



Company Monitoring Framework - further consultation by Ofwat

1. Introduction

- 1.1 The Consumer Council for Water (CCWater) is the statutory consumer organisation representing water and sewerage consumers in England and Wales. CCWater has four regional committees in England and a committee for Wales.
- 1.2 We welcome the opportunity to comment on Ofwat's consultation on the proposed assurance that water companies can put in place to give customers and other stakeholders confidence that the information they provide on their performance is both accurate and reliable.

2. Executive Summary

- 2.1 We agree that it's essential that processes are in place to ensure company performance data is robust, accurate and transparent. Annual performance reports are likely to receive widespread scrutiny from stakeholders, and will form the basis for communicating with customers on how well companies are performing in delivering agreed outcomes. They will also be a source of information for CCWater and others to use to challenge companies to continually improve.
- 2.2 Receiving accurate data will give Ofwat, CCWater and others the ability to make some comparisons of companies' performance against measures that are the same or similar for some or all companies. Benchmarking performance can inform stakeholders' challenges to companies, leading to benefits for customers. Customers and stakeholders perceptions of how the industry is performing may be negatively influenced if there is a lack of comparability in the data.
- 2.3 We are aware that there may be only limited comparability due to the large volume and diversity of performance commitments and the measures used to track their delivery. Companies may also have different interpretations of the ways in which they should gather and use information to track performance against these measures.
- 2.4 Such diversity could restrict the ability to compare company performance, benchmark and challenge where appropriate. This may have a negative reputational impact on both the industry and the regulation of it, as customers and stakeholders may not have a clear picture of how well companies are performing in comparison to others.
- 2.5 Therefore, as part of the development of the company monitoring framework, we would like Ofwat to
- look at where data can be normalised against any common performance commitments, in a way that can enable benchmarking without creating an additional reporting burden for companies¹.
 - issue guidance to companies to reduce the risk of misinterpretation of the data needed to measure performance, and how this data should be used.
- 2.6 CCWater supports the risk-based approach to data assurance. While companies should be responsible for providing this assurance, the level of regulatory

¹ CCWater made comments about the risks of limited comparability and the need for a level of prescriptiveness in Ofwat's performance monitoring framework to help overcome this, in our response to the November 2014 Ofwat consultation on the draft framework. See paragraphs 11 to 13 [here](#).

intervention should be driven by a company's track record in both its performance and quality of data provision. As such, we agree with the three categories for data assurance Ofwat has set up.

- 2.7 We consider that
- Companies in the 'self assurance' category should be required in their annual performance reports to show how data has been assured and give their Board's 'sign off' for the report.
 - Companies in the 'targeted' category should have a more prescriptive approach in areas of performance where there have been data quality issues in the past
 - Companies in the 'prescriptive' category should receive more guidance on assurance across all performance areas.
- 2.8 Where a prescriptive approach is needed (across all or targeted areas) we think Ofwat should produce 'good practice' guidance to drive companies to the level of data assurance required.
- 2.9 We also consider that immediate action should be taken if Ofwat or stakeholders identify an issue with company data, rather than rely only on an annual assessment to instigate action.
- 2.10 In this way, customers and stakeholders can have trust and confidence that published performance data is reliable, and a clear and proactive process is in place to quickly address any issue that may arise.
- 2.11 The ability to move between assurance categories over time should also give companies a reputational incentive to strive to provide good quality data that has been subject to robust assurance processes.
3. **Responses to consultation questions**

Q1 Do you agree that companies in the self assurance category should provide explicit sign off on the assurance that has been provided?

Yes. While companies in the 'self assurance' category have earned this status through the quality of information they have provided previously, it is still important that customers and stakeholders receive assurance that the data a company reports has been properly audited and the company's Board is fully accountable.

Q2 Do you agree that the assurance process, and the outcome of that assurance process, should be transparent? Do you have any suggestion on how they should be accomplished?

Yes. Transparency of both the process and its outcome would give customers and stakeholders assurance that the performance data has been checked for accuracy in an appropriate way. Information relating to this could be provided within the company's annual performance report. This could explain the process, who was appointed to carry it out and when, and what changes were made (if any) as a result. Further assurance can be provided by asking company Boards to 'sign off' the data provided.

As explained in the executive summary above, we would welcome further work to remove any disparities in the way performance data is gathered or how specific measures are interpreted by companies. This would lead to improved comparability.

There is a risk that while the performance data may be transparent to customers and/or stakeholders, it may not seem this way if different companies are reporting performance in different ways. This could have negative reputational impact on the industry and how it is regulated.

Q3 Do you agree that a company in the prescribed category should consult on its assurance plans with its stakeholders? If not, what approach to prescribing assurance would you expect?

We would like to see all companies publish assurance plans in advance of annual performance reports. This would allow Ofwat the opportunity to intervene if the assurance process is incomplete or is unsatisfactory in any areas. Ahead of this, we would welcome all companies (regardless of category) consulting CCWater (and any other interested stakeholders) in the process of assurance. CCWater has an interest in the information the company provides, so we would be interested in having early indications from the company (and an opportunity to comment) on how the company proposes to do this.

Q4 Do you consider the outline approach we have set out to be practicable, or can you suggest improvements?

The process for companies to consult stakeholders, publish the assurance plan, and then publish the annual performance report seems reasonable. Stakeholders would have one month to comment on the proposed method of assurance, though companies may wish to give stakeholders a longer period of time, especially if they wish to discuss their approach directly in meetings. It is important that this series of checks are in place to help ensure there is data accuracy.

Q5 Do you think that our guidance could be minimal or do you think it's necessary to define a higher level of prescription to protect customers?

We think that companies should receive some guidance from Ofwat on the 'good practice' assurance that companies should aim for. This would have the following benefits

- Without an indication of Ofwat's minimum expectations of assurance, the range of assurance methods proposed by companies may not be adequate and lead intervention by either stakeholders (at the consultation stage) or Ofwat. This could delay the process of preparing the annual performance report.
- It would give stakeholders assurance that such guidance has been provided to the company, and at the consultation stage, stakeholders can measure a company's proposed approach against this.

Ofwat should produce this guidance in advance and demonstrate how it has established 'good practice'.

Q6 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 that such an assessment should be published before prescriptive assurance processes are put in place for the 'targeted' areas of performance. However, there would need to be time allowed to consider whether the company's proposed 'target' areas are the right ones. Ofwat's expertise of assessing data submitted during the price review (and in other company reporting processes) would provide perspective on whether the company has identified the right areas where there may previously have been weaknesses or risks in either the quality of the data and/or the assurance underpinning it.

Q7 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 can be prescribed.

We agree that the level of prescription for the targeted areas of performance should be the same as for companies under the 'prescribed' category.

Q8 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 that 'self assurance' should apply to non targeted areas. By the very nature of being in this category, a company clearly has had a lack of clarity or reliability in reporting performance only in certain areas, while the reporting of other areas of performance has been adequate. In this case we agree the guidance (and the process or 'prescribed' assurance) should only apply to the targeted area. Self assurance should apply for the rest.

Q9 Do you think that companies should move to a tighter assurance category immediately as an issue that reduces trust and confidence comes to light, rather than wait for an annual review?

Yes, we agree. In the interests of giving customers trust and legitimacy in both regulation and in the water sector, it is important that greater prescription is applied as soon as an issue with any areas of company reporting comes to light.

Q10 Do you think it is appropriate that companies can move up from prescribed to targeted category or targeted to self assurance category without the need for an annual relative assessment?

We think it's appropriate that companies are moved from one assurance category to another without the need for a formal annual assessment because

- It will ensure that issues with data quality and assurance are addressed as soon as they come to light, rather than waiting for an annual assessment to take place. This level of intervention would give customers and stakeholders confidence that regulation can correct such matters quickly as and when problems occur.
- It may be stakeholders other than Ofwat that highlight issues with data. As this means stakeholders as well as Ofwat could 'trigger' a change in categorisation, this places additional scrutiny and pressure on companies to ensure their data reporting is accurate.

Q11 Do you think an annual relative assessment is unnecessary? If you think Ofwat should undertake an annual relative assessment, so you consider it necessary for moving companies up and down or only in one direction?

Relying solely on assessing data assurance as and when issues come to light may not be sufficient enough to ensure data is assessed for accuracy and reliability. While it's important that identified issues are acted upon immediately, an annual assessment in addition to this would provide greater confidence.

Issues with data quality may have been missed, so an annual assessment would provide a 'second level' check. We recognise that this could create a resource burden on Ofwat and companies. However, as company performance is published and will be subject to wide ranging scrutiny, we think the value of an annual review justifies this.

The annual assessment should also identify whether any companies should move up or down the categories, so the process identifies both positive and negative changes in company data reporting.

Q12 Do you think it is appropriate for companies to spend at least two years in the prescribed assurance category?

Yes, as this would give Ofwat and stakeholders assurance over a longer period of time that earlier issues with data have been addressed.

Q13 Do you agree that the overall package of proposals lead to appropriate incentives for companies? Are there ways you consider that these incentives could be improved?

The combination of immediate intervention as and when issues arise, along with an annual assessment of data quality, should provide an incentive for companies to ensure their data assurance processes are transparent and robust.

Additionally, as annual performance reports are published, there is a reputational incentive to aim for the 'self assurance' category as this would demonstrate to customers and stakeholders that the company has a good reputation for clear and accurate reporting of its performance.

We think this acts as sufficient incentive to drive quality data reporting.

Enquiries

Enquiries about this consultation response and requests for further information should be addressed to:

Steve Hobbs
Senior Policy Manager
Consumer Council for Water
Tel: 0777 817 5006
E-mail: steven.hobbs@ccwater.org.uk