December 2015

Trust in water

What progress are water companies making towards being transparent about their governance and performance? An Ofwat targeted report

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About this document

In Monitoring and assuring delivery, we explained that **targeted reports** are one of the regulatory tools we will use to highlight any risks to trust and confidence – whether this aims to highlight where companies may need to improve, or simply explores a possible issue in more depth.

Our targeted reports could be prompted by performance concerns and/or customer or stakeholder interest. Equally they could also just be sharing routine analysis or updates. This report is the latter.

The purpose of this targeted report is to:

- share the findings from our detailed review of board leadership transparency and governance in 2014-15;
- review how companies have reported their performance in 2014-15 and share good examples; and
- highlight the sector's progress on their reporting and assurance processes for 2015-16.

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1. Introduction

We expect companies to report on their performance directly to their customers and other stakeholders – and engage effectively with their customers to find out what they want to see. Having information that is easy to understand and navigate provides transparency and helps everyone to build trust and confidence in the sector. Information forms the basis for conversations so that water companies can listen to their customers and other stakeholders and deliver the outcomes they and wider society want.

As companies take more ownership and accountability, we also need to make sure that they are operating to high standards of board leadership and governance. Effective leadership and governance of the water sector, where boards operate to high standards, take full accountability and report transparently, helps build trust in how water companies operate and meet their obligations and commitments.

Information also reveals excellence and good practice within the sector. This can provoke all companies to lift their game and deliver the best for their customers. And information helps us and others – such as customer groups, environmental groups and investors – to hold companies to account. We will do this by speaking with and listening to others to identify the biggest risks to trust and confidence – and where we need to take action to avoid problems or make improvements. We want those conversations to enable others to take action too.

This document is a **targeted report**, which we have said we will use to look at specific sector wide topics to highlight good performance as well as areas that need work. Targeted reports are one of the regulatory tools we will use to highlight any risks to trust and confidence – whether this aims to highlight where companies may need to improve, or simply to explore a possible issue in more depth.

This targeted report looks at companies' progress so far towards this increased engagement and transparency before they report on their outcome performance commitments for the first time in July 2016. The purpose of this report is to:

- share the findings from our detailed review of board leadership transparency and governance in 2014-15;
- review how companies have reported their performance in 2014-15 and share good examples; and
- highlight the sector's progress on their reporting and assurance processes for 2015-16.

In July 2015, each company published information about their performance against a set of key performance indicators (KPIs). We have also published a summary of the companies' reported 2014-15 performance, which is available along with the reports on companies' performance in each of the earlier years on the performance page of our website.

1.1 Structure of this report

Section 2 contains the findings from our comparative review of companies' board leadership, transparency and governance in 2014-15.

Section 3 examines how the companies have complied with our information requirements for 2014-15, and highlights some examples of sector-led initiatives on comparative and sector performance. We include the example of comparative reporting on developer services by Water UK.

Section 4 examines the sector's progress against the company monitoring framework, which assesses the assurance that the companies must put in place to give customers and other stakeholders confidence that the information they provide is accurate and reliable.

Section 5 summarises and reiterates what we expect companies to publish in 2016. We have already provided companies with these expectations.

2. 2014-15 Board leadership, transparency and governance

2.1 Requirements

Effective leadership and governance of the water 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.

Our Board leadership, transparency and governance – principles for regulated companies published in January 2014 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.

In September we published a summary of the key findings of our review of companies' 2014-15 reporting in this area and how they were meeting our principles. This section builds on that summary by setting out in more detail what we have found in terms of examples of particularly good reporting and some areas where companies' reporting was not as transparent as it could have been.

We also published a set of principles which we consider should apply at the holding company level[1]. These principles are aimed primarily at improving transparency of ownership structures and protecting the regulated company from risk elsewhere in the group. In this section we also report on how companies are progressing with meeting these principles.

[1] For the purposes of these principle, the holding company is defined as the company which the regulated company states in its accounts to be its ultimate controller.

2.2 Performance

2.2.1 Transparency

Principle: Transparency – reporting must meet or exceed the standards set out in Disclosure and Transparency Rules.

Most companies provided clear, well set out and appropriately detailed corporate governance sections in their annual reports. A good example in this area was the Anglian Water Annual Report and Accounts 2015 which contained a clear and easy to understand corporate governance report (on pages 73 to 79). In addition, we were able to find the document without difficulty on the company's website both by navigating from the home page or using the search facility.

Some of the best examples we saw in this area were where companies used a combination of using their websites and the relevant sections of their annual reports to provide transparency on their corporate governance arrangements. We found some clear and easy to understand corporate governance pages on Affinity Water's website which were cross referred to in the well laid out and clear corporate governance section of its annual report.

However in one case we found a company cross referred in its annual report to governance information on a website which did not appear to exist (and it was therefore not apparent how this information could be found otherwise). This clearly undermined the accessibility of the information to customers and other stakeholders.

Many people will use a website as their first port of call for information. Website information is extremely 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.

There were several companies which provided particularly good examples of remuneration reports including Wessex Water and Sutton and East Surrey Water. These reports provided extensive and accessible detail on how directors were remunerated in the reporting year. They provided a clear and detailed explanation as to how remuneration is linked to performance for individuals, a clearly illustrated breakdown of each director's total remuneration and made good use of charts and tables where appropriate. However one company provided only a brief report on directors remuneration, which was mostly at the principle level and had very little detail on the remuneration of individual directors and how this linked to performance.

Transparency in this area helps to give confidence to customers and other stakeholders that directors are being appropriately incentivised to ensure a focus on delivery in the interests of those groups.

Severn Trent Water and South West Water provided some clear detail on the composition and operation of their boards as set out below:

- The Severn Trent Water Limited report and financial statements for the year ended 31 March 2015 (page 39) includes a chart showing how the Board spent its time at scheduled Board meetings. The chart is broken down into the main agenda areas: finance, strategy, governance, performance and other.
- The South West Water Annual Report and Financial Statements 2015 contains a detailed Governance section. This includes some clear commentaries, tables and graphics. For example, on page 48 there is an easy to read section showing a breakdown of board composition by executive and non-executive, gender, experience and tenure. Pages 50 to 52 include clear Board biographies and a table listing the individual attendance of Directors at the 2014-15 Board meetings.

We also came across some examples where companies had not been as transparent as they might have been.

- One company explained how many board and committee meetings there were during the period and the attendance rate as a percentage of the board as a whole, but did not include a summary breakdown of individual directors' attendance at each type of meeting. This would add useful transparency for customers.
- Another company did not appear to provide biographical details of its directors either in its annual report or on its website. Without these details it is difficult for customers and other stakeholders to assess the range and relevance of experience on the board.

2.2.2 The regulated company acting as if it is a separate public listed company (including disclosure of reserved matters)

Principle: The regulated company must act as if it is a separate public listed company. An effective Board is fully focused on the regulated company's obligations.

We expect that the regulated company will declare explicitly any matters that are reserved to the holding company board. Where reserved matters exist companies should provide an explanation of why this is the case and how the regulated company ensures that it is still able to make strategic and sustainable decisions in the interests of the company for the long term.

Two companies reported reserved matters that seemed to suggest that strategy may be reserved to their holding companies. This can make it difficult to see how this fits with the regulated company acting as if it a separate public listed company that is able to make strategic decisions about all aspects of its business. We are working with these companies to understand their approaches in this area.

2.2.3 Independent representation on the regulated company board

Principle: There must be significant independent representation on the Board. Independent non-executive directors are essential to securing strong Board leadership and governance. In line with best practice, boards should have the appropriate balance of skills, experience, independence and knowledge of the company.

This is the area where a number of companies have made significant changes over the last 18 months or so to meet our principles, including changes to the composition of their boards. We welcome the actions that companies have taken to allow them to meet this principle.

Most companies have met this principle by ensuring that independent non-executive directors are the single largest group on the board. In a few, limited cases independent non-executive directors are the joint largest rather than largest group. Two of these companies have taken the option to explain the approach they have taken in their annual report or regulatory accounts and how this still allows them to meet this principle overall.

However one of the companies concerned does not appear to have provide sufficient explanation of why it has taken the approach that it has. This lack of transparency could undermine the confidence of customers and other stakeholders if it is not clear how the company ensures that there is a strong, independent voice on its board.

2.2.4 Independent chair

Principle: The Chair must be independent of management and investors.

The principles require that the chairman of the regulated company should be independent of management and investors if they are to be fully effective. Most companies now have an independent chair, and we welcome the changes companies have made in this regard.

There are a few single owner companies where the chair is not independent. However the principles allow for this as they state that we recognise that there may be exceptions in very limited circumstances, for example if the ultimate controller of the regulated company is a single entity. In those circumstances, we expect there to be a senior independent non-executive director with whom all regulatory interactions, that might otherwise take place with the chairman, will be conducted. The departure from the principles should also be discussed with us. In all cases the companies concerned have complied with these expectations.

2.2.5 Board committees

Principle: Board committees, including but not limited to audit and remuneration committees will operate at the regulated company level. There should be a majority of independent members on the audit and remuneration committees.

Companies met the expectations set out in the principles in this area. In nearly all cases, committees are run at regulated company level, they are led by independents and made up with a majority of independents, and the members have the requisite financial knowledge.

2.2.6 Group structure

Principle: The group structure must be explained in a way that is clear and simple to understand.

Companies have taken a range of approaches to setting out their group structures. In order to help customers and other stakeholders understand how the regulated company fits into the wider group of which it is part, companies should explain the role of other companies within the group. This is especially important where a number of intermediate companies sit between the regulated company and its ultimate parent.

There were several examples of best practice in this area and we set out some examples below.

- The Anglian Water Annual Report and Accounts 2015 contains a clear and easy to understand 'How we are structured' section on pages 14 and 15. For readers who are looking for more detailed information about the corporate structure, there is a hyperlink to the relevant pages on the company's website.
- The Dŵr Cymru Welsh Water Report and Accounts 2015 contains a group structure diagram on page 63 and the role of each company within the group is clearly explained.
- Other good examples include Affinity Water, Wessex Water and South East Water.

Even where group structures are relatively simple they should be readily accessible and clear to all stakeholders. We found two examples of where companies were not as transparent as they might have been.

- One company provided a textual description of the structure, but a simple diagram could have added further clarity.
- Another company, beyond a brief explanation of its ownership, did not provide any detail on its group structure. Although this detail was provided on the holding company website this was not made clear at the regulated company level, reducing accessibility for customers and other stakeholders.

2.2.7 How companies are meeting our principles – holding companies

We welcome the actions that some companies have taken to meet the principles for holding companies. We have seen evidence of some companies taking a leading approach in this area.

Several companies have published clear and readily accessible codes on their websites setting out how their holding companies meet our principles. These include:

- Affinity Water Limited Holding Company Principles;
- Anglian Water Group Holding Company Governance Code; and
- Kelda Holdings Limited Board Leadership, Transparency and Governance Code.

Other holding companies have explained in their accounts how they meet the principles:

- South Staffordshire plc (the immediate parent of South Staffordshire Water) explains how it follows the holding company principles within the corporate governance section (pages 42 to 50) of its annual report.

- HDF (UK) Holdings Limited (the holding company of South East Water) has included a helpful section (on pages 15 to 17) within the Group Financial Statements 2014-15[2] explaining how it meets each of the holding company principles, or provides an explanation where it does not meet them.

We recognise that not all holding companies have their own website – in these cases it would increase transparency if the holding company annual report and accounts are also available on the regulated company website.

A key principle for holding companies is that they will manage their risks in such a way that the regulated company is protected from risk elsewhere in the group. As part of this, holding companies should ensure that regulated company boards, including independent non-executive directors, are kept informed of any changes at group level, for example potential changes in key shareholdings, where these may impact on the regulated company.

Companies should consider confirming this process as part of their annual reporting to help provide confidence to stakeholders that the regulated company board is able to be fully aware of the environment in which it is operating and risks it might face.

Although companies have generally responded positively to our holding company principles and the reasoning behind them, these are areas where there remains room for further improvement from some companies.

We will maintain an overview to help make sure that companies are continuing to move towards increasing transparency at the holding company level.

[2] These accounts are publicly available on the Companies House website.

3. Reporting on performance

3.1 Meeting our requirements for 2014-15

All companies published the information we expected to show their customers and other stakeholders how they performed in 2014-15.

Between 2011-12 and 2014-15 each company published a range of information about their performance. This includes the following:

- a risk and compliance statement, which sets out their compliance with relevant statutory and regulatory obligations.
- their performance against a range of key indicators (KPIs).
- annual regulatory accounts, which sets out their financial performance.

We have collated the information published by the largest 18 companies in the round-up of the companies' reported 2014-15 performance. This is available along with the reports on companies' performance in each of the earlier years on the performance page of our website.

We exclude the small companies from the round up in line with the lighter reporting expectations that applies to companies with a turnover of less than £6.5m.

After 2014-15, we do not expect companies to report on their performance against these KPIs – this is replaced by reporting on their performance against their outcome performance commitments made at PR14. Our company monitoring framework and annual performance reporting process applies from 2015-16, as set out in Monitoring and assuring delivery.

3.2 Financial reporting

Consistency and comparability

In our monitoring financial resilience – a snapshot publication, we identified a number of concerns with consistency and comparability. This included numbers reported differently within the same company's financial results without explanation – there may be legitimate reasons for reporting alternative financial metrics, but this results in inconsistencies across companies.

Our recent consultation on regulatory reporting highlighted the importance of reporting consistent and comparable data on the services that companies deliver to customers and the costs they incur.

The financial monitoring framework will publish company financial information in a way that allows stakeholders to analyse relative performance as well as absolute performance. Therefore the financial monitoring framework will set out a consistent methodology for calculating the financial indicators that all companies should use. This does not prevent companies presenting alternative calculations for these metrics but we expect the alternatives to be reported separately with a clear explanation as to their purpose and why they differ from the standard calculation. Companies should be able to explain their relative position – understanding this will improve awareness and management of risk.

Evolution of upstream reporting

When we published our finalised regulatory accounting guidelines (RAGs) in October 2015 we enhanced the guidance in RAG 4.05 on costs for each business unit, which applies from the 2015-16 reporting year onwards. We have removed the split between trunk and local for treated water distribution because companies have told us this no longer reflects the way modern networks are operated. We have also reduced the number of sludge categories, rather than separately identifying the costs for all of the sludge liquor process, we are only concerned with that amount of sludge that is treated in the sewage treatment works.

As part of supporting the development of markets in the upstream value chain for PR19, we are considering whether further separating out the wholesale price controls is appropriate to increase the transparency of costs and improve the quality of information available for different wholesale (upstream) businesses. Separating price controls can underpin access prices which provide price signals to enable efficient market entry and can also provide benefits where markets have not been introduced. For example, greater transparency of costs across upstream businesses could help us to understand the relative efficiency of companies in different areas. Figure 1 illustrates the value chain.

Figure 1 Value chain

For the water resources and sludge business units it would be helpful to gain extra information in this area to inform our approach to PR19. We have asked sewerage companies to provide us with some additional information that they do not currently report.

We are also carrying out a targeted review on companies' reporting on sludge treatment and disposal. This review will focus on existing reporting of costs, incomes and asset values – and we will consult on any consequential changes to regulatory accounting guidelines for 2016-17.

Classifying company income

We identified that the new price controls mean increased risk around consistency of reporting for appointed/non-appointed income as well as grants and contributions. This is because the wholesale controls are now on revenue rather than average charges increases; and include connection charges which are often recorded as capital contributions. We have therefore provided further clarity around income categorisation across appointed/non-appointed, wholesale/retail and income covered/not covered by the price control in final version of our reporting guidance for the annual performance report. We have also included a new table in the annual performance report on grants and contributions to show the total amount of income received, irrespective of the accounting treatment chosen.

Tax

Other stakeholders are increasingly focusing on tax – in particular:

- our approach to funding tax in price limits;
- companies' ex-post performance against the price limit – a recent NAO report highlights that cuts in corporation tax after we set price limits in 2009 meant that companies paid less in tax than we had assumed; and

- the transparency of companies' tax strategies and group tax arrangements.

Recent analysis has highlighted the lack of transparency around the appointed business current tax charge and how it may have been impacted by group arrangements, making comparisons with our Final Determinations difficult. To address this we have added a requirement for tax narrative and a tax reconciliation note in the annual performance report from 2015-16.

Small companies

We do not think it is proportionate to ask for the same level of information for new and existing small companies in the annual performance report that we receive from larger companies, but we still require some accounting information to a 31 March year end (as set out in RAG 3.08.). As we move towards retail market opening and the need for wholesale charges, we have identified a need for some small companies to further consider and improve reporting of costs across the retail and wholesale business to ensure they are able to correctly identify the costs related to each activity.

Water supply licensees should send us their certificates of adequacy[3] by 1 April each year. This is a requirement under condition 3 of the standard conditions of water supply licences. We have not yet received a certificate of adequacy for all licensees for 2015 and we will take appropriate action on this in the next few months.

The number of licensees required to send us their certificates of adequacy will change when the retail market opens in 2017 and more water supply and sewerage service licences are granted.

3.3 Reporting on sector performance – the strategic dashboard

We have said that we will help to develop a sector strategic dashboard as the basis for cross-sector dialogue about how the sector is doing and what we all might be

[3] A certificate of adequacy certifies that the licensee has met the conditions of the licence and will have all of the management, financial, technical, operational, and other resources it needs to meet its obligations. It is required under condition 3 of the standard conditions for water supply licensees.

able to do, collectively or individually, to help it to do better. This is different from reporting on individual company performance, and could be used by companies and other stakeholders to:

- identify current or emerging strategic issues which merit action by one or more organisations in the sector;
- provide a platform for strategic conversations to identify the most effective ways of increasing trust in the sector;
- engage informed customers and stakeholders in the sector's performance, enabling them to hold the sector to account, raise issues and provoke debate; and
- signpost more complete and nuanced information to aid understanding.

We hosted a stakeholder event on 21 October at which organisations in the sector recognised the benefits of publishing a strategic dashboard. Water UK announced that it would lead a sector-wide development of a strategic dashboard, with the following features.

- It will comprise information that provides a strategic overview of all aspects of the sector, focusing on what really matters to customers and society.
- It will be an inclusive, sector-wide project, aiming to work at each stage with as many of the sector's stakeholders as possible, with the choice of measures to be included in the dashboard to be a collective choice.
- It will be led and funded by Water UK and its members.
- It will be delivered by a credible, independent third party – credible and independent in the eyes of all the sector's stakeholders.
- It will have robust, clearly sourced data which allows comparisons to be made between companies.
- It will allow the data to speak for itself, without spin or editorialising
- It will be the place to go for a strategic overview of the whole sector that everyone can trust.
- It will be interactive and visually appealing, enabling stakeholders to extract information and use it as they wish.

We understand that Water UK will publish the sector strategic dashboard with 2014-15 data in spring 2016 and then be updated with 2015-16 data later next year. Water UK are likely to establish a sector-wide steering group to design and implement this.

3.4 Comparative reporting

The sector strategic dashboard looks at overall sector performance, rather than individual company performance. But we also expect companies to work together to provide comparative information, as this helps them to explain their performance better to their customers and other stakeholders – as well as for their own benchmarking. This type of comparative information can help customers and other stakeholders put performance in context as well as helping companies to understand and manage risk.

In Towards Water 2020, we said that providing comparative information to help companies, stakeholders and customer challenge groups (CCGs) make decisions about performance and future targets could help to genuinely empower customers. We want to encourage the sector to continue to work together to provide more information for customers and stakeholders and are prepared to engage with and support this activity.

In addition to the strategic dashboard, Water UK publishes a comparative facts and figures report on its website annually and has now published a summary of information companies have reported about 2014-15. The comparative information produced by Water UK covers all the major statutory water and wastewater service supply organisations in the UK, and so includes data from Scotland and Northern Ireland in addition to the 18 largest companies in England and Wales. This information is about service quality, money spent on infrastructure and assets, financial details plus water quality and environmental issues and is collated from company annual reports.

UKWIR are currently undertaking a project on water company benchmarking which aims to identify and specify data that would be useful to share between themselves. Customers and other stakeholders will benefit from the sector considering the recommendations from this project and sharing comparative information more widely.

This is not the only project looking at comparative indicators, with work ongoing on asset performance and resilience in particular.

3.5 Example of good practice - developer services

Water companies provide a range of developer services to enable new connections to the network. It is one of the few areas in the sector open to competition, where suitably qualified organisations are able to compete with appointed water companies to provide certain services (called ‘contestable services’).

During 2014-15 the quality of the customer service that water companies provide when delivering their developer services came under greater scrutiny by Government and customers. This reflected the Government’s focus on securing housing and economic growth, and the revival of the construction market after the recession. It was also borne out of concerns that some water companies did not recognise developers and self-lay organisations[4] (SLOs) as their customers and that service delivery varied significantly between water companies.

The electricity sector has prescriptive statutory regulations and licence conditions setting out the minimum service levels for companies’ developer services, with enforceable penalty payments where these are failed. In contrast, the Water Industry Act 1991 provides prescribed statutory timescales for only a small number of the developer services water companies provide.

Reflecting our approach to PR14, during 2014-15 we challenged water companies to take greater ownership of their relationship with their developer services customers, so that they can better understand and deliver the outcomes they want. In response water companies agreed a set of service levels for a range of the developer services they provide. The service levels were first published in Government’s ‘Better Connected: a practical guide to utilities for home builders’ in December 2014 and, following consultation, finalised and published in April 2015.

The final set of service levels include both existing statutory requirements and a number of measures that customers told water companies mattered most to them. Some of the service levels also allow for a comparison between water companies’ performance when they are providing non-contestable services to themselves (where the contestable works are also provided by the water company) and when they are providing those same services to enable a self-lay organisation (SLO) to provide contestable works. The sector hopes that this will support water companies’ wider thinking and management of competition law compliance when delivering contestable and non-contestable services alongside each other, an issue that will grow in importance with the opening of the non-household retail market in 2017.

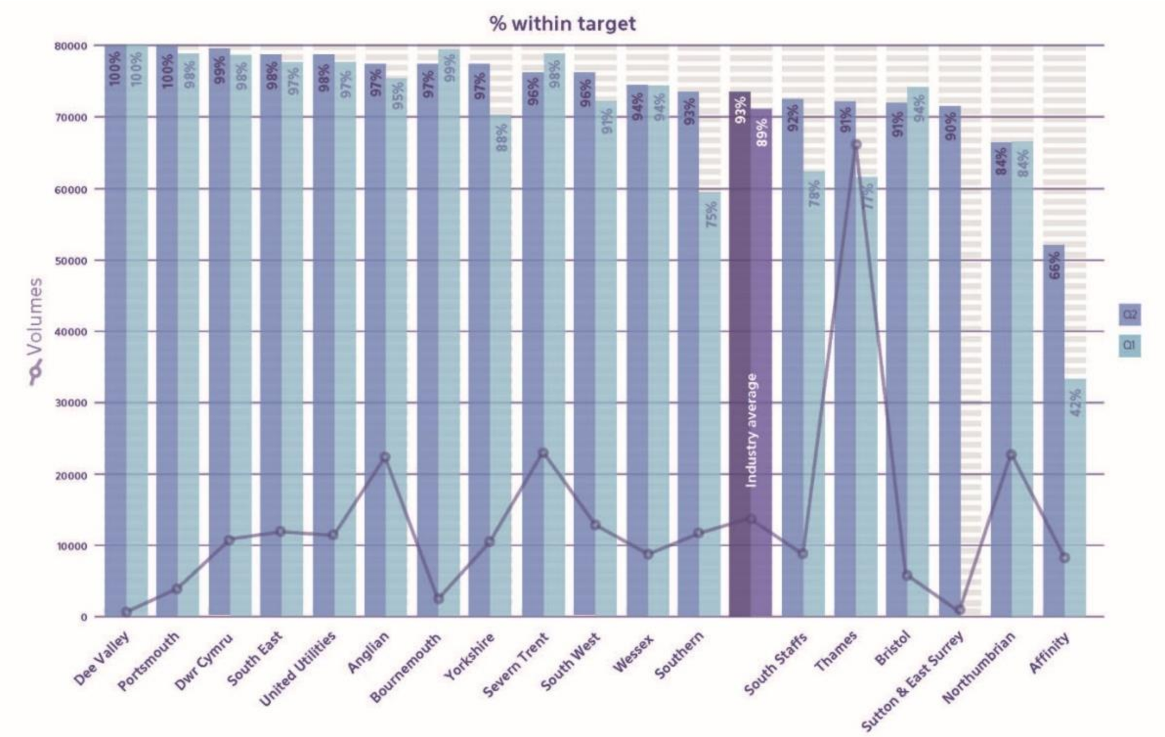
[4] A self-lay organisation (SLO) is a contractor or multi-utility infrastructure provider that provides water supply infrastructure for developers.

The 18 largest water companies in England and Wales are now monitoring their performance against the agreed service levels and Water UK publish a performance report every quarter. For the first time, these reports provide transparency about water companies' relative performance in this service area. The ability to compare performance provides a strong reputational incentive for water companies to continuously improve their service delivery, both to avoid being towards the bottom of resulting 'league tables' and to avoid being overtaken by those making greater and faster improvements. We will also be using the performance monitoring to identify where and how we focus our regulatory tools to drive further benefits for customers.

Water UK have published two quarterly reports on water companies' performance, the first covering the period April – June 2015 and the second the period July – September 2015. These reports have been the first time stakeholders have been able to compare the relative performance of water companies in this area.

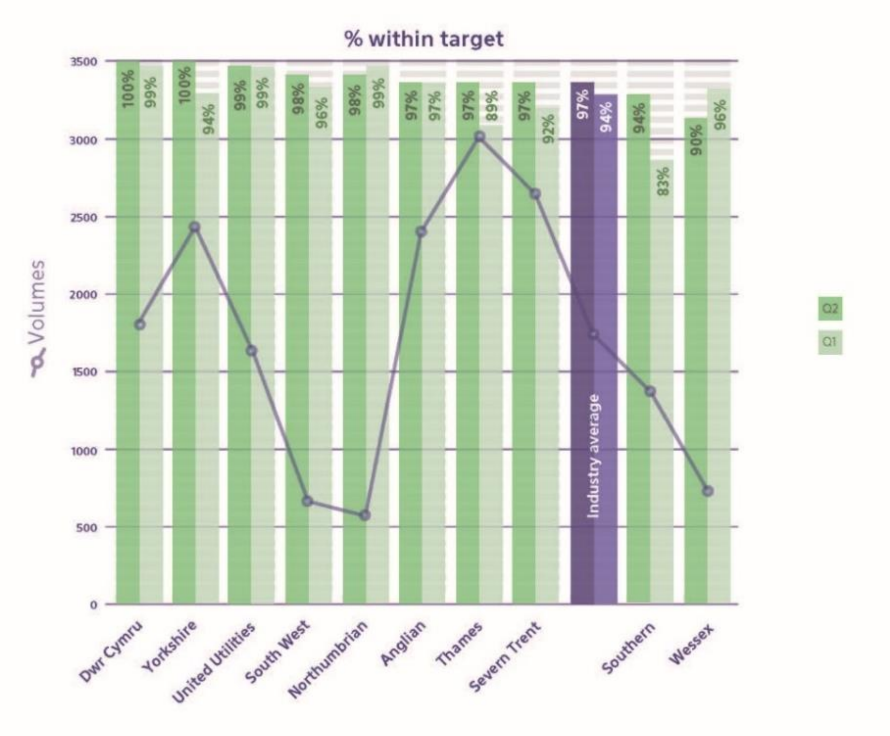
Figures 2 and 3 show the comparative performance for the two periods for water supply and sewerage respectively.

Figure 2 Developer services levels of service performance –% within target and activity levels water supply
Quarter 2 (July to Sept) and Quarter 1 (April to July) 2015-16



Graph produced by Water UK

Figure 3 Developer services levels of service performance – % within target and activity levels sewerage
Quarter 2 (July to Sept) and Quarter 1 (April to July) 2015-16



Graph produced by Water UK

Following the release of the first period results, we formally sought assurances from the three worst performing water companies (Affinity Water, Southern Water and Thames Water) about their improvement plans. In light of the most recent results we have formally requested the same assurances from Northumbrian Water, Wessex Water and Sutton and East Surrey Water. We are now tracking the progress of these six companies against these plans, alongside their future performance against the level of services and our wider intelligence from the complaints we receive from customers.

Water companies' work on levels of service is just one piece of a wider conversation the sector is having to improve customer service for developers. Other key areas of activity relate to enabling effective competition in this area and ensuring water companies effectively plan for and enable growth. Engagement and transparency underpin the value of the levels of service and the relationships water companies must build and maintain with their developer services customers.

We expect water companies to continue to build trust and confidence in the levels of service reporting. This should include considering new measures that are important to customers; increasing transparency around the results’ exception reporting; and ensuring the results chime with customer qualitative experiences of the services they receive.

4. Company monitoring framework

In June 2015 we published our final position on the company monitoring framework which detailed the assurance that the companies must put in place to give customers and other stakeholders confidence that the information they provide is accurate and reliable.

We will use our company monitoring framework to provoke and challenge all water and wastewater companies to publish information that can be trusted. The framework describes three categories of assurance. Companies were assigned to a category, depending on the integrity of the information they have provided to us previously. The categories are:

- self assurance;
- targeted assurance; and
- prescriptive assurance.

The company monitoring framework applies to information that the 18 largest companies are required to publish after 1 April 2015. The framework requires companies in the targeted and prescribed categories to, after conversation with stakeholders, publish a statement on where the risks, strengths and weaknesses arise in providing the quality of information that stakeholders want and will trust. The risks, strengths and weaknesses statements should be published by 30 November each year. All statements currently required have been published and we have seen evidence of good engagement with stakeholders.

As part of this engagement process, several companies have asked to meet with us to talk through the approach they have taken. These meetings have provided useful background evidence of activity and allowed us to understand how different companies are implementing the framework. A consistent theme across many of these meetings has been transparency, as companies consider the appropriate amount of information to publish and make available to stakeholders.

We have published our decision to re-categorise Bristol Water to 'prescribed' on the Company Monitoring Framework, along with their plan to meet the requirements of the prescribed category. We agreed that they could delay the publication of their risks, strengths and weaknesses statement until this decision was made, but they have now committed to publishing this on their website.

Most companies are still to publish their draft assurance plans and we look forward to commenting on these alongside other stakeholders.

One area we would like to highlight with companies is the increased significance of segmental reporting following the setting of separate price controls at PR14 (section 2 of the annual performance report covers reporting over the separate control segments). We are concerned that the materiality level which auditors use to determine what amounts are significant will not be low enough to provide sufficient assurance over some of the revenues or costs of the smaller retail business when performing the audit on the annual performance report. This is because the materiality level (which is usually a percentage of assets or revenue) will be set in relation to the whole of a company's regulated business rather than the individual price control segments.

This means that the audit opinion on its own may not provide sufficient assurance on some of the smaller amounts of revenue and costs recorded under the different price control segments. Companies should therefore consider what they can do to assure their customers and other stakeholders that information provided at the price control segment level is robust.

5. Annual performance reporting from 2015-16

We expect all companies to decide how they report on their performance each year. But we also expect companies to publish some common content in an annual performance report as a set of minimum requirements as well as to allow customers and stakeholders to compare the performance of individual companies to the rest of the sector. Providing comparative information helps companies, stakeholders and customer challenge groups (CCGs) make decisions about performance and future targets.

In July 2015 we consulted on our proposals for a financial monitoring framework which included a suite of financial metrics which we intended to ask companies to report on to enable us to monitor the financial stability of the water and wastewater companies in England and Wales and to provide us with enhanced visibility of company financing and capital structures.

After reviewing the responses to that consultation and holding workshops we have refined the suite of financial metrics which we are now asking companies to report on as part of the annual performance report.

We may also use other financial information that is included in the annual performance report and in each company's statutory accounts in assessing the financial resilience and stability of the industry or individual companies.

5.1 What we expect companies to publish each year

We have already summarised what we expect from companies in monitoring and assuring delivery. As a minimum, we expect companies to publish:

- An **annual performance report** which provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance;
- A **compliance statement** that the company has complied with all its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate any risks it faces; and
- A **data assurance summary** of the results of the data assurance that the company has carried out to evidence that the information provided is accurate.

As part of their engagement process on the company monitoring framework, several companies have asked to meet with us to talk through the approach they have taken. Not only have these meetings provided useful background evidence on how different companies are implementing the framework, they have given insights on their ideas for how to present their annual performance report in a way that makes it accessible to all their stakeholders.

We are pleased that companies are telling us they have plans to – or are already – testing their ideas and proposals with stakeholders. Through their performance reporting on 2014-15 some companies have shown how they plan to present their outcomes performance going forward.

We will set out the process for the annual performance report and publish a) our data collection template; and b) the populated outcomes spreadsheet in December 2015.

5.2 Charges for 2016-17

We published our expectations and process for charges schemes for 2016-17 in IN 15/16. The largest companies must publish their charges schemes by 1 February 2016, and these must comply with our charging rules (as set out in IN 15/15).

We have also set out the assurance we think customers and other stakeholders need, and how this interacts with the company monitoring framework. Companies must:

- Publish an assurance statement that the company has met its obligations in setting charges (as described in charging rules);
- Publish a statement of any significant changes in charges since 2015-16, including bill increases; and
- Provide us with forecast average bill information for household customers.

We also expect companies to consult with CCWater on changes to their charges schemes, and we will ask CCWater about this consultation as part of our monitoring process.

Where we identify significant risks to customers, or if we do not have confidence that a company is meeting its obligations, we may ask for more information on particular charging issues. So our approach to monitoring charges will be consistent with our wider approach on monitoring companies.

The company monitoring framework includes the publication of charges schemes. Companies should consider how they assure and publish their charges schemes as part of this wider process.

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 trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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