

**Board leadership, transparency and
governance – updated assessment
of monopoly water companies’
governance arrangements**

About this document

This document is an updated assessment of whether the 18 largest monopoly water and wastewater and water-only companies and their owners ('holding companies') have implemented our board leadership, transparency and governance principles.

It follows on from our:

- [commentary on water companies' governance codes](#), which we published in June 2014; and
- [review of companies' annual reports and regulatory accounts for 2013-14](#), which we published in October 2014.

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1. Background

Effective leadership and governance of the water and sewerage sectors, where boards operate to high standards, take full accountability and report transparently, helps build trust and confidence in how water companies operate and meet their obligations and commitments.

We published our [Board leadership, transparency and governance – principles](#) for regulated companies in January 2014. These set out minimum expectations covering:

- transparent reporting, including of the group structure;
- board and board committee composition, including the independence of the chair; and
- how a company acts in relation to its parent and wider group.

We are taking a self-regulatory approach, where companies' boards take the lead in setting out how they meet or exceed our principles. We expect companies to maintain their own codes setting out their governance arrangements, including how they meet our principles.

In April 2014, we published [Board leadership, transparency and governance – holding company principles](#). The holding company is the company which the regulated company states in its accounts to be its Ultimate Parent Undertaking and Controlling Party (and any intermediate companies between that company and the regulated company).

The principles represent the minimum standards for board leadership, transparency and governance that we consider should apply to any holding company operating in the water sector. They cover:

- transparent reporting on the relationship to the regulated company, including a clear explanation of the group structure;
- how the holding company manages risk such that the regulated company is protected from risk elsewhere in the group; and
- how the holding company should support the regulated company in operating in a sustainable way (including making long-term decisions) in line with the long-term nature of the water sector.

As with the principles for regulated companies, we are taking a self-regulatory approach. A leading holding company may choose to set out clearly in a code how it meets our principles. Where a holding company does not meet a principle which we have set out, it may instead choose to provide a clear and simple to understand

explanation of why that is the case and the approach that it has taken to meeting the spirit of the proposals.

In our commentary on water companies' governance codes and our review of companies' annual reports and regulatory accounts for 2013-14, we explained that all regulated companies had put in place governance codes and were committed to fully meeting our principles by 1 April 2015. The October 2014 review described how some regulated companies had taken leading approaches, while others needed to do more. Holding companies were also committed to meeting our principles.

In the following chapters we describe the further developments we have seen which have allowed regulated and holding companies to meet our principles. We also set out some areas where transparency could be improved ahead of companies publishing their annual reports and regulatory accounts for 2014-15 in summer 2015.

2. How companies are meeting our principles – regulated companies

We highlighted in our June 2014 Information Notice how companies were performing against our principles. We have been pleased to see further development in companies' governance arrangements. We highlight some specific examples below.

- **Board composition and balance of independent non-executive directors** – significant changes have been made by some companies to ensure that:
 - the chair is independent;
 - independent directors (including an independent chair) are the largest group on the board;
 - there is an appropriate balance of skills, experience, independence and knowledge of the company on the board;
 - directors attend and fully participate in board meetings, and alternates are not regularly used for board members; and
 - there is regular review of independent directors on the board to ensure compliance with the criteria of the UK Corporate Governance Code on independence, and that they remain independent in judgement and character.
- **Board Committees** - we have seen further improvements to ensure that independent non-executive directors are the majority group on the audit and remuneration committees. And more board committees are now being led by independent non-executive directors.

We welcome the very positive steps that companies have made and recognise that for some this has meant significant changes to the composition of the board.

2.1 Disclosure of information

An area where there remains room for further improvement is the transparent disclosure of corporate governance information. This is not limited to the ease with which information can be located, but also to whether it can be readily understood by customers and other stakeholders. We expect companies to be aware of the particular concerns of their customers and other stakeholders and to address those issues in the information they publish. We highlight some specific examples below.

Corporate websites

Some audiences, particularly customers, will use the website as their first port of call for information. And website information is very helpful because while the annual

report provides a snapshot of the company's corporate governance information at a particular point in time, the website can be updated to reflect the latest position.

Many companies have published governance information, including their code, on their corporate website and it is easily accessible. However a few of companies do not appear to have easily accessible codes and/or corporate governance information.

Board committees

Some companies told us that they would be establishing, and developing terms of reference for, committees at the regulated company level (for example, audit, remuneration and nomination committees). We expect companies to clearly explain the new committee structures on their website and/or in their annual report and regulatory accounts.

Governance codes

We expect companies' boards to regularly review their governance code, compliance with it and to make any amendments which might be necessary in order to meet changing circumstances. The up-to-date code should be easily accessible to customers and other stakeholders.

3. How companies are meeting our principles – holding companies

On the whole we have seen less progress against the holding company principles than the regulated company principles. Although companies generally responded positively to our holding company principles and the reasoning behind them, there is limited evidence from most companies' websites that efforts have been made to ensure the transparency of information set out in the principles.

There are some examples of companies that have made more progress. For example, some holding companies have published on their websites a document that sets out how they meet the holding company principles. We expect to see further progress in this area from companies in their annual reports in the summer.

4. Next steps

We will examine each regulated company's 2014-15 reporting, particularly the annual report and regulatory accounts which are published in July, and their website. This is in order to understand how it is meeting our principles in practice. It is for each company to decide how it makes information available, but we expect it to be readily accessible and clear. We will publish our findings in the autumn.

Where there are areas where companies do not meet our principles, we will continue to work with them to ensure that this is rectified or determine whether further action is needed.

More information about board leadership, transparency and governance is available [on our website](#).

If you have any questions about this document, please email christopher.pepper@ofwat.gsi.gov.uk

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a leading economic regulator, trusted and respected, challenging ourselves and others to build trust and confidence in water.



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