

**WSX-004 – Ofwat's
reporting and
assurance
proposals**

Response to
Ofwat's PR24 draft
determination



Wessex Water
YTL GROUP

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Representation title: Ofwat's reporting and assurance proposals

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1. Executive summary

The reporting and assurance framework for the enhancements delivery programme represents a positive step towards monitoring the effectiveness with which water companies actively manage their capital investment portfolios, through the exercise of executive control over the delivery of strategic objectives through benefits realisation. However, the proposals do raise some concerns for us and we also request some clarifications. There is some overlap with our representation WSX-002 – Price Control Deliverables, in particular sub-section 2.5 'Reporting and assurance requirements' and section 4 'Delayed Delivery Clawback Mechanism', between which we cross-reference.

We have set out below our feedback on Ofwat's proposals as outlined in 'Expenditure allowances – Assurance requirements for delivery of enhancement schemes appendix' and 'Expenditure allowances – sections 4.7.3 Approach to Large Schemes & 3.8 Monitoring Delivery'.

2. Detailed feedback on proposals

2.1 Regulatory scope

We fully support the need for transparency and objectivity with respect to reporting on our Enhancements delivery programme. However, there is already a significant burden in reporting on this programme and we have a track-record of both delivery over multiple AMPs and also of strong reporting and assurance. There are already specific reporting requirements with regulators which should either be replaced by the requirements proposed or at least integrated with them to minimise the administrative burden. We propose that urgent consultation is required to clarify the scope of and boundaries between reporting required between regulators. We would welcome assurance that the regulators have collectively agreed a reporting model that has identified and eliminated overlaps in scope and accountability.

Due to the cost impact we request a comprehensive set of requirements are confirmed ahead of at the start of the 2025-30 period, in preference to ongoing changes through the period, such as we have experienced in PR19.

2.2 Value-add

We recognise there is a trade-off between the investment required to set-up and manage reporting tools and processes against the net value that might be expected to be realised through the principles of active portfolio management. We estimate that to comply with the reporting requirement as set out would require an initial investment within the rough order of magnitude range of £1m to £2m. The estimate includes the creation of a portfolio-level reporting system, external consultant support in the early development and additional headcount required to run the 'to-be' model, in addition to additional ongoing third-party assurance. Thereafter, there would be an ongoing opex expense, including licencing, headcount and assurance. In addition, if requirements are not fixed at the start of the period as requested above, there will be ongoing costs of £1m. We also note the significant cultural change that the reporting and assurance proposals in the round would entail. Given our historic record of programme management and delivery over multiple AMPs, we query whether the increase in value delivered would outweigh the cost and resource focus required.

2.3 Draft & Final reports

We recognise and support the premise that the independence of third-party assurance should always be upheld. We therefore understand the rationale for the proposal for third-party assurance partners to share their draft reports with Ofwat at the same time as they share with their client water companies, ahead of the final report. However, we have two principal concerns

- a. Expectations around course correction: reporting deadlines are by necessity tight, with the draft reports published only a matter of days ahead of the final reports. We believe it is unrealistic to expect water companies to field queries and potentially make changes beyond those that come from their internal reviews between the draft and final versions of reports; this was one of the drivers for the change from June Reporting to July APR reporting. For the additional reporting and assurance to be delivered within the same timescales would require accommodation by reducing existing reporting and assurance processes
- b. Decisions made from draft reports: we seek clarification on the scope of decisions regulators would potentially make based upon receipt of draft reports, where for the sake of waiting a few days, a final report would be available. It is also unclear how the assurance process will work between our Board, the Independent third-party Assurer and Ofwat. Ultimately this is our plan and the reporting of its delivery has to be owned by our Board.

2.3.1. Level of oversight

- a. **General:** Ofwat requested operation of detailed assurance reports and a change control process covering individual schemes. We believe that a change control process at scheme level is inconsistent with incentive-based regulation where the focus should be on the delivery of outcomes, where water companies are given the latitude to flex for the benefit of customers, either in terms of scope flex to meet the required deliverable through innovative design e.g. North Bristol sewer scheme; or the need to adjust the timing and nature of programmes to mitigate external shocks and stresses e.g. COVID19. In our view, the proposal as it stands is too prescriptive, which may bring about inefficiency, stifle innovation and result in delays in programme delivery, the very outcome that we are all trying to avoid. We expand on this in our representation WSX-002 – Price Control Deliverables.
- b. **Large scheme gated process:** Ofwat requested oversight via two formal gate submission for Large schemes. We fully support the concept of reporting scaled to materiality. However, we have two principal concerns
 - i. Additional layer of reporting: this proposal increases the reporting burden over and above the APR
 - ii. Reporting schedule: Ofwat has requested reporting on specific dates, 03 November 2025 for the combined gate 1 and 2 submission and 4 May 2026 for the gate 3 submission. We believe that setting these fixed reporting dates may not necessarily fit within the natural rhythm of the projects. Where such reporting is required, we believe it may provide more value and decrease the reporting burden if this were provided at the point of the gate reviews for the specific project in question.
- c. **Gate approvals:** we note that Ofwat refers to an approval step “Consequently, we may not approve relevant expenditure allowances or progress a project through a gated process that relies on assurance to progress.” We would normally expect the Project Sponsor to be the final arbiter on exit from and entry to project stages / phases, informed by the project board, project reporting and where relevant, from assurance. If the final decision rests with Ofwat, this has the potential to add ambiguity and delay to the outcome of project gate reviews and hence project delivery. We seek clarification from Ofwat

d. Baselineing and change control:

- iii. Ofwat mentions *“the [change] log will provide a baseline for the company, assurers and Ofwat.”* We request Ofwat to provide more information on how the baselining process and associated change control process will work and the materiality of change required to warrant inclusion within the change log
- iv. For Large schemes Ofwat states the third-party assurer shall provide *“cost Benchmarking for revised cost estimates”*. We request Ofwat to clarify its expectations
- v. *“The schemes will be baselined in the log to the scope, timing and costs as set out in the business plans.”* Should this read *“...as set out in the Final Determination.”*?

2.4 Impacts

Reporting on delivery against interim milestones, when set appropriately, provides actionable information on which controlling decisions can be made. In this instance, it is unclear whether and how penalties will be levied should delivery fall behind plan and how re-baselining would work. We set out our principal concerns within our representation WSX-002, Section 4. Delayed Delivery Clawback Mechanism. We request Ofwat to clarify.

2.5 In-period vs end of AMP adjustments

We note Ofwat's intention to reconcile any changes made to reported numbers, due to changes in reporting methodology, at the end of the price review period. We believe that it would be more helpful to allow companies to make in period adjustments and associated restatements, within the safeguards of an established change control process, which in turn would be subject to third-party assurance. This process in itself provides assurance and a basis for our Board to make decisions which is essential for the management and ongoing mitigation of risks that occur through the period. This will increase visibility of performance and simplify reporting with a single target to aim for.

We note Ofwat's question *“Are there any risks or issues associated with extending the timeframe for making in-period determinations which we should be aware of?”*. We request clarification on what this means. We will need confirmation of funding before committing to material investment.

2.6 Redaction & commercial confidentiality

We note the proposal to require third-party assurance providers to have unfettered access to parties up and down the value chain. Whilst we support this, we must be mindful of the need to uphold commercial confidentiality and data protection by design principles. We would welcome some reassurance that Ofwat will put in place appropriate safeguards; these may simply remind all parties of their commercial and statutory duties in handling and sharing data. Likewise, we request Ofwat to consider that reporting submissions made from water companies and their third-party assurers will by necessity be subject to certain redactions.

2.7 Progress vs delivery plan

- a. **Baseline target:** we note the requirement that *“All companies are required to publish a delivery plan, unassured in April/May 2025, assured in July 2025.”* We request Ofwat to confirm which plan should be the initial baselined plan, namely the unassured April/May 2025 or the assured July 2025 submission

- b. **Assurance on delivery plan:** we note the comment that assurance of delivery plans should provide an assessment of “*whether the company is on track to deliver its PCD targets by 31/03/25*”. Should this read “... by 31/03/30.”?
- c. **Interim milestones:** we note the proposal to require water companies to publish interim milestones for PCDs that are not subject to a time incentive payment. However, it is unclear how Ofwat will use this information’, we would welcome further guidance from Ofwat on this.
- d. **Variations to plan:** we remain focused on delivering schemes to plan for the benefit of our customers and the environment. Where delivery falls behind, we have management controls in place to recover to plan where possible. We request Ofwat to set out the impacts to water companies of variances to the latest baselined delivery plan, financial and otherwise and associated timings of any impacts.

2.8 Increasing regulation

We note the aspiration to strengthen reporting with a view to increasing visibility of delivery for customers and the environment. We believe that the use of consistent data between companies to feed Ofwat's econometric modelling will be an important enabler. We suggest that a consultation process would be an appropriate enabler for the creation of consistent data sets; we request that Ofwat provides this sufficiently in advance of the start of AMP8 so that we can prepare internal reporting systems well in advance of when the first report is due. This also applies to the specific reporting requirements for PCDs (as set out in our representation WSX-002).

2.9 Penalties

We note there may be penalties for late delivery of reporting and assurance reporting and presumably to the quality expected. We request more detail on the materiality of schemes and suitable milestones, such as end of year outturn or similar.