

BACKGROUND AND PURPOSE OF PAPER

Our annual Assurance Plan sets out our governance and assurance arrangements as applied to reporting our Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs).

We will publish our Consultation on our Risks, Strengths and Weaknesses, and our Draft Assurance Plan for 2017/18 in November 2016. Following the consultation period, we will publish our Assurance Plan in March 2017.

The purpose of this paper is to introduce Forum Members to this process and to encourage them to review and comment on the consultation.

REGULATORY EXPECTATION

Ofwat's approach is to encourage companies to build 'trust and confidence' with their customers and other stakeholders through demonstrating improvements in performance, transparency, the existence of checks and balances and 'credible challenge'. When Ofwat refers to assurance in this context it is referring to all of these factors, not only traditional audit related assurance. Consistent with this approach, Ofwat set out:

- the basic information water companies must report annually from 2015-16 onwards (the "future reporting framework"); and
- new arrangements for water companies to take ownership of information collected and provide customers and stakeholders with assurance that the information can be trusted (the "Company monitoring framework").

The future reporting framework includes the requirement to publish information about regulatory performance commitments and incentives. Ofwat's 'Company monitoring framework – final position' was published in June 2015 and can be found on their website:

<https://www.ofwat.gov.uk/publication/company-monitoring-framework-final-position/>

The Company monitoring framework allows Ofwat to assign an assurance category to each water company; self, targeted or prescribed assurance. Most companies, including Northumbrian Water, are in the 'targeted' category.

As a targeted company, Northumbrian Water is required to:

- consult with customers and stakeholders, (including our key stakeholders - Ofwat, EA, DWI, CCWater and Water Forums);
- carry out a 'risks, strengths and weaknesses exercise' each year to ensure the right assurance arrangements are in place;
- publish an Assurance Statement and draft Assurance Plan before 30 November each year; and
- following stakeholder consultation, publish its final Assurance Plan, by 31 March each year.

From 2016 a company is able to move from targeted to self assurance as long as:

- there is confirmation that targeted areas have been adequately addressed;
- there is no evidence of behaviour that could reduce trust and confidence stakeholders can place in the Company; and
- there are no significant problems with its Assurance Plan in the previous year.

A self-assurance company has greater latitude to determine its own assurance process. In practice, we believe there would be little difference to the approach we would adopt, but there would be a reputational benefit from moving category.

As part of our PR19 submission, our assurance rating will form part of our track record and will be taken into account when considering potential for enhanced status.

CONSULTATION ON RISKS, STRENGTHS AND WEAKNESSES AND DRAFT ASSURANCE PLAN 2017/18

We will publish our Consultation on Risks, Strengths and Weaknesses and Draft Assurance Plan 2017/18 in November 2016. This is subject to stakeholder consultation before we confirm our final plan in March 2017.

This consultation provides an update on our Assurance activities for 2016/17 as well as our draft plans for 2017/18. It includes some specific questions that we would like our customers and stakeholders to consider. The consultation will be open until 6 January 2017.

The minimum requirement for a targeted company is to publish a plan detailing how it will assure any areas of weaknesses. For us, with few, if any, significant weaknesses this would result in an

uninformative document. Therefore, we are proposing to publish our entire draft Assurance Plan, which will exceed the minimum requirement.

We would like Water Forums members to comment collectively, or individually, on our consultation.

Background Information

Our Assurance Plan 2016/17 can be found at <https://www.nwl.co.uk/your-home/Assurance.aspx>