

1 AUGUST 2017

PERIODIC REVIEW 2019 ASSURANCE WORKSHOP

PA CONSULTING OFFICES, LONDON

MEETING NOTES

PRESENT

For the Water Forums:

- Water Forums Acting-Chair – Melanie Laws (MJL)
- Essex & Suffolk Water Forums Vice-Chair – Richard Powell (RP)
- Steve Grebby (SG) - Consumer Council for Water
- Melissa Lockwood (MLW) - Environment Agency

PA Consulting: John Parsonage (JP)

For the company: Carol Cairns (CC) - Programme Support Manager and Claire Nichols (CN) PR19 - Business Plan Author)

Ros Shedden (RMS) - Water Forums Secretary

WORKSHOP MATERIALS

PA Consulting had provided Water Forums members with the following documents:

- NWL Quality Assurance Dashboard user guidance – this had been written for company users and gave members an insight into how the process would work in practice as the Business Plan is being put together.
- NWL Quality Assurance Dashboard assessment criteria – these were the questions the Company was planning to ask itself as it strived to produce a leading plan.

These documents are in the Water Forums SharePoint Assurance Workshop folder.

NOTES AND ACTIONS

1. Welcome

MJL welcomed everyone to the workshop. MJL said this was a Forums' sub-group and it would report back into the Forums 18 September meeting, where all members would have the chance to raise issues or draw attention to any areas if they wished.

MJL said two members; James Copeland (National Farmers Union) and Graham Dale (Consumer Council for Water) had reviewed the documents and sent in their views by email.

MJL asked RMS to outline the aims of the day. RMS said this was a really important item for the Forums. The Company had appointed PA Consulting as its assurance partner; PA had designed a PR19 assurance process and Dashboard. The process was in an early stage and members were meeting with PA directly to challenge and advise, and consider the Forums' role as they were taken through the process.

Members had been kept informed as the Company was preparing its assurance approach – with papers at both previous meetings. They said they had read, in detail, the documents provided to this meeting (1 August 2017). MJL therefore asked JP to briefly present on the Dashboard and give members some insight into the process behind it.

2. Assurance Dashboard (see also presentation)

JP said the process had been designed before Ofwat's methodology was published. Therefore, although PA is confident the process had covered most areas, some work was needed, especially on the 'vulnerability' and 'affordability' sections.

JP went on to describe the assurance process; it had two components.

Firstly the Dashboard itself, which on one page identified the status of all the components of the plan; it was intended to be used as a reporting tool and was to be used by people who are working on the plan. The Dashboard then presented how well the plan was being developed at any point in time, and exposed any areas that may have required additional focus. It would be used by the business owners, then by the Company's Dashboard Review Group, and the Business Plan Steering Group.

The second component was the 'criteria' which were aimed to ensure the business plan reflected what NWG customers had said, the requirements of Ofwat's methodology as well as the Company's statutory and licence obligations. The criteria also aimed to ensure that the very considerable assurance that was already in place in the business was showcased in the business plan.

The criteria were for the initial use of authors or providers of the business plan. This was Level 1 assurance – a prompt to think as they were developing the plan; had they really covered that properly, and had they really articulated it properly? Also as they work people must collect their evidence – this evidence will be collated and be available for interrogation by company. Auditors and Forum members.

JP said Level 2 and 3 assurance were then overlaid on top of Level 1. For Level 2, the Company's Internal Audit Team would risk assess and select areas to carry out 'deep dive' audits. They would look at the quality of the work, and examine the evidence. With regard to Level 3 Assurance, PA would focus on risk based approach, on areas it consider there might be issue that needs further scrutiny.

JP presented the Dashboard components and the scoring mechanisms. JP said the layout of the Dashboard could be overlaid or changed to reflect the company's major themes, or Ofwat's priorities. Both the Dashboard and criteria would evolve over time

CC said the process was currently being used; the first production of the Dashboard would be ready to go to the Dashboard Review Group in August 2017.

CC said the Company proposed to start to share the Dashboard, alongside a report highlighting any plans around issues that need addressing, with the Board Sub-Group and the Water Forums monthly from September 2017.

MJL thanked JP for It is really helpful that the Water Forums would be kept in touch with progress in this way; it was really helpful to not be playing catch up.

Members made the following observations:

- it was a good and comprehensive process;
- the business plan was complex and the forums needed something relatively straight forward to follow;
- the Dashboard looked clear, is easy, visual – it built up really well - content could be understood really quickly;
- business plan authors would benefit from this dashboard is it was asking the questions of people who were writing the sections;
- a very visible way of seeing where the company is, it was going to be very helpful;
- it would be good that the Dashboard would indicate where there could problems; and this could direct the Forums focus;
- this process potentially could add rigour to Forum scrutiny over the detail of how the business plan is being put together;
- in their response to Ofwat's methodology, the Forums had identified a need for a frameworks/check list of items to focus upon - the Dashboard could help with this;
- with regard to the customer engagement criteria, the questions were the questions the Forums would want to ask of the Company;

- the process was excellent and certainly fit for purpose; and
- part of the Forum role was to make sure company was not purely driven by Ofwat's agenda.

Members made many challenges during this session, also challenges were received from James Copeland and Graham Dale via email – these are recorded in item 4 below.

Members moved on to work with PA and the Company to produce a plan for their use of, and involvement in the process.

3. Forums use of the Dashboard

MJL said the Forums needed to work out how they were going to deal with this kind of information and what their response would be.

Members made the following observations on the use of the Dashboard:

- the Dashboard was going to be useful for the Forums as well as the Company;
- the process opened up a huge amount of detail – however for the Forums, the issue was about balancing and managing the available information rather than the way they receive it, ie prioritisation;
- for some areas, there would be only a need for a quick look – however, members needed to have access to drill down to the evidence where things do not look right, or there are known issues – this fitted with Ofwat's risk based approach;
- members would want to specialise and use their knowledge – eg Willingness to Pay research or environmental performance – this fitted the way the Forums work – members had called for this at a recent meeting review (14 June 2017);
- this process could be a key to how the Forum would structure their Report to Ofwat; and
- the Forums needed to be clear about what criteria they would want to see in the process, eg the criteria could cover what Ofwat expected of the CCG process.

Members went on to review and challenge (item 4), and then to set out their next steps (item 5).

4. Members challenge of assurance processes and assessment criteria

Throughout the day and by email members made the following challenges:

- In its structure, the top headings in the Dashboard did not reflect Ofwat's key themes, ie great customer service; affordable bills for all; innovation and new ways of working; and long-term resilience in the round – why? JP said this was a good challenge; the process had picked up themes and built them in appropriately. For example, innovation – this needed to be baked into the company's organisation – to be there at every level and in every activity. Therefore, it did not fit as an overall heading.
- With regard to the criteria which refer to statutory obligations it could be better if they referred explicitly to current external environmental guidance, eg Environment Agency (EA) and Natural England had recently published their tool, WISER (the Water Industry Strategic Environmental Requirements guidance). Also the EA's Environment Performance Assessment and the Drinking Water Inspectorate's assessment could be used. JP said this was very valuable advice.
- The criteria were based on Ofwat's requirements, and the risk was that they result in an industry constrained process; criteria for climate change, environment and sustainability were missing, for example. JP said these challenges were being noted; the Dashboard was a living process - things would be added to it.
- Was Ofwat restricting innovation by imposing standard ODIs? JP said the company was trying to be innovative on every area of its plan.
- The Company had signalled that its plan would be 'local' – the Forums welcome this approach – however, there were no 'local' criteria questions.
- The criteria refer to customers and Forums as one group – they are different things.
- Was the Company going to get an independent view of how good its customer engagement was?
- Would non-household have a separate process?
- In a plan supported by customers (p12):

- The question on customer support for the overall plan needs to require that the overall financial impact of the plan on customers also has customer support.
- Vulnerable customers (p13):
 - should be referred to as “those in vulnerable circumstances”;
 - supported should be “identified and supported”;
 - the measure on support of financially vulnerable customers should not be just vs. target but also measured against the proportion of customers in the NWG areas that are estimated to be vulnerable; and
 - also the questions used for the current AMP should be repeated for the business plan.
- At a price they can afford (p14):
 - should this be over more than the AMP, should it include future AMPs and differing costs to future customers?; and
 - there also needed to be a question here about the level of customer support for the tariffs proposed in the business plan.
- Is resilient and sustainable in the long term (p16):
 - there was no specific reference to climate change or population growth in the questions about resilience and sustainability (they may be implied) they should be specifically referenced.
- With balance performance incentives (p17):
 - this section implies that the WTP research would be used for both plan development and ODI justification! The questions need to be reworked to show that specific individual research has been conducted to justify the customer support for the ODI's; and
 - a specific question to ensure that current AMP performance gains are built in as the base line for the future AMP to work from would be helpful.
- How well does the plan respond to Ofwat's critique of “providing an analogue service in a digital age (p18):
 - will this include demographic/accessibility to digital of the area covered by NWG.
- To what extent have examples of adopting best practice from other sectors been explained in the future plan? (p18):
 - add – “and lessons learned?”
- Operational risks (p26):
 - Will this section be circulated to the Forums to see once completed?
- Customer engagement and willingness to pay (p29) – Has there been strong engagement with environmental regulators:
 - Add “are their any conflicts between OFWAT and the other regulators. How has this been addressed?”
- Stretch targets on efficiently (p11):
 - financial metrics at a company level should also be included ie Total Savings per annum from efficiency activities in the current AMP, and also total savings per annum from efficiencies in the business plan for the next AMP.
- There is no specific reference to climate change or population growth in the questions about resilience and sustainability (they may be implied) but I would like to see them specifically referenced.

4. Next steps

After deliberation members agreed that a paper (this paper) updating members on 1 August 2017 deliberations, and following proposals would be taken to the 18 September 2017 meeting:

- the Dashboard - should become a core part of the Forum's business, the Forums should use the Dashboard approach and the Dashboard would be seen and understood by all members;
- 'Champions' - the Forums should identify owners for sections/areas – some could be top down sections and some could be cut through subjects – eg sewer flooding, vulnerability, affordability, sustainability, resilience, innovation – in some areas Champions already exist because this is their day-job, eg Environment Agency, Natural England, CCWater;
- 'Champions' would monitor their sections/areas, investigate areas further where they felt this was required; and
- Champions would report back to the Forums to gain a collective view – the Dashboard would become a standing item on the agenda.

Members noted that, for this process to work, it should be tied to other Forum scrutiny, eg annual performance monitoring. Also it would need careful scoping not expected to go through everything.

The scope should include the role of the Company (and its Board), PA Consulting, and the Forums; it should neither overwhelm members with work nor not restrict their interest.

MJL thanked everyone for a very helpful session; she said the Dashboard was a good engagement process.