



Consultation on Portsmouth Water's Statement of Risks, Strengths and Weaknesses – the Monitoring Framework

November 2015

Consultation on Portsmouth Water's Statement of Risks, Strengths and Weaknesses – the Monitoring Framework

About this document

The purpose of this consultation is to invite views on a statement we have prepared on the risks, strengths and weaknesses associated with providing information to our customers and other stakeholders.

This will form the basis of an Assurance Plan we will prepare (and consult further on) ahead of the publication of our 2015/16 Annual Performance Report in the summer 2016.

Thank you for making the time to review and respond to this consultation. It will help the Company ensure that we provide information to all stakeholders which is customer-led, transparent and timely.



Heather Benjamin
Non-Executive Director and Chair of Audit Committee



Helen Orton
Finance & Regulation Director

Who we are

We have been supplying water to Portsmouth and the surrounding area since 1857. The area supplied by the Company extends through South East Hampshire and West Sussex from the River Meon in the west to the River Arun in the east, encompassing 868 sq. km.

Our vision

To supply high quality drinking water whilst providing excellent levels of service for our customers at the lowest price in the country.

Our values

Our values underpin how we behave in delivering all aspects of our work. There are Excellence, Respect & Integrity.

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Responding to this consultation

We welcome your response to this consultation by close of business on 11 December 2015.

You can email your responses to s.morley@portsmouthwater.co.uk or post them to:

Monitoring Plan Consultation
Portsmouth Water
PO Box 8
Havant
Hampshire
PO9 1LG

Information provided in response to this consultation, including personal information may be published or disclosed in accordance with access to information legislation – primarily the Data Protection Act 1988 and the Environmental Information Regulations 2004.

If you would like the information you provide to be treated as confidential, please explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that we can maintain confidentiality in all circumstances.

Overview and consultation questions

Overview

In this document we set out the background to this consultation and explain the importance of providing information which is of appropriate quality and transparent for the needs of our customers and other stakeholders.

We also explain;

- how we have approached the assessment of “risk, strengths and weaknesses” of data reporting, which is required by Ofwat as part of the “Company Monitoring Framework”;
- the outcomes of the work we have performed; and
- our next steps.

Consultation questions

We welcome your views on the following consultation questions by close of business on 11 December 2015.

Q1 Do you have any comments on our overall approach to this Risk Assessment?

Q2 Do you agree with our assessment of the “Risks, Strengths and Weaknesses” summarised in this Statement?

Q3 Which particular performance measure is of greatest importance to you?

Q4 Is there any data not included in this assessment which you do rely upon and would like us to consider including in our reporting?

1. Background

- 1.1. This consultation is part of the process by which Portsmouth Water will determine how it will continue to ensure that the non-financial information we provide to stakeholders is relevant, reliable, complete, accurate and timely.
- 1.2. Historically, we have published information on the Company performance in the “Risk & Compliance Statement” and for 2015/16 we will report in the new “Annual Performance Report”. The report will enable stakeholders to assess how we have performed against those measures of success that are regarded by our customers as being the most important factors (the “Performance Measures”). The targets for the Performance Measures were agreed with customers as part of an extensive customer engagement exercise carried out when we were preparing our business plans for the 2015-2020 period.
- 1.2. Ofwat recently published guidance, “The Company Monitoring Framework” which formalises the process through which they will oversee that stakeholders can have confidence in companies’ published Performance Measures.
- 1.4. The Company and Board recognise the importance of providing information to customers and other stakeholders that is; customer-led, relevant, reliable, complete, accurate and timely. Our ongoing objective is to make information available that is easy to understand and navigate and which enables stakeholders to see how we are performing; this helps build trust and confidence in the business.
- 1.3. Ofwat have acknowledged that Companies and their Boards are best placed to identify the risks, strengths and weaknesses associated with providing such information.
- 1.4. In preparing this report we have engaged with our Customer Challenge Group (CCG). Specifically in July we discussed the detail our Performance Measures for 2015-2020 in the context of performance in the year 2014/15. This provided members with a better understanding of the data and related assurance processes that we already have in place.
- 1.5. Further, at our October CCG meeting we introduced this consultation process in addition to a presentation on our performance against the Performance Measures as at the end of September. WS Atkins also reported to the CCG on the independent work that they perform to provide assurance to the Board. Each member of the CCG responded to a questionnaire seeking their views on the relative importance of the information we report and how they use it.
- 1.7. We will continue our ongoing reporting to other regulators; the Drinking Water Inspectorate, Environment Agency and CCWater.
- 1.8. The information that we publish on our performance will therefore be assured to maintain and build a high level of trust and confidence from our customers and other stakeholders. We will adopt a risk based approach to assurance, and use internal and external reviews to provide robust challenge and scrutiny of our performance.

2. Our Approach to Risk Assessment

Introduction

- 2.1. As we have noted our objective is to ensure that we report Performance Measures (data) that are relevant, reliable, complete, accurate and timely. The steps involved in this process are to;
- Identify the relevant data. As noted above, consultation with our stakeholders is an important part of this process.
 - Risk Assessment. Assess the risk that the data we report contains errors or is materially misstated.
 - Design Assurance Plan. Design appropriate assurance processes to mitigate the risk of material misstatement. For example if data is assessed as being at a high risk of material misstatement then the level of assurance needed (both internal and external) would be greater than in a lower risk area.
- 2.2. We have performed a risk assessment for each of the Performance Measures (and the data used to calculate them) using methodology set out by Ofgem and recommended by Ofwat as best practice.
- 2.3. Following this risk assessment we will design an appropriate assurance plan (the “Annual Assurance Plan”). This will set out Company plans for assurance of our Performance Measures.
- 2.4. As part of this risk based approach, we have carried out an internal assessment of our risks, strengths and weaknesses in reporting of the Performance Measures. We have initial feedback from our CCG and are now engaging further with our key stakeholders, including shareholders.

The Total Risk Rating

- 2.5. When reporting data it is necessary to consider both the **impact** and **probability** of errors arising. The risk of errors in reporting is assessed by looking at the combination of both of these factors. This drives a Total Risk Rating score.
- 2.6. The overall Total Risk Rating for each Performance Measure is therefore derived by combining the Impact Score and the Probability Score which is presented in a Risk Matrix (see fig 1 & 2 below).
- 2.7. In line with the guidance from Ofwat, we have adopted a five-stage process in assessing the overall Risk for each Performance Measure as follows:-
- Data risk identification
 - Assess Probability of risk for each performance measure
 - Determine overall probability metric score
 - Determine overall impact metric score
 - Determine Total Risk Rating

The Impact Score and Probability Score are determined as follows;

- 2.8. To establish the Impact Score we look at 4 measures and score each between 1 and 4 where 1 is low impact and 4 is high impact:-

Impact on		Score
Customers	Impact on level of service to	4 - all customers, 3 - individual customers 2 - indirect impact 1 - no direct impact.
Competition	Impact on competition	4 - direct impact on competition 3 – comparison by use of “league tables”, 2 - an indirect impact on customers 1 - no direct impact.
Financial	Impact on financial performance	4 - direct impact on company revenues, 3 - significant rewards and penalties 2 - either small rewards & penalties or an individual customer impact 1 - no impact
Comparative Efficiency	Impact on the regulatory regime	4 - impact on customer bills 3 - the publication of league tables 2 - challenges made on relative performance 1 - no impact

The Impact Score is the maximum score in any of the 4 classifications above.

2.9. To establish the Probability Score we look at factors that increase the risk of errors or misstatement in the data and offset against these factors that would increase the quality of data reported (i.e. factors that would decrease risk of misstatement).

Increase risk – increase score	
Complexity of data used to establish data	2 – Single data system 3 – One numerical and one financial system 4 - Two or more numerical systems
Incomplete data	2 – Complete data routinely captured for 2 years or more 3 – Routinely captured but for less than 2 years or some elements based on extrapolation 4- Not routinely captured or is based on extrapolation
Manual intervention	2 – Data collection fully automated 3 – Less than 60% manually collated 4 – More than 60% manually collated
Complexity and maturity of reporting rules	2 – Rule set is complete and has not changed for 2 years 3 – Rule set is complete, but requires some interpretation or judgement 4 – Rule set is less than 2 years old or significant judgement is required.
Reduce risk – reduce score	
Controls applied	2 – Extensive validation and prevention controls which have been in place for two years with systems and processes fully documented 1 - Adequate validation and prevention controls which have been in place for one year with systems and processes substantially documented 0 - Limited validation and prevention controls which have been in place for less than one year with limited systems and processes documented
Experience of personnel	2 – Data collated by staff with prior experience of completing it and prior years method statement 1 – Either data collated by staff with no prior experience of completing it but using prior years method statement or experienced staff with no method statement 0 - Data collated by staff with no prior experience of completing it and no prior years method statement
Historic errors identified and addressed	2 – Audit undertaken in the last two years and no material errors identified 1 – Either no audits within the last two years or material issues which have not been remediated 0 – Material issues identified in the last two years or no audit undertaken.

Each of these categories are assigned a score as given in the table. The Probability Score is the average of the two offsetting elements and is calculated using a formula.

2.10. Combining these Impact and Probability Scores in a Risk Matrix (below) results in an overall Total Risk Rating: low; medium; high; and critical. The Total Risk Rating is used to inform our choice of data assurance activities to be applied to our Performance Measures and reporting in the Annual Performance Report. It is our responsibility to demonstrate to Ofwat, our customers and other stakeholders the robustness and suitability of our Annual Assurance Plan and the strength of our control environment.

Figure 1: Total Risk Rating - Impact and Probability Risk Matrix

		1	2	3	4
Impact Score	4	Medium	High	Critical	Critical
	3	Medium	Medium	High	Critical
	2	Low	Medium	Medium	High
	1	Low	Low	Low	Low
		1	2	3	4
		Probability Score			

3. THE OUTCOME OF OUR RISK ASSESSMENT

3.1. The summary results from our risk assessment are shown below in Figure 2. **A full description of the 20 data items is given in Appendix One.** Specifically 13 of these relate to our agreed Performance Measures with 7 additional pieces of data identified by our CCG. Full details are shown in Appendix 2. The Company has undertaken a full exercise of over 200 pieces of data it places in the public domain. Typically the impact score for this data is one.

Figure 2: Outcome of Risk Assessment

Impact Score	4	Abstraction Compliance SIM	Developer Survey		
	3	WaterSure TUB MZC	WQ contacts LOS - New development Interruptions GSS	Leakage	
	2	Meter optants WFD RoSPA Award AIM Bursts Carbon	Biodiversity pcc	Greenhouses gases	
	1				
		1	2	3	4
		Probability Score			

3.2. Our analysis classifies the following items of data being at high risk and we recognise we need to provide all stakeholders with the confidence that the planned assurance and related control frameworks we have for these items are appropriate. These items are:-

- Leakage
- Developers Satisfaction Survey

3.3. Factors that drive the high risk rating include:-

- They are new measures introduced in April 2015 and have yet to be externally audited fully by WS Atkins
- They are complex areas and require an element of judgement
- There have been recent regulatory reporting issues in the sector.

3.4. All items in the matrix will require varying degrees of assurance, and this will be the subject of our draft Annual Assurance Plan, which we will publish in December 2015.

4. NEXT STEPS

- 4.1 We invite comments and further discussion with all of our customers and stakeholders. This survey will be distributed to all members of our CCG and made available on our website.
- 4.2 We welcome your response by **11 December 2015**.
- 4.3 Based on your feedback to this consultation we will then publish a draft audit plan on **18 December 2015**. There will be an opportunity at this stage to ensure we have reflected any observations you may have appropriately.
- 4.4 We will engage further with stakeholders before publishing our proposed 2015/16 Annual Assurance Plan on **18 February 2016**.

APPENDIX ONE - DEFINITIONS

Retail ODIs	
Service Incentive Mechanism (SIM)	SIM is a measure introduced by Ofwat to establish customer satisfaction with the service they receive.
Developer Survey	A new initiative, similar to SIM above, which will establish the developers' satisfaction with the service they receive.
Per capita consumption (pcc)	The volume of water used each day by our household customers.
Wholesale ODIs	
Number of bursts	The number of bursts on the network which result in a loss of supply to our customers.
Mean Zonal Compliance (MZC)	Published annually by the Drinking Water Inspectorate – it is the primary measure of water quality compliance in England & Wales. It covers 39 parameters, such as iron, lead and aluminium which are tested to establish the quality of water received by customers.
Water quality contacts	The number of customer contacts we receive relating to the appearance, taste or odour of the water provided.
Temporary Usage Bans (TUB)	A restriction on customer use (typically during a dry summer) in accordance with the Company approved Drought Plan
Leakage	A measure of the volume of water which is extracted and treated by the Company that is not delivered to the customer – it is the volume lost in transport.
Total Interruptions to supply	The number of minutes that our customers are without water within our supply area (includes both planned and unplanned activities by the Company).
Biodiversity	An agreed programme with our stakeholders to enhance the biodiversity of the sites we won and operate upon and other appropriate sites in the area.
Water Framework Directive (WFD)	Obligations under the Water Framework Directive which are required to be completed by 2021. We have three schemes under this requirement.
Carbon commitment	An increase in the amount of electricity sourced by renewables.
RoSPA	Keeping our colleagues and customers safe. The Company will apply for RoSPA accreditation annually.
Other metrics	
AIM - Abstraction Incentive Mechanism	A new initiative promoted by Ofwat. AIM identifies key rivers in the Company area and reposts our abstraction in the catchment area relative to the flow in the river.
Meter optants	The number of unmeasured household customers who have had a meter installed.
Abstraction compliance	A regulatory requirement for the Environment Agency to report our actual abstraction of water for the year is relative to our licences.
Guaranteed Standards of Service (GSS)	A legal requirement to provided compensation for failures of service.
WaterSure	The number of customers on this support tariff
LOS - New development	A new initiative – to publish the levels of service we provide to developers.
Greenhouse Gas	A quantification, used approved Defra methodology, of the carbon impact of the operation of the business.

APPENDIX TWO – DETAIL OF RISK ASSESSMENT

			Impact Metric	Customers	Competition	Financial	Comparative efficiency	Complexity	Completeness	Manual Intervention	Reporting Rules	Control Activities	Experience of Personnel	Evidence of Historical Errors	Probability Metric	Classification
Retail ODIs																
	Service Incentive Mechanism	RA1	4	4	1	3	4	3	2	2	4	2	2	1	1	M
	Developer Survey	RC1	4	4	2	2	3	2	2	2	4	2	2	2	2	H
	Per capita consumption	RB1	2	2	1	2	2	4	3	3	3	1	2	2	2	M
Wholesale ODIs																
	Number of bursts	WA1	2	2	1	2	1	3	2	2	2	2	2	2	1	L
	Mean Zonal Compliance	WA3	3	3	1	3	3	2	2	2	2	2	2	2	1	M
	Number of water quality contacts	WA4	3	3	1	3	3	2	3	3	3	1	2	1	2	M
	Temporary usage bans	WA5	3	3	1	2	1	2	2	2	2	2	2	2	1	M
	Leakage	WB1	3	2	1	3	3	4	3	4	3	1	2	1	3	H
	Total Interruptions to supply	WC1	3	3	1	3	3	2	2	4	2	2	2	2	2	M
	Biodiversity	WD1	2	2	1	2	1	2	2	3	4	1	2	2	2	M
	Water Framework Directive	WD2	2	2	1	2	1	2	2	2	2	2	2	2	1	L
	Carbon commitment to renewables	WD3	2	2	1	2	1	2	2	2	2	2	2	2	1	L
	RoSPA	WG1	2	2	1	2	2	2	2	2	2	2	2	2	1	L

			Impact Metric	Customers	Competition	Financial	Comparative efficiency	Complexity	Completeness	Manual Intervention	Reporting Rules	Control Activities	Experience of Personnel	Evidence of Historical Errors	Probability Metric	Classification
	Abstraction Incentive Mechanism	O1	2	2	1	2	1	3	2	2	2	2	2	2	1	L
	Optional meters installed	O2	2	2	1	1	2	2	2	2	2	1	2	2	1	L
	Abstraction – licence compliance	O3	4	1	1	4	1	2	2	2	2	2	2	1	1	M
	Guaranteed Standards of Service	O4	3	3	1	2	1	4	2	2	2	2	2	2	2	M
	Watersure tariff	O5	3	3	1	1	2	2	2	2	2	2	2	2	1	M
	New development - levels of service	O6	3	3	3	2	3	2	2	2	3	1	1	2	2	M
	Green House Gas Emissions	O7	2	1	1	1	2	4	2	3	3	1	1	2	3	M

The impact score is the maximum score in any of the 4 classifications below.

Customers – where 4 is a measure which reflects overall service to all customers, 3 a measure that impacts individual customers, 2 an indirect impact on customers and 1 has no direct impact.

Competition – where 4 has a direct impact on competition, 3 reflects the use of “league tables” with associated challenge from stakeholders, 2 an indirect impact on customers and 1 has no direct impact.

Financial – where 4 has a direct impact on company revenues, 3 significant rewards and penalties, 2 either small rewards & penalties or an individual customer impact and 1 no impact.

Comparative Efficiency – where 4 results in an impact on customer bills, 3 the publication of league tables, 2 challenges made on relative performance and 1 no impact on comparative efficiency.

To establish the Probability Score we look firstly at how complex establishing the data is, the number of systems for example, and how complete it is, for example is it a total data set we are reporting against or a sample set from which we extrapolate. Further we also recognise that there may be a manual intervention in the establishing the data and the complexity and maturity of the reporting rules. Each of these 4 categories are assigned a score 1 and 4. The issues here can be offset by the degree of control activities applied by the Company, the experience of the personnel and of historical issues in its reporting.

See detail on pages 7 – 9.