

Information notice

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Expectations for company reporting 2013-14 – Board leadership, transparency and governance

This information notice sets out our expectations for the information that companies operating in the water sector in England and Wales will publish about how they are meeting our principles for Board leadership, transparency and governance.

Background

Effective leadership and governance of the sector is paramount to customers, investors and stakeholders' confidence in the sector.

Companies operating in this sector provide an essential public service that most people in England and Wales use. As monopoly suppliers of this service we expect companies to act in a way that maintains the legitimacy of the sector and customers' trust. Legitimacy is essential to maintaining customers' willingness to pay their water and sewerage bills.

Over the past year we have focused attention on corporate governance. We published our

final 'Board leadership, transparency and governance – principles' for the regulated companies in January 2014. We also published a consultation on 'Board leadership, transparency and governance – holding company principles'. To support the development of both sets of principles we have engaged extensively with:

- companies;
- their directors (particularly independent non-executive directors)
- investors; and
- companies' auditors.

If we are to deliver on a less intrusive approach to regulation, and the benefits that can bring, we need to be confident that companies are operating to the very highest standards of corporate governance. We have welcomed the endorsement of the principles and companies' willingness to take a self-regulatory approach to implementing governance codes that demonstrate how they meet our principles.

Each of the regulated companies has told us that it will have a code in place by 1 April 2014 stating how it will meet our principles. Some leading companies have already published their codes and are actively taking steps to meet the principles.

We expect all companies to meet our principles in full by 1 April 2015 and to demonstrate how they do so.

We recognise that 2013-14 and 2014-15 will be transition years as companies take steps to fully meet the principles by 1 April 2015. As a consequence we expect companies to demonstrate transparently the actions they are taking to meet our principles.

Expectations for 2013-14 reporting

It is for companies to determine how they demonstrate they meet our principles. A number of companies have suggested that their annual reports are an appropriate place to demonstrate the way in which they are currently meeting the principles and the

This is a formal document that alerts our stakeholders to a change in the way that we regulate the water and sewerage sectors in England and Wales.

steps they will take to meet the principles by 1 April 2015.

We are not seeking to prescribe a uniform minimum standard to companies' reporting, and will not offer a template that we expect companies to adhere to. We expect companies to take full ownership of the way in which they demonstrate that they operate to high standards and fully understand and meet the obligations that arise from providing an essential public service.

We expect companies to consider how they meet the principles, for example by providing clarity in relation to:

- the composition and performance of Boards;
- the way in which remuneration of directors and the executive is linked to the long-term performance of the company; and
- where the regulated company fits within the group to which it belongs. We recognise that some structures are complex and where that is the case the Board may wish to consider the steps it can take to explain and influence that structure.

Good practice

We saw some innovative and thoughtful approaches from companies to demonstrate high quality leadership and governance in their annual reports for 2012-13. We look forward to companies building on that for 2013-14.

We recognise the steps that companies took in their 2012-13 accounts to set out how they meet their obligations. We sought this in 'IN 13/02: Board leadership, transparency and governance'.

We saw many examples of improved transparency and welcomed the clear signal that companies' Boards had understood and acted on the need to demonstrate high standards of leadership.

We recognise that the companies' auditors have a strong role to play in guiding best practice and securing that companies are providing clear, coherent and accurate descriptions of the way in which they meet our principles.

Some examples of the innovations that we saw in companies' reporting in 2012-13 include the following.

- Description of the induction programmes that directors undertake to make sure that they understand and are equipped to fulfil their obligations as a director.
- Tables that set out the full details of remuneration arrangements and how they change over time. We recognise that in time companies will wish to consider how their remuneration arrangements need to be revised to reflect the way in which they meet their outcomes.
- Detailed breakdown of how the company met the UK Corporate Governance Code principles with page references to where information was provided in the

report. We recognise that this sort of approach could be applied to the way in which our principles are met.

- Clear explanations of issues dealt with at the regulated and holding company and a description and explanation of matters of relevance to both Boards and how they are handled.
- Clear explanations of financial structures, such as corporate governance arrangements arising from securitisation.
- Clear and informative descriptions and diagrams of the company structure, including explanations of the activities of each company within the structure.
- Explanations of framework for control and requirements for the competency of members of the Board and its committees.
- Clear explanation of ownership structure including stakes of each of the consortium of owners.

Next steps

We look forward to improved transparency from companies in reporting on their performance in 2013-14, which acknowledges and sets out how the spirit of our principles is met.

Enquiries

If you have any questions about this information notice, email ingrid.olsen@ofwat.gsi.gov.uk.

More information

'Board leadership, transparency and governance – principles',
January 2014

'Board leadership, transparency and governance – holding company
principles', January 2014

'IN 13/02: Board leadership, transparency and governance',
April 2013

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