

# UUWR\_83

## PR24 Draft Determination: UUW Representation

# Area of representation: Other - AMP8 Assurance

### August 2024

This document outlines our response to Ofwat's proposed additional assurance requirements as set out within its draft determination documentation.

Reference to draft determination documents:

PR24 draft determinations; Our approach section 4.11 page 7

PR24 draft determinations; Delivering outcomes for customers and the environment, section 6.3 page 37

## 1. Key points

- **We note that there are substantial changes proposed in the number and timing of assurance and performance reporting:** AMP8 assurance and reporting requirements are significantly increasing both in complexity and number and Ofwat proposes that performance information is published by companies in June, a month earlier than at present.
- **Technical Auditor role is evolving:** The expectations of the Technical Auditor are evolving and changing, with new duties to Ofwat being introduced, increasing the complexity and scope for the Technical Auditor and their assurance team.
- **Ofwat's requirements will drive an increase in costs and there may be some resource availability constraints among service providers:** Due to the expected scrutiny for the AMP8 programme and the size of the AMP8 programme (for all companies) we anticipate that there may be some difficulty procuring suitably qualified assurance specialists to meet the needs of the updated requirements.
- **In order to ensure there is transparent alignment between Ofwat, companies and assurance providers, it would be helpful to have a single, comprehensive statement on assurance requirements:** We believe that companies and assurance providers will both want to work hard in order to ensure they meet Ofwat's assurance expectations. To assist this, it would be helpful if Ofwat's assurance requirements could be consolidated into a single source document to which companies and service providers can align both for planning and resourcing purposes. The earlier this is made available, the more likely it is that the requirements can be delivered. In this context, it would be helpful if such a document was available before the start of the reporting year it relates to.

## 2. UUW's PR24 proposal

In chapter ten of our October 2023 business plan, we set out an overview of our approach to assurance. This summarised our assurance framework and how this risk-based approach is applied to ensure that reported data and regulatory information receives the appropriate level of challenge and scrutiny.

We have a strong track record of transparency and good governance, providing trusted information, and have a proven track record of providing high-quality information about our performance to customers, stakeholders and regulators. Each year we develop, publish and follow a robust draft and final assurance plan which sets out our approach to assurance and highlights areas for targeted assurance.

The framework we described includes the use of external specialist assurance providers who provide independent audit and assurance activities. Wherever possible, we use this approach across all regulatory submissions and reports, including the PR24 submission and our Annual Performance Report (APR).

We strive to follow best practice and continually refine and improve our approach to assurance to ensure that we deliver high quality data into the public domain.

## 3. Draft determination position

We achieved Ofwat's expectations for data, information and assurance in all the required areas set out below:

- The plan was accessible and followed a clear structure, meeting Ofwat's requirements as specified in guidance, such as page and document limits where specified.
- The company's PR24 business plan was fully consistent with the long-term delivery strategy and the company presented a single adaptive strategy, rather than multiple alternate plans.

- The company provided sufficient and convincing evidence to demonstrate how its track record of performance, or lessons learnt from poor performance, supported the credible delivery of the proposals in its plan.
- The company's full Board provided an assurance statement that met Board assurance requirements as specified in guidance.
- The company provided data and information as requested in the methodology and business plan tables. This data and information was consistent, accurate and assured and used effective internal systems, controls and processes.

Across several of its draft determination documents Ofwat sets out new and additional expectations and requirements for third-party assurance for performance information, enhancement schemes and Price Control Deliverables (PCDs).

This includes an actionable duty of care in respect of the relevant aspects of assurance for both companies and their appointed assurance provider, whereby draft and final assurance reports and specific undertakings relating to management of conflict of interest will be sent to Ofwat.

Assurers must be suitably qualified to assess both technical and cost elements of submissions. If Ofwat does not have confidence in the assurance provided, it may apply less weight or disregard this assurance. This may result in Ofwat reducing or not approving relevant expenditure allowances, unless additional assurance from another provider is submitted or alternatively it may take action in respect of negligence.

It is proposed to substantially change reporting and assurance requirements to support AMP8 regulatory reporting. As well as existing requirements, future reporting will additionally now include the following:

- a published assured baseline delivery plan by July 2025 (including targets and milestones);
- a change log to track changes to scheme scope for PCD projects and gated projects;
- yearly delivery plan progress report to report against current and forecast targets and milestones; and,
- technical and commercial assurance of gated schemes.

## 4. Issues and implications

As set out above and in our business plan we have a rigorous and robust assurance process which we seek to apply to the production of our APR and associated supporting documents and submission. This includes both internal assurance and external assurance by a third party, with sign-off, of the submission by the board. Due to the scale and complexity of the data required and the dependencies across the business, the planning, delivery and assurance process through to final sign-off is potentially time consuming.

In Ofwat's response to query OFW-IBQ-UUW017 (APR publication date), it was confirmed that a summary of performance and assurance activities will be required for the 15 June each year. The data which underpins our performance commitments is checked and validated through the year and subject to a final risk-based review and sequential approval at year end, with all performance commitments are reviewed and signed off by the sponsoring executive team member.

Information provided for 15 June for the number of pollution incidents, treatment works compliance and Compliance Risk Index is all reliant on the final positions being confirmed by the relevant regulators. In general, pollution incidents and treatment works compliance are confirmed by the EA in June, although this is not aligned to 15 June and, in any case, it is unclear whether confirmation at any point in June would provide sufficient time for companies and assurers to meet Ofwat's requirements. To date, CRI has not been confirmed in June and has usually been made available in July as part of the DWI report. Neither of these observations prevent companies publishing information in June, but this would have to be on a provisional basis, pending confirmation from regulators.

Data which is more complex or carries a greater level of risk naturally takes longer to compile, review and approve as each individual who produces, reviews or approves the data must satisfy themselves that our high standards have been achieved. We must also factor in sufficient time for external assurance activities to be completed and the report detailing this to be completed ahead of sign off by the board. We believe it will be challenging to provide the information in an assured format by the proposed deadline.

As set out above, across the draft determination documentation Ofwat is introducing new and different standards and expectations in the assurance for the technical auditor. We believe that it may be a material change to introduce these new requirements into the contract and could potentially necessitate retendering of the Technical Auditor contract earlier than would otherwise be necessary. Whether a "letter of reliance" approach is feasible is uncertain pending final confirmation of Ofwat's requirements.

The additional requirements may come up against resource constraints in the marketplace. Given a limited number of qualified providers with the relevant skills and experience this may result in difficulties in procuring the services and or the cost of assurance. Although we know that external assurers are actively recruiting and training new resources it is unclear whether this will be sufficient to meet the new requirements of AMP8. In order to ensure there is transparent alignment between Ofwat, companies and assurance providers, it would be helpful to have a single, comprehensive statement on assurance requirements. We believe that companies and assurance providers will both want to work hard in order to ensure they meet Ofwat's assurance expectations. To assist this, it would be helpful if Ofwat's assurance requirements could be consolidated into a single source document to which companies and service providers can align both for planning and resourcing purposes. The earlier this is made available, the more likely it is that the requirements can be delivered. In this context, it would be helpful if such a document was available before the start of the reporting year it relates to.

Initial discussions with assurance providers indicates that the additional requirements, scope, complexity and liability associated with new contractual arrangements will result in a significant cost increase to companies in relation to the provision of assurance work. This is additional to the increased level of internal resource that companies will need to recruit in order to facilitate additional reporting scope. Again, the level of increase in these costs will be most efficiently managed if the full extent of requirements is clear and consolidated, in advance of the relevant reporting year.

## 5. Approach for final determination

As per Ofwat's query response for the 15 June a short report which sets out assured data for common performance commitments similar to the quarterly reports which are currently shared would provide an early view of performance and allow Ofwat to make comparisons between all companies for performance across key common performance metrics. This could be accompanied by a short report from our third party assurance provider. We believe this strikes the right balance between the need for transparency and the time to produce high quality information.

This comparative information could then be compiled together and published on Ofwat's website, allowing customers and other stakeholders to review sector-wide performance. Each individual company could then link to this comparative data within APRs in July, providing easily accessible comparable performance data for customers and stakeholders.

Adopting this approach would allow us to evolve our approach to assurance and data validation. We would develop our plans so that data could be sufficiently reviewed, approved and assured for 15 June. Following this we would spend the remaining time to the 15 July ensuring that we continue to produce an APR which provides a clear and full narrative of our financial and non-financial information for customers, stakeholders and regulators. If comparative data could be published by Ofwat ahead of the 15 July it would provide a clear early comparison for customers. All associated external and independent assurance reports, including those relating to Performance Commitments, would also be published at this time.

It would be helpful if the requirements for the Technical Auditor role could be consolidated in to one guidance document. We would also welcome further guidance and a clear definition of the term duty of care and clarity on

the actions that may be taken against the Technical Auditor in the case of negligence. Clearer guidance will help to ensure that we are able, if required to put a new contract in place which adequately covers all of the additional specifications needed for AMP8. This guidance would also help assurance providers and companies to locate and sufficiently induct new resources and this will be most efficiently achieved if guidance is in place before the start of the reporting year to which it relates.

There is also a risk that without sufficient clear guidance it may not be possible to procure a new service and carry out the necessary onboarding required to enable the first outputs to be successfully delivered by July 2025.

## 6. UUW response to proforma questions Delivery Outcomes for customers and environment

**Our approach to late delivery payments associated with end of period performance commitments: Companies' submissions should be clear on progress on their end of period performance commitments and provide explicit third-party assurance on the elements that may not be delivered at all, the elements that may be delivered late and the expected delivery date(s) of the late elements. This should include assurance of the payments that would be associated with both non delivery and late delivery separately. Once we have reviewed this information we may update, remove or add additional price control deliverables for other performance commitments, if we consider it appropriate in light of the information companies provide.**

A description of each of our PC for AMP7 and the progress made to date can be seen on pages 33 to 90 of our 2023 / 24 APR. The assurance that we have applied to the APR is set out in Appendix 1 which starts on page 232. The external assurance provided by our external assurer Jacobs and its final report can be found on page 252. The summary on page 262 confirms that each of the financial performance commitments was reviewed by Jacobs.

**Do you agree with the proposal to apply a financial adjustment to payments where companies fail to submit required reporting and assurance information on time?**

We believe this proposal is acceptable. In order to do this clear and full guidance need to be provided so that reporting expectations are clear for companies and assurers. It would be helpful if penalties were not applied in year one of AMP8 so all parties can make sure that they understand and have applied the guidelines, and any areas of uncertainty are clarified.

The materiality of proposed financial adjustments should also be proportionate to the scale of the failing.

We would also ask that significant incidents which are beyond management control which may impact on the company's ability to produce the required reporting and assurance information that exceptions may be applied.

**Are there any risks or issues associated with applying financial adjustments where companies fail to submit required reporting and assurance information on time, which we should be aware of?**

Whilst we don't believe there to be any specific risks associated with this, we do believe there may be mitigating circumstances in which exceptions should be applied.

**Are there any risks or issues associated with extending the timeframe for making in-period determinations which we should be aware of?**

Ofwat will be aware that the key consideration for companies on in-period determinations is the potential impact on the Final Charges process and the successful commencement of billing for the following charging year. It is therefore essential that delays in making in-period determinations are avoided.

**Do you agree that, where companies have improved their reporting methodology, we will reconcile any changes together at the end of the price review period?**

We agree that if a company improves their reporting methodology that changes should be reconciled at the end of the price review period. The company should report against the existing and updated methodology so that the impact of the update is transparent for customers and stakeholders.