

17 November 2016

## Assurance Framework – work on track at conclusion of phase 2

Phase 2 of the Open Water Assurance Framework has now been completed with Defra submitting its letter of assurance to the Secretary of State on 21 October. Having seen the evidence provided from all parties involved in the Open Water programme, Environment Secretary Andrea Leadsom said:

*“In less than five months, more than 1.2 million businesses, charities and public sector bodies will be able to choose their supplier for water and sewerage services – offering them better customer service, water efficiency and value for money.*

*“I am delighted we have made such significant progress in preparing for the opening of the new market in April next year. This reflects the hard work and commitment of all those involved and I am confident this constructive engagement will continue over the coming months.”*

### Summary of progress

There is still work to be completed during the final period of preparations for market opening in early April 2017. However, this second phase of the Open Water Assurance process provides us with confidence that the required progress has been made against the plans provided in the phase 1 letters of assurance. In particular, the fact that all companies have been able to enter shadow market operations according to the agreed schedule is a huge achievement for both programme partners and market participants. In this second stage, the focus was also on confirming that appropriate plans are in place to deliver against remaining milestones, with mitigating measures underway for the risks identified.

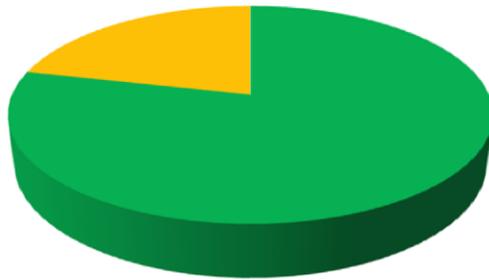
Based on the evidence submitted, Defra, Ofwat and MOSL reached a view on each participant's readiness in the form of a red/amber/green (RAG) rating. A market readiness RAG rating was then assessed for each company by combining individual readiness with market participant type (wholesaler, incumbent retailer, etc.), weighted according to the impact of each participant type on overall market readiness at this phase:

- Large incumbent wholesalers and integrated incumbent wholesalers and retailers were grouped together as companies whose readiness at this phase has a high impact on overall market readiness;
- Small wholesalers, New Appointments and Variations (NAVs) and companies operating wholly or mainly in Wales were grouped together as companies whose readiness at this phase has a low impact on overall market readiness.

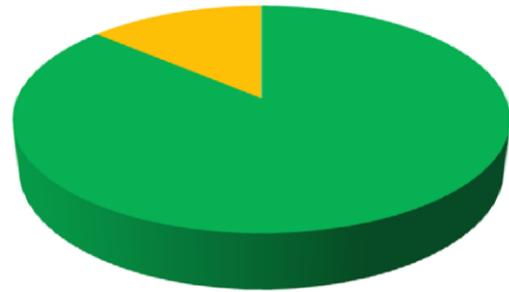
To achieve a green rating at this phase required a higher standard of evidence to be provided than was necessary at phase 1, which was designed to give confidence that plans were in place, rather than assessing progress.

The first two charts below summarise the company readiness RAG ratings that Defra included in its own letter of Assurance. The third gives an overall view of our judgement of market readiness based on the evidence provided in the interim letters of assurance.

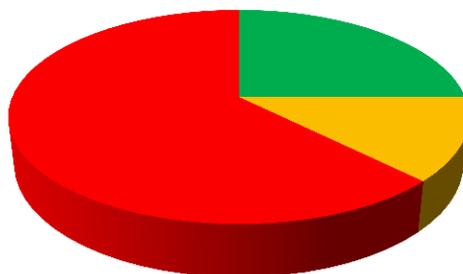
1. Company readiness ratings – large wholesalers and retailers



3. Overall market readiness at interim phase



2. Small company readiness



In assessing small company readiness, red ratings reflect a combination of self-identified issues affecting readiness and some instances of incomplete information. In some cases this is explained because these are small and micro-businesses where it is not proportionate for them to conduct the same type of assurance as for large incumbents.

The programme is confident in the work undertaken in the last six months to support these companies in their preparations for market opening, which has led to significant progress since the first letters of assurance. This is evidenced by the fact that all companies are participating in the six-month ‘shadow market’ phase. As outlined above, when we also consider the limited market share these companies hold, we rate them as green in terms of the impact on overall market readiness.

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This assessment of company readiness is based on the letters of assurance participants submitted for this second interim phase of the programme Assurance Framework and the evidence they contain relating to having made the required progress accounting for plans, resources and risk management activities. It is distinct from other strands of assurance activity such as Ofwat’s targeted review, the Market Entry Assurance process run by MOSL and commentary provided to Defra by the independently-chaired assurance group, which advises on the basis of expert views of high level progress across the programme. However our view aligns with the similarly positive results of recent evidence emerging from these activities.

**Next steps**

The final letters of assurance will be submitted in February 2017 and will require specific assurance from programme partners and participants that they will meet the requirements for market opening in April 2017. At this point the Secretary of State will take the formal decision on opening the market.

Defra is working with programme partners and the industry (via the work-plan review group) to share feedback from phase two and support parties in their preparations for phase three.