

**Further consultation on the company
monitoring framework
– summary of consultation responses**

1. Introduction

On 11 February 2015, we published a further consultation on the company monitoring framework which set out our final proposals for:

- how we will set the specific additional assurance requirements; and
- how companies will move between categories over time.

Stakeholders had until 10 April to respond to these proposals.

We held four workshops in March 2015, which were attended by more than 50 representatives from:

- the 18 largest regulated monopoly water companies;
- financial auditors;
- technical auditors and consultants;
- the Consumer Council for Water (CCWater);
- customer stakeholder representatives;
- the Welsh Government;
- the Environment Agency; and
- Natural Resources Wales.

At the workshop, we presented an overview of our proposals, discussed the consultation questions in more details and ran through several group exercises to draw out stakeholder views.

We received responses to our consultation from 18 companies, CCWater and Richard Creswell (incoming chair of Wessex Water's catchment panel). In chapter 2, we summarise:

- the key themes of the consultation responses;
- our response; and
- the impact on our proposed company monitoring framework.

2. Summary of consultation responses

Overall, there was much support for the general aims and the approach of the framework, particularly around transparency and engagement with stakeholders, but many points were raised on the specifics of the proposals.

Theme	Background and summary of consultation responses	Our response
Ofwat's role when considering assurance plans	Many respondents requested clarity on our role when considering assurance plans. Are we just another stakeholder they need to engage with or are we formally approving and signing off on assurance plans?	In line with our shared vision, it is important that companies do not focus on Ofwat. So we have made it clear that we will not formally approve plans. We will respond along with other stakeholders. We do not expect extensive involvement with all companies.
How prescriptive should our guidance be?	<p>We considered in the consultation whether our guidance on the process could be minimal, or whether a high level of prescription is necessary to protect customers.</p> <p>Respondents' views were very mixed – ranging from Ofwat setting no guidance to prescribing the exact nature of guidance for all information reported.</p>	<p>We have only provided guidance where we can demonstrate a clear need for it.</p> <p>We consider this is risk based in line with providing a safety net, and given the opportunity to comment on assurance plans set out in the guidance, it is not necessary to be overly prescriptive initially.</p>

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Performance issues reducing trust and confidence, which are not caused by assurance or data quality issues. Is demoting the company appropriate?	Several respondents have commented that many of the factors we refer to in the consultation as reducing trust and confidence are performance issues that are not caused by assurance or data quality issues. If a company fails a performance commitment but has no issues with assurance, demoting that company would not address the issue. Linking additional assurance to poor performance could create perverse incentives to ignore or hide issues.	We have confirmed that failure to meet a performance commitment will not, in itself, be sufficient reason for a company to move down into the targeted or prescribed assurance categories. Movements will always be based on the information a company provides (or fails to provide). We have included examples in our final framework to explain when we would and would not take action. Ignoring or hiding issues would be reasons to move a company.
Materiality	Several respondents raised the issue of materiality. It is not possible to achieve zero errors and it could be considered a disproportionate response to demote a company for only minor errors. Perfection is not achievable and would lead to excessive cost.	Materiality should be considered and we expect companies to apply a risk-based approach. To provide clarity, we have included examples in our final framework to illustrate where we would and would not take action – for example, around materiality.
Subjective factors reducing trust and confidence	A number of respondents considered that some of the factors listed (which may lead to a downgrading) are outside of the company’s control or are subjective – for example, open strategic cases.	To provide clarity we have included examples to illustrate where we would and would not take action. We continue to consider that it would be inconsistent for a company to be in the self assurance category at the same time we are investigating potential issues. We have clarified that this does not include cases that have lasted beyond our existing timescales and where the company has provided timely and co-operative responses.

Theme	Background and summary of consultation responses	Our response
Concerns around insufficient time available to consult with stakeholders and revise plans	All respondents agreed with our proposal to consult with stakeholders, but raised concerns about insufficient time for consulting and implementing any changes required. We need to recognise that stakeholders have limited time and resources. Also, some respondents thought that for some technical areas stakeholders would not be able to add value to the process.	We appreciate that in order to provide an effective assurance plan that builds trust and confidence it is important to allow flexibility for companies to manage their own timescales. Rather than producing a timetable with specific dates for companies to work to, we have explained the processes that companies will carry out through the reporting year. Companies are expected to tailor the type and extent of engagement to each particular stakeholder. A company should be able to demonstrate efforts to engage proactively with stakeholders as part of the exercise. A company will most likely want to explore different issues with different stakeholders as part of the conversations that occur.
Moving to a tighter assurance category as soon as an issue comes to light or waiting for an annual review?	Our consultation considered if it would be appropriate to move a company to a tighter assurance category as soon as an issue comes to light, rather than wait for an annual review. Most respondents disagreed that a move down should be immediate, citing reasons of consistency or allowing companies the opportunity to respond and put things right.	In terms of moving between categories, we explain in our final framework that most changes will occur in the autumn, but we may, especially with significant issues, move companies immediately. We will endeavour to check the factual accuracy of our explanation of the move in advance – although in some cases this may not be appropriate, such as when a strategic case concludes.

Theme	Background and summary of consultation responses	Our response
Moving up without a positive relative assessment	Our consultation discussed if it was appropriate that companies can move up to a higher category without the need for a positive relative assessment. Only two respondents thought that some sort of comparative analysis could be helpful; everyone else considered that as long as the company can demonstrate it has addressed the issues it should move up. But some respondents recognise the value in Ofwat highlighting good practice.	We hope that the increased transparency in this area will allow companies to share good practice more easily, but we will keep this under review.
Requiring companies to spend two years in prescribed category	Our consultation asked if it was appropriate for companies to spend at least two years in the prescribed assurance category. We received mixed views again, with half of respondents supporting a minimum of two years, although with some caveats that only when an endemic or systemic issue has been discovered. The other ten respondents supported a company being moved as soon as they were able to demonstrate that the issues had been addressed.	We continue to think that it is important for improvement to be sustained before a prescribed company is moved, which we think should be more than one year. At the same time, we note the current company would remain in the prescribed category for nearly three years before having the opportunity to move. This may not give appropriate incentives to improve. We have therefore reduced the minimum period to 18 months. For Dee Valley Water, this will mean a minimum of 21 months as it will not be able to be moved until November 2016.

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.



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