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BY EMAIL ONLY

15 April 2015

Dear Sir/Madam

‘Company Monitoring Framework’ further consultation

Thank you for the opportunity to comment on the further proposals for the Company Monitoring Framework. Yorkshire Water supports the opportunity to provide greater visibility in the way in which we report and assure information for our customers and stakeholders through the Company Monitoring Framework.

The Monitoring Framework needs to be able to provide a clear and consistent process with defined requirements, which can be consistently applied. We have outlined a number of key considerations below, which we feel need to be addressed for these proposals to be delivered effectively.

Definition of assurance categories

Further definition is required to distinguish between the assurance categories and the activity each categorisation would foster. We suggest that this could be improved by reducing the number of categories to two. This would enable a clearer framework to be introduced which could provide more clarity and benefits in the aims behind the Company Monitoring Framework.

Consultation with stakeholders

Explicit definition of stakeholders for the purpose of consultation on assurance would also be helpful. There is a concern whether there is the appetite or technical capability for stakeholders to engage with a consultative process such as this. This could risk an adverse impact on other consultation processes (such as willingness to pay and affordability discussions), as well as the credibility of the assurance process itself.

Distinction between assurance and performance

We feel it is important to distinguish between the quality of assurance processes and the service performance of companies. The proposed Framework appears to blend the two, which may lead to unintended consequences. The principles of good assurance should give confidence in the ability of reporting systems and processes to identify performance concerns; a good assurance process *is designed* to identify risks and issues. Therefore proposals to move companies between assurance categories based on performance or risks are not in accord with categorisation based on quality of assurance. We recommend consideration of the maturity of the assurance process and management response, rather than service performance in the first instance.

Our responses to the specific consultation questions are attached separately to this letter.

Once again, we would like to thank you for the opportunity to comment on the consultation document and we hope these comments are of value. We look forward to receiving the outcome of the consultation on the Company Monitoring Framework in due course.

Yours faithfully,

Leonie Mackenzie
Head of Regulation

Company Monitoring Framework Consultation - Yorkshire Water Response

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

In applying the right levels of sign off and assurance to between the three assurance categories there needs to be clearer definition and categorisation of requirements. This needs to be a consistent process through which the benefits of moving up categories are distinctly identifiable.

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?

During AMP5 the sector has made significant improvements to the way in which it provides greater transparency to customers and stakeholders. However care needs to be taken when considering additional transparency in the context of the proposed assurance processes and outcomes. Assurance is a process rather than an indicator of performance and the two are often easily confused which draws concerns as to ease which this could incur reputational risk.

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?

Any approach taken to consulting on assurance should be clearly defined and consistently applied for each category. How such a consultation on assurance process will work needs to be viewed in proportion to the benefits this will deliver and balanced with any adverse consequences. The audience and appetite for this type of consultation also needs to be clearly defined and the risks and consequences, as well as the benefits weighed carefully.

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

The outline approach needs to be part of a clear defined process which is consistently and proportionally applied. The potential for any adverse risks and consequences needs to be considered when applying this approach along with the practicalities of the increased requirement for transparency by companies. The question of practicality also involves the view of Stakeholders; We suggest that their feedback, along with that from CCGs and companies should be shared by Ofwat in reviewing the output from this 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?

Guidance needs to be clearly defined and consistent with the information requirements and benefits for the level being prescribed. This needs to be proportionate to the level of assurance required. It also needs to be balanced between the impact of additional and potentially overly onerous reporting requirements versus the level of protection customers require for a process based approach such as this.

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.

Requirements for activities within all three categories need to be clearly defined and consistently applied. The level of assurance prescribed and the outcomes from this needs to be proportionate as the proposals seem to offer little difference in terms of the information requirement between the three categories. There is the risk that this could have negative consequences and impact the credibility of both the process and the way in which the sector assures itself.

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.

The way in which assurance requirements are prescribed and targeted should be applied as part of a clear and consistent framework with distinct requirements set out for companies in each of the three categories. This needs to be applied fairly and proportionately in consideration of the impact further prescription could have for companies and their existing processes.

The targeting of areas through the Framework needs to, in any category, be clearly based on the assurance process and not service performance.

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.

The level of prescription applied to companies in the different categories and in different ways needs to be clearly defined and consistently applied. This needs to be applied proportionally. Mixing levels of prescription between the categories and targeted and not targeted areas could lead to a lack of clarity if not clearly defined and communicated and could impact on the credibility of the process.

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?

The way in which assurance requirements are prescribed and targeted should be applied as part of a clear and consistent framework with distinct requirements set out for companies in each of the three categories. This needs to be applied fairly and proportionately in consideration of the impact this could have.

We feel that companies should have the opportunity to put in place proposals and actions to resolve issues arising rather than being immediately penalised. We are concerned that if a company is automatically moved to a tighter assurance category immediately an issue occurs and does not allow the company to respond appropriately then there is the potential for the perception of assurance and performance to be misunderstood and the potential for increased reputation risk occurring.

There also needs to be a clear definition between ensuring that it is the assurance process, and not performance, which clearly drives this process.

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?

We think that any movement of companies between categories wither this is up or down needs to be undertaken through a process which is clearly defined, consistently applied and based on assurance processes not performance outputs.

Moving companies outside a set annual process could cause confusion and potentially harm the credibility of the process for parties involved. The perception may be given of companies yo-yoing between categories.

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 believe there needs to be a clearly defined and consistent approach undertaken to the way in which Ofwat applies the Company Monitoring Framework. This needs to ensure it does not deliver further negative consequences such as the burden of further additional reporting requirements to companies, than are necessary to balance the perceived risk. This needs to provide clear benefits and tackle any potential adverse consequences.

The general concern is that if an approach such as the annual relative review was not used to undertake the relative assessment then an alternative which is not clearly defined could result in a potentially reactive approach which could impact on the credibility of the process and subsequently companies' own assurance processes.

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

There needs to be a clear framework with consistent approach and clear requirements defined. The process needs to be credible and be communicated so that adverse consequences are avoided.

Care needs to be taken as to how this process is applied and the focus remains on the assurance process and that companies are not penalised under this framework in relation to performance instead.

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?

As we outlined in the responses we have provided to some of the earlier questions we agree with the principle that the overall package is trying to achieve in relation to improved transparency for customers and stakeholders. However, further consideration needs to be given to ensuring that the process and reporting requirements for each of the categories is clearly defined, proportionate and consistently applied.

There is a general concern that the process should to be driven by assurance processes only, rather than any blurring of boundaries into service performance. The process should ensure that that the reporting requirements applied are clearly weighed against the potential risks to confidence which could be raised as result of these proposals.