and that companies should be required to set out any material issues discovered through the process. A formal statement of the challenges received and the company response may be appropriate to achieve this. Companies should also set out the process that has been followed.

3. Do you agree that a company in the prescribed category should consult on its assurance plans with stakeholders? If not, what approach to prescribing assurance would you suggest?

We agree that consultation with stakeholders is appropriate, provided that the relevant stakeholders feel suitably equipped to provide such an opinion. We consider that the opinion of Ofwat remains paramount to the quality of assurance provided, and that therefore the most important issue is that Ofwat is satisfied that the proposed assurance meets its requirements. A formal statement of approval of the proposed approach may be useful to this effect. This would be consistent with Ofwat's previous approach of approving audit plans.

4. Do you consider the outline approach that we have set out to be practicable, or can you suggest improvements?

The proposed timetable may become tight with limited time to make major adjustments before the assurance programme commences. It would be preferable for the company deadline for publishing the assurance plan to be brought forwards to three months preceding the assurance process, with stakeholders given a month to comment, and the final plan to be published one month later .. This would allow a further month for any regulatory intervention prior to commencement of the assurance process.

5. Do you think that our guidance could be minimal or do you think that it is necessary for us to define a high level of prescription to protect customers?

Where Ofwat has specific requirements it expects companies to meet it would be helpful to be prescriptive and explicit on these requirement, for the avoidance of any doubt or misinterpretation throughout the process. It would not be helpful for Ofwat's assurance requirements to only be made clear after the assurance process is complete. The particular areas which have pushed a company into the prescribed category should be identified to ensure the company addresses these. Where Ofwat is more open to different approaches that companies may take we consider that a less prescriptive approach would be appropriate.

6. Do you think that companies in the targeted category should publish an assessment of risks, strengths and weaknesses, to be used to target more prescriptive assurance

requirements? If not please suggest how we should target the areas that require more prescriptive assurance.

We agree this approach sounds reasonable and it would be useful for all companies to publish this assessment. In addition Ofwat should specify the areas it has already identified as targeting to ensure these are addressed.

7. Do you think that the prescription for targeted areas should be the same as for the prescribed assurance category? If not please suggest how assurance should be prescribed.

We agree this approach sounds reasonable.

8. Do you think that for areas that are not targeted that the prescription for these areas should be the same as the self assurance category? If not please suggest how assurance should be prescribed.

We agree this approach sounds reasonable.

9. Do you think that companies should move to a tighter assurance category immediately an issue that reduces trust and confidence comes to light, rather than wait for an annual review? Do you think that the examples which we have provided are appropriate?

We agree that in some circumstances moving immediately to targeted assurance of a specific area may be appropriate for either a self-assurance company or a company that was already targeted on other areas. The implications of moving to another category immediately, for assurance consultation requirements on any imminent publications, would need to be set out at the time. It may be more appropriate for moves downwards for Ofwat to give immediate notice of the change e.g. if the deadline for publishing the assurance plan for a prescribed company is three months preceding the assurance process, then a three month notice period may be appropriate.

To provide certainty around requirements and timings of decisions it would be better to retain an annual review of overall classification of assurance. The outcome of that review may be impacted by the company's reaction to any issues identified during the year.

10. Do you think it is appropriate that companies can move up from the prescribed to targeted category or targeted to self assurance category without the need for a positive relative assessment?

We consider an annual assessment of all companies is reasonable, and should inform all changes in category.

If a company has addressed areas of weakness, and improved or maintained standards in all other areas, it should be able to move up on its own merits, without the need for a positive relative assessment.

11. Do you think that an annual relative review is unnecessary? If you think Ofwat should undertake an annual relative assessment, do you consider it necessary for moving companies both up and down or only in one direction?

We consider an annual assessment of all companies is reasonable, and should inform all changes in category.

12. Do you think that it is appropriate for companies to spend at least two years in the prescribed assurance category?

No, we consider that if a company has addressed all concerns within one year, an immediate movement upwards would be appropriate.

13. Do you agree that the overall package of proposals leads to appropriate incentives for companies? Are there ways you consider that these incentives could be improved?

We have no objections to the proposed process. We do not consider that these necessarily represent an incentive, as whilst we recognise the reputational incentive for achieving a higher category, we would not relax our assurance process in response to a move upwards.

Targeted companies are being asked to publish a statement in the autumn in advance of submitting information identifying risks, strengths and weaknesses. As this applies to all published information and reports to Ofwat, it must be noted that not all the information that will be required over the next year will be known in the autumn, particularly in relation to price reviews and other new reporting requirements that may be introduced.

In autumn 2013, for example, the full scope of documents published and reported to Ofwat in the subsequent year was not known and the associated risks and weaknesses could not have been anticipated at that point. There needs to be acceptance that an annual publication will be produced with reference to known requirements and that other risks and weaknesses may be identified at a later date. Listing the publications and reports known at the time, in the autumn statement may help to clarify this.