

# Information notice

IN 15/18 December 2015

ofwat

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

## Expectations for company annual performance reporting 2015-16

This information notice sets out the way in which we expect all companies in England and Wales to report their actual performance for 2015-16.

### Background

Most people in England and Wales cannot choose their water and wastewater supplier. They must pay for these services from private monopoly companies. It is important for customers' trust and confidence in these vital public services that the companies that deliver them are accountable for the price and service they deliver. And an important part of this is the information they publish about how they have performed.

We expect all companies to decide how they report on their performance each year. But we also expect companies to publish some common information to allow customers and stakeholders to compare the performance of individual companies to the rest of the sector. Providing comparative information also helps companies make decisions – and

customers and other stakeholders challenge them – about performance and future targets.

Each company's board is accountable for the quality and transparency of the information they provide on their performance. Companies should set out the assurance processes they have followed in providing the information about their performance. Companies should refer to our [company monitoring framework](#) for further information.

We have examined 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. Our findings are set out in a [targeted report](#).

## What companies will publish

We have already summarised what we expect from companies in [monitoring and assuring delivery](#). As a minimum, we expect companies to publish the following.

- An **annual performance report** which provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. Box A summarises the key points.
- 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.
- 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.

### Table templates

To help us to easily process and understand the data for all companies we would like companies to complete and return to us our 2016 annual performance report tables template alongside their publication – as it is quicker and more efficient for us than extracting the information from the published reports.

In line with the lighter reporting expectations for companies with a turnover of less than £6.5m, we have two templates for the annual performance report. One for

the [18 largest companies](#) to use and one for the [small companies](#) to use.

### Box A Annual performance report – key points

The Regulatory Accounting Guidelines (RAG 3.08) sets out the content of the annual performance report so that stakeholders can analyse the performance of individual companies and compare them to each other and to the assumptions we made when we set companies' price and service packages ('price controls') for 2015-20.

Each company will present detailed revenue and cost information for the different parts of the appointed business for which we set price controls for 2015-20 ('price control units').

We will no longer require companies to produce a complete set of current cost accounting (CCA) accounts. We only require each company to prepare a single summary CCA statement.

The annual performance report will not replace the responsibility of individual companies and their Boards to take ownership of reporting to their customers and stakeholders on their own performance.

### Assurance and monitoring

Each company is responsible for implementing assurance procedures to make sure they meet all of their legal and regulatory obligations. Our [company](#)

[monitoring framework](#) sets out the practical steps for doing this.

Our approach to monitoring will be consistent with our wider strategy under our company monitoring framework.

- We will use published information where possible.
- But we reserve the option to ask for more specific information on any performance issues which we deem carry significant risks to customers or if we do not have confidence that a company is meeting its obligations and commitments.

Where evidence emerges that a company is not providing sufficient assurance or may not be complying with its obligations and commitments we will take appropriate action to protect customers. The action we take would be targeted, proportionate and progressive in nature – where appropriate starting from informal action and resulting, if necessary, in more formal action. [Our approach to enforcement](#) provides further detail.

### **Outcome, performance commitment and incentive data**

We have collated each company's [2014 price review](#) (PR14) outcome, performance commitment and incentive 'base data' into a single [Excel spreadsheet](#) which we are publishing alongside this information notice.

We have collected this data from published 2014 price review documents for each of the largest 18 companies.

The information in the spreadsheet is the starting point from which stakeholders can track actual performance when it is published by each company in its annual performance report.

We have also published a short [guidance note](#) to accompany the spreadsheet.

### **Financial metrics**

In July 2015, we consulted on our proposals for a [financial monitoring framework](#). This included a set of financial metrics which we intended to ask companies to report on to enable us to monitor the financial stability of companies 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. These are set out in tables 4H and 4I of the 2016 annual performance report table template.

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 sector or individual companies.

The addition of the financial metrics tables in the 2016 annual performance report means we no longer consider it necessary for companies to publish an annual performance report summary of performance parameters as we initially requested.

## Next steps

Companies are due to publish their annual performance report by 15 July 2016.

As soon as it is published, we expect each company to provide us with an electronic link to where the annual performance information is held on its website so that we can publish a link to it on our website.

It would be helpful to us for companies to send either links to or electronic copies of their statutory accounts (if not bound with the annual performance report). It would also help improve transparency for stakeholders if companies publish or link to the latest accounts of their ultimate controller on their websites.

Companies should send the electronic links and return their completed tables to [FinanceAndGovernance@ofwat.gsi.gov.uk](mailto:FinanceAndGovernance@ofwat.gsi.gov.uk) at the same time as they publish their annual performance report on their own websites, and no later than 15 July 2016.

We are currently agreeing the wording of the audit opinion with all the audit firms. We will share the agreed wording with companies through the regulatory accounts working group. This audit opinion

covers sections 1 and 2 of the annual performance report.

The key deadlines for the annual performance reporting cycle is set out in box B below.

### Box B Timetable

December 2015 – Ofwat publishes data collection template and the outcome, performance commitment and incentive base data.

March – Ofwat consults on any changes to the guidance and requirements for reporting performance in 2016-17.

Spring 2016 – regulatory accounts working group meeting.

By 15 July 2016 – Companies publish their annual performance report, compliance statement and data assurance summary.

Summer/autumn 2016 – Companies prepare and publish their draft assurance plans for 2016-17.

Autumn 2016 – Ofwat publishes the final guidance and requirements for 2017 annual performance report.

By 30 November 2016 – Ofwat publishes the assessment of company assurance categories for 2016-17.

## Enquiries

If you have any questions about this information notice, please send them to [FinanceAndGovernance@ofwat.gsi.gov.uk](mailto:FinanceAndGovernance@ofwat.gsi.gov.uk)

### More information

[2016 annual performance report tables, Excel template](#)

[2016 annual performance report tables – small companies, Excel template](#)

[PR14 FD outcome, performance commitment and ODI base data, Excel file](#)

[PR14 FD outcome, performance commitment and ODI base data guidance](#)

[What progress are water companies making towards being transparent about their governance and performance? A targeted report, December 2015](#)

[Company monitoring framework – Bristol Water re-categorisation, December 2015](#)

[Additional risk and compliance statement from Bristol Water, December 2015](#)

[IN 15/16 ‘Expectations for company charges schemes for 2016-17 and information for companies to include in non-household customers’ bills’, November 2015](#)

[Monitoring and assuring delivery, October 2015](#)

[Regulatory accounting guidelines \(RAGs\)](#)

[Financial monitoring framework - consultation, July 2015](#)

[IN 15/09 ‘Monitoring the quality of companies’ performance information - the company monitoring framework’, June 2015](#)

[Company monitoring framework - final position, June 2015](#)

[IN 15/01: ‘Future company performance reporting and assurance’, February 2015](#)

[Board leadership, transparency and governance – principles, January 2014](#)

[2014 price review](#)

[Risk-based approach to regulation](#)

[Our approach to enforcement](#)

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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