

# Company monitoring framework – further consultation

## Southern Water's Response

April 2015



## **Southern Water's response to Ofwat's further consultation on the company monitoring framework for AMP6**

### **Overview**

We are pleased to provide you with our response to your further consultation on the monitoring framework for AMP6.

We welcome fresh consideration of the approach to reporting and assurance for AMP6 and the clear focus on companies taking ownership of reporting of their performance to stakeholders and customers.

However, we do not think the proposals as set out will deliver the objective of improving stakeholders' trust and confidence in the quality of information that is reported by companies.

Whilst we support the focus on companies taking ownership of their reporting, we do believe that to deliver the objective, there is a need for (i) greater independence in the analysis of risks, to avoid a stakeholder perception that companies are 'marking their own homework', and (ii) a clear Ofwat-defined framework for reporting of regulatory data, to provide stakeholders with the reassurance that there is independent oversight from the regulator of the process. We think that is a role that our stakeholders would expect Ofwat to be playing.

We think the reporting framework should set out minimum standards and include a requirement for companies to commission an independent review of their data risks. Companies should be required to clearly demonstrate how their assurance processes address the risks identified and to have discussed this with their customer advisory groups.

We do welcome Ofwat's clear focus on ensuring that companies engage meaningfully with their stakeholders on delivery of their plan and this is something we have strongly committed to in our business plan. However, the nature of the reporting and assurance subject means that this is unlikely to represent the most effective use of our stakeholders' scarce resources. Our stakeholders have limited time and resources to devote to water sector issues and we believe our engagement with them needs to be targeted in the areas where they can add most value for our customers.

We think that further consideration and engagement with both companies and stakeholders would be helpful before the proposals are finalised. We would welcome the opportunity to discuss our ideas further with Ofwat.

We set out responses to the specific consultation questions below.

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

**Q2. 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 Boards should explicitly sign-off the data that is being published. It is not clear what additional benefits there are from also publishing details of the audit procedures and the outcome of the assurance process. We are not convinced that stakeholders beyond Ofwat and the other statutory regulators, would find this information useful and does not obviously fit with the “self-assurance” categorisation. Transparency is important; however it is not necessarily an end in itself, but a means by which stakeholders can hold companies to account. It is not clear how publication of audit procedures delivers against this objective.

We would suggest that explicit Board sign-off of published data is all that should be required for a company in the highest “self-assurance” category. Companies should also be required to demonstrate to their customer advisory groups how they have satisfied themselves that their performance data is fit for purpose.

**Q3. 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?**

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

**Q5. 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?**

It is not clear what the fundamental purpose of consultation with stakeholders on an assurance plan is, or whether this is an area where most of our stakeholders can add significant value. Our stakeholders have limited time and resources to devote to water sector issues and we believe our engagement with them needs to be targeted in the areas where they can add most value for our customers. We are committed to developing our relationships with our stakeholders on the basis of providing them with the information that they require, in a timely and digestible manner.

We do not believe that data assurance is a key issue for most of our stakeholders, who will expect that the regulatory data we publish is fit for purpose and that it is the function of the regulator to hold companies to account for this.

Given these stakeholder expectations, we think that a more effective approach would be one where Ofwat set out a clear framework for company reporting, setting out minimum required standards of assurance and including a requirement for an independent assessment of reporting risks and the publication of an action plan to address these risks. Having clearly articulated the minimum required standards, Ofwat should then only intervene where company plans do not satisfactorily address the risks identified or stakeholders have clear concerns.

We would expect to engage closely with our Customer Advisory Panel on the reporting and assurance of business plans and this should be a requirement of the reporting framework. However, given the nature of the subject, we do not think that wider consultation with stakeholders is likely to deliver the level of scrutiny and accountability that Ofwat assume, due to the nature of the subject.

**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.**

**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 should be prescribed.**

We agree that a prospective review of risks is more beneficial than targeting assurance in areas where risks have already materialised. However, we do not think that stakeholders or customers would take particular comfort from companies identifying their own risks and targeting only these areas.

We think that clear evidence of an independent review of risks should be a key obligation of Ofwat's reporting and assurance framework, with companies deciding how they best fulfil this independence requirement. Such an approach would in our view be essential in building the trust and confidence of stakeholders in performance reporting.

Ofwat's reporting and assurance framework should also evolve over time and build on Ofwat's ability to look across companies and compare approaches to reporting and data management to drive best practice in the sector.

As noted above, we support a requirement for consultation with customer advisory groups on reporting and assurance, but we do not think a wider consultation would represent an effective use of our stakeholders' scarce time.

**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.**

Yes, we agree that the requirements should be the same. However, as we suggest above, if there are no risks identified by the independent assessment then the only requirement should be for explicit Board sign-off of reported performance data.

**Q9. 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 if an issue arises during the year Ofwat should have the discretion to move a company between assurance categories immediately, or require companies to take other appropriate action.

However, the consultation here mixes up data assurance with performance against business plan and other commitments. It does not seem logical to prescribe a more rigorous level of data assurance if a company fails to meet a performance commitment. Changes in assurance categorisation need to relate to risks around reporting, as independently identified, not performance.

**Q10. 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?**

**Q11. 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 do not think that stakeholders would agree that companies should be able to move to a higher assurance category without some explicit, independent assessment of their risks around performance reporting. We think this independence should form a key plank of an Ofwat reporting and assurance framework.

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

Yes we agree that this would be appropriate, to allow time for any identified deficiencies in data systems to be addressed and new systems and processes consolidated.

**Q13. 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?**

If the overriding objective of the proposals is to improve stakeholders' trust and confidence in the quality of information that is reported by companies, we do not think the proposals would deliver that aim.

We think that most stakeholders would expect there to be greater independence in the assessment of risks around data quality, rather than leaving this for companies to identify, and for the regulator to develop a clear framework of minimum standards and proactively monitor companies to ensure that all companies meet their regulatory reporting obligations.

We do not believe that our stakeholders, beyond the statutory regulators and our Customer Advisory Panel, will expect or want to be engaged in a process of data assurance, nor would they feel they have the necessary resources or expertise to effectively hold companies to account.