



# South Staffs Water

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Company monitoring framework consultation response,  
Ofwat,  
Centre City Tower,  
7 Hill Street,  
Birmingham,  
B5 4UA

10 April 2015

Dear Sir,

South Staffs Water is pleased to submit a response to the Ofwat consultation on the Company Monitoring Framework.

On the whole, we recognise the need for Ofwat to give companies ownership of their own assurance processes through the proposed risk based approach.

Below we have summarised three key areas of the consultation we wish to specifically highlight and include in the attached appendix the detailed responses to the consultation questions.

### *The assurance categories and a company's reputation*

It was clear from the workshop at Ofwat on the 25<sup>th</sup> March that the category which a company is in can result in material level of external interest and a large reputational risk. We believe that Ofwat has a responsibility to ensure that the meaning and function of the assurance categories is clear to external organisations, and the reasons that a company is in a particular category are fully transparent.

### *The difference between assurance categories in practical terms*

From the consultation document we can observe that the following key processes exist within assurance:

- A base level of assurance
- Board sign off
- A risk based assurance plan
- A strengths and weaknesses analysis on data
- Consultation with stakeholders about assurance processes

We believe that all companies would have to undertake these tasks as part of what makes good, transparent assurance, regardless of the category a company is in. The

reason for this is that there will be a strong reputational incentive for every company to get to and remain in, the self assurance category, and to achieve this each company will want to ensure that all bases are thoroughly covered. The category therefore only makes a difference as to the extent of consultation and publishing which is required, although a self assurance company may decide to consult and publish everything anyway, to minimise the risk of dropping down a category through lack of transparency of process.

We therefore question whether there is any practical difference between the categories. In order to strive to be the best, all companies may publish and consult regardless of category.

*The implication that missing a PC results in an change in assurance categorisation*

On page 17 of the consultation document, there is a paragraph which implies that failure to meet a performance commitment could result in a company dropping into targeted or prescribed assurance. We believe that the actual PCs and assurance activity are unrelated and that it was not the intention of the PCs (especially the upper quartile ones), to be mandatory targets, which is the reason the financial incentives exist (to incentivise but not impose). A company may make a decision to miss a particular PC for valid reasons, and companies are penalised for that through the financial penalties or other regulatory practices. Assurance about the data quality underpinning that PC is not relevant to a decision to target a different level of performance from the PC.

Please do not hesitate to contact me if you have any questions or comments on our response.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'P. J. Saynor', with a long horizontal flourish extending to the right.

Philip Saynor,  
Director of Finance and Regulation  
South Staffordshire Water PLC

## **Appendix: 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?*

Our Board believes that sign off is a fundamental part of assurance – it is what gives the Board ownership and transparency to the detailed processes underpinning any data collection activity and translates that to an overall company statement of trust. We believe that all companies will produce board sign off not just those in the self assurance category and for this reason it should be added to the base assurance requirements.

*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?*

It's hard to argue that assurance shouldn't be transparent since that is the very purpose of assurance. We are quite happy to publish our assurance processes and the outcomes of those assurance processes provided they are taken in context. For example, an internal audit may identify a mathematical error which is immediately rectified. The internal audit in this case was doing its job correctly and it does not imply that all previous data is incorrect. Care must be taken not to infer more significant issues than actually exist due to the outcomes of assurance/audit processes, which after all are there to detect errors. Another example may be that an external auditor has some reservations about data being captured from the field and its accuracy. We may agree with the auditor and we may already have processes underway to improve on the data quality. This does not mean that the data cannot be trusted in its entirety and we must be careful of inferring that the entire process is wrong or not fit for purpose.

Clearly with increased transparency comes increased opportunity for scrutiny and increased risk of stakeholders jumping to conclusions about the strength of a company's systems and processes, yet this scrutiny must be proportionate to the data being collected, its purpose and required accuracy level. 100% accuracy will not be possible for a vast number of collected data and this fact should be acknowledged. It is not the goal of assurance to strive for 100% accuracy at any cost.

*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?*

In principle we agree that external consultation should feature. It is likely in our view that this would be a more significant consultation in the first year, and that in future years the extent of any consultation would lessen unless a material change arises. We would suspect that all companies will be likely to consult on their assurance plans because companies looking to move up will want to show complete

transparency to gain trust, and companies already at the top will be mindful of dropping down.

Our main concern with external consultation is that it could quickly become large and unwieldy. It will be important to focus in on the assurance in the areas that really matter to stakeholders, as companies produce a wealth of data. There is a risk that all external agencies jump on a consultation as an opportunity to dig down into a company's data collection and reporting processes in detail, either to try and expose issues or to maximise the accuracy of the data that particular agency is interested in. We are mindful of the need to constrain a consultation exercise to ensure it operates within sensible boundaries.

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

We are unclear what level of guidance Ofwat is thinking of providing on specific areas to prescribed companies. In the workshop Ofwat seemed to imply that companies would develop their own guidance and Ofwat would comment as a stakeholder. This would seem not to be prescribed assurance (if prescribed is taken to mean 'to tell'). We are still unsure what the practical difference in assurance processes will be for a prescribed company and any other company aside from more emphasis on consultation.

*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.*

We think that this would depend on the reason a company is in the prescribed category and the level of intervention would depend on the circumstances, the data in question and the problem with the assurance if there is one. There is likely to be a gradation of severity of prescriptive guidance depending on the circumstances.

*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 would expect that companies in all categories will want to produce strengths and weaknesses analysis to develop their risk based assurance plans and the difference will be on what the companies publish. We are of the view that all companies (including self assurance companies) should be required to publish a strengths and weaknesses analysis, at least initially, to ensure that all companies are on a level playing field in publishing detailed information about their data quality.

To not require this from self assurance companies is putting a great deal of reliance on the small set of selection criteria that were used during the business plan and does not allow exposure of other data sets which will feature in a complete strengths and weaknesses analysis.

*Q7. Do you think the prescription for targeted areas should be the same as for the prescribed assurance category? If not please suggest how assurance should be prescribed.*

It is not clear yet exactly what the prescription will be as the extent of guidance from Ofwat has not been clarified. We would suggest it again depends on the data in question and the problems with it, which will dictate the necessary regulatory response.

There is also a question of trust. A company is in the targeted category because in the round it can be trusted to self-assure, but there may be a small number of historic problem areas. Provided the company is transparent about its future assurance then the assumption can be made that the company can be trusted to follow an appropriate process as it does for all the other data which is not the case with 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.*

Again, we suspect that most companies will follow the same assurance processes for all data, regardless of category and because of the need to minimise the risk of dropping down a category, or to maximise the likelihood of moving up a category.

*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 the examples which we have provided are appropriate?*

Again this is likely to be influenced greatly by the actual circumstances of a problem with data or assurance and we are unsure on what scale of problem Ofwat would seek to move a company downwards. If a problem was identified and rectified immediately, does that constitute a failing?

However there is one aspect that doesn't seem to fit. The paragraph saying that if a company does not meet its performance commitments could be moved down a category. Not meeting commitments is not about assurance and in some cases (i.e the UQ ODIs) the company may deliberately choose not to meet the new UQ performance level for valid reasons. We have made further comment on this in part 1.

Where stakeholders identify issues with a company's assurance process we would expect this to be backed up with detailed evidence, rather than a speculative concern.

*Q10. Do you think it 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?*

Many of the words Ofwat have used in this consultation, such as confidence and trust, are things which develop over time and build up, not things which can be accurately 'tested' in a formalised one off annual assessment. Therefore we think that to promote the spirit of ownership by companies that the opportunity to move up should exist without a relative assessment.

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

An annual review (by Ofwat) would presumably consist of some form of scoring system on a company's processes, trust levels, transparency, failings, strengths and weaknesses assessment. This would be a burden on both companies (to produce a submission) and Ofwat (to robustly assess companies). If the default position is that a company can move up if it does not have any failings, then an annual relative assessment becomes unnecessary.

If a company does move down a category, it will be extremely important for the company and stakeholders to understand the specific reasons for this to avoid undue damage to a company's reputation. We made further comment on this in part 1.

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

Assuming that the reason a company finds itself in the prescribed category is due to a severe breach of trust, rather than a minor event, then it would seem appropriate for a minimum of two years.

*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?*

On the whole the requirements seem fair and progressive, moving away from Ofwat dictation and more towards company ownership. We do think that the practical difference between the categories is quite small in reality, and most companies will probably undertake the detailed processes regardless of category to ensure they maximise their chances of moving up the categories.