

November 2016

Trust in water

# Company monitoring framework

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2016 assessment

Individual company report – Portsmouth Water Ltd

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## Company monitoring framework assessment

This document outlines the results of our 2016 company monitoring framework (CMF) assessment of Portsmouth Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess Portsmouth Water's assurance, and our findings.

In the context of our CMF, in order to be in the self-assurance category, we were looking for leading edge companies to meet the high standards of assurance that stakeholders expect. As well as providing clear, transparent and accurate data, we expect companies to present their information in a way that stakeholders can engage with. We were looking for companies who can demonstrate a successful and positive approach to stakeholder engagement, including in their approach to developing their assurance plans where appropriate. Transparency about company structures, procedures and decision-making processes is another important area of focus that helps companies to earn their stakeholders' trust and confidence.

Further information on this year's assessment is available in our '[Company monitoring framework 2016 assessment](#)' publication. The framework itself is available in our '[Company monitoring framework final position](#)', published in June 2015.

### Summary of our assessment

Portsmouth Water has met most of our expectations for assurance practices. In general, Portsmouth Water has demonstrated strong assurance of its data, coupled to external independent assurance, transparent and clear publications and evidence of engaging with, and responding to, customer views. We were impressed with Portsmouth Water's assurance relating to outcomes, which drew on assurance from technical advisors and customer specialists and resulted in effective, clear and well-written publications.

We did also uncover some shortcomings, including minor data errors in the financial monitoring framework and inadequate narrative explanations relating to our tax targeted review. We were concerned to note that Portsmouth Water does not appear to have published a data assurance summary; brief coverage in the annual performance report was poorly written and inadequate.

We were pleased with much of what we saw in Portsmouth Water's publications this year and although we identified two minor concerns and one serious concern, we

considered that these did not result in a loss of trust in confidence such that re-categorisation to “prescribed” is required. However, we have ruled out improving Portsmouth Water's assurance status, as for example data and wider assurance would need to “meet expectations” in most if not all assessments, with examples of “exceeds expectations” and good practice.

**We have therefore decided to retain Portsmouth Water's 'targeted' assurance status.**

In this document we have set out a brief summary of the individual assessments that we undertook as part of our Company Monitoring Framework (CMF) assessment in 2016. The remainder of this document provides brief feedback on the company's performance against each of our eleven assessment areas for this year:

<b>Our view</b>	<b>Assessment</b>
Minor concerns	Financial monitoring framework
Meets expectations	Charges schemes assurance
Meets expectations	Financial information
Meets expectations	Final 2010-15 reconciliation data submission
Exceeds expectations	Outcomes
Meets expectations	Compliance with principles of board leadership, transparency and governance
Meets expectations	Risk & compliance statement
Meets expectations	Assurance plan
Minor concerns	Targeted reviews
Serious concerns	Data assurance summary
Not applicable	Evidence from casework activities

**Results of each assessment exercise**

**1.1 Financial monitoring framework**

**What we were looking for**

In this assessment we looked at how the companies had followed our financial monitoring framework guidance. Our assessment focused on the quality of financial information published in the annual performance report, the transparency of disclosures and consistency of financial metric data published.

This is an area where companies' data assurance is particularly important, and companies need to ensure that the information that they publish is in line with the guidance provided by Ofwat. This enables Ofwat, and other stakeholders, to be

confident that the information that each company publishes has been prepared on a consistent basis and allows meaningful comparisons to be made between companies.

## What we found

Portsmouth Water made five minor errors in its table disclosures. None of the errors were significant on their own but such minor errors should have been picked up during the company's own checking process.

The errors identified includes lack of clarity in its disclosure of dividends, and minor errors in relation to the tax reconciliation note and the disclosure of its debt repayment profile.

Our assessment: **minor concerns**

## 1.2 Charges schemes assurance

### What we were looking for

Companies must publish their forward charges schemes in February each year. We checked that companies:

- published and assured their charges schemes;
- complied with our charging rules;
- assessed and explained significant movements in charges; and
- devised and put into effect effective handling strategies to address significant movement in charges.

This is an important assessment, because our charging rules are designed to protect customers through stable, transparent and predictable charging, in the absence of competition.

### What we found

Overall the company demonstrated that it followed our guidance, and the quality of data and the transparency of the published information met our expectations. The company provided a clear description of its assurance process and engagement.

Our assessment: **meets expectations**

## 1.3 Financial information

### What we were looking for

In this assessment we looked for an absence of omissions or errors, where the companies reported their actual performance and to compare aspects of this performance to the assumptions made at the PR14 final determination. We did not look at all areas but chose four key risk areas to look at this year which were:

- Wholesale total expenditure reporting;
- Revenue and profit statements, disaggregated by price control;
- Methodology statement on how costs are allocated across the price controls; and
- Disclosures required for transactions with non-regulated associate companies.

We developed a log of the issues, errors and inconsistencies we uncovered as part of our analysis. We assessed the nature and number of issues identified to form a view on the quality of assurance in each company's published financial information.

This is an area where companies' data assurance is important, because a range of stakeholders will use this information and rely on its accuracy. It also informs important preparatory work for PR19.

### What we found

We identified no issues during our review of the four areas we chose to look at this year.

Our assessment: **meets expectations**

## 1.4 Final 2010-15 reconciliation data submission

### What we were looking for

In this assessment we assessed companies' adherence to our guidance ([IN15/17](#), December 2015) covering assurance, data and commentary requirements. Our

guidance covered a range of requirements including data table completion, explanatory requirements, supporting evidence and board signoff.

This is an important area for companies' data assurance, because the submission is used to update the final reconciliation of the PR09 incentive arrangements for the 2010-15 period which directly impact the companies' revenue allowances they can recover from customers.

## What we found

While the company omitted an explicit board sign-off statement, there is sufficient explanation of its assurance procedures and evidence that the board approved the submission.

We noted minor data ambiguities in and across tables which when queried were easily corrected and we considered them to be in part a consequence of interpreting our guidance in a not unreasonable way.

Our assessment: **meets expectations**

## 1.5 Outcomes

### What we were looking for

In this assessment we looked for:

- reliable, timely and appropriate information for customers and other stakeholders;
- transparent and accessible information for customers and other stakeholders;
- appropriate data assurance;
- evidence that the company has listened and responded to its customers and other stakeholders; and
- compliance with the outcome delivery and reporting proposals as set out in the PR14 final determination company-specific appendix.

This is an important assessment, to ensure that stakeholders can understand what companies' are doing to deliver the outcomes that customers expect.

## What we found

Overall, Portsmouth Water provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary, however we did find instances where information was inaccurate or inconsistent. We considered that these particular instances did not reduce stakeholders' trust and confidence.

There is comprehensive evidence that the company's reporting is transparent and accessible to customers and other stakeholders. The performance information in the [Outcome Delivery Incentives 2015-2020](#) report is relevant, easy to understand and well sign-posted. Where the company has not met its committed performance levels the company has provided a clear explanation of the issue and, where appropriate, provided an explanation of how it will be rectified. Where applicable, it has provided clear information relating to past performance. For performance commitments with financial incentives it has included estimated rewards or penalties if the 2015-16 performance levels continue, and the estimated impact on bills. Customers and other stakeholders have a very clear view of past performance and an indication of the impact if performance remains at similar levels in future years. This is clear evidence that the company has carefully considered how to communicate its performance information.

There is sufficient evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. The WS Atkins Report published as part of Portsmouth Water's Outcome Delivery Incentives 2015-2020 report provides customers and other stakeholders with assurance that the assessment of the company's performance has been reviewed by an independent technical auditor who has challenged the company's data, methodologies, processes and supporting evidence.

There is clear evidence that the company has provided the wider assurance to demonstrate it is listening to customers and delivering the services they want and can afford. In particular the publication within the Outcome Delivery Incentives 2015-2020 report of the 'Annual Report by the Portsmouth Water Customer Challenge Group' provides customers and other stakeholders with an independent opinion on the company's progress in delivering its performance commitments.

There is sufficient evidence that the company is implementing its proposals for outcome delivery and reporting as set out in the PR14 final determination company-specific appendix.

Our assessment: **exceeds expectations**

## 1.6 Compliance with principles of board leadership, transparency and governance

### What we were looking for

In this assessment we looked for how the information which the company provided demonstrated that it has met our board leadership transparency and governance principles. This included the provision of:

- transparent governance information, including group structure and on director remuneration;
- evidence that the board of the regulated company has full control over the company, including its long-term strategy, and is fully focused on its obligations; and
- clear information on the composition of the board and its sub-committees.

This is an important assessment, designed to give stakeholders trust and confidence that the company is structured appropriately and transparently, and complies with its legal obligations.

### What we found

The information provided in the company's annual reporting has demonstrated that it has met our board leadership transparency and governance principles.

Our assessment: **meets expectations**

## 1.7 Risk & compliance statement

### What we were looking for

In this assessment we looked for a statement, explicitly endorsed by the company's board, which confirms 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.



This assessment is designed to give stakeholders trust and confidence in companies' approach to compliance and risk management. The statement is intended to facilitate a company-led approach to compliance.

## What we found

The company has provided a clear statement that it 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. The statement has been signed by each member of the board which clearly and unequivocally demonstrates to stakeholders that it has the endorsement of the whole board.

Our assessment: **meets expectations**

## 1.8 Assurance plan

### What we were looking for

In this assessment we looked for the following in companies' assurance plans.

- Explanation of the framework and their approach to it.
- Evidence of stakeholder engagement undertaken to develop the plan.
- Clear scope, and rationale for targeting specific areas.
- Appropriate language and accessibility for all stakeholders.

This is a key test of whether companies are listening to their stakeholders and using their views to improve their practices.

### What we found

The assurance plan has a brief introduction setting out the context and work done to date. It demonstrates the company's engagement with its stakeholders and lists out the feedback it received. There is very limited information on company's general approach to assurance. The scope of information considered is sufficient following feedback from stakeholders. The plan focuses on external assurance to address targeted areas.

Our assessment: **meets expectations**

## 1.9 Targeted reviews

### What we were looking for

In this assessment we looked at:

- companies' tax reconciliation notes published in the annual performance report to see if they acted on our tax targeted review recommendations; and
- improvements companies have made to 2015-16 reporting in response to our sludge and water resources targeted review.

These are two areas we have recently highlighted for companies to focus on, and we want to see evidence that they are taking steps to improve their assurance.

### What we found

The published tax reconciliation note identifies some large variances between the reported tax charge and the PR14 final determination, but the narrative provided does not aid understanding of how these have arisen.

The company acted on the recommendations of the CEPA report following our targeted review of sludge and water resources but it did not disclose this transparently in its published cost allocation methodology statement.

Our assessment: **minor concerns**

## 1.10 Data assurance summary

### What we were looking for

We checked that companies have:

- published a data assurance summary for 2015-16 activities;
- covered the targeted areas from the company's assurance plan; and
- provided an overview of the company's assurance methods and processes, the audit exercises carried out and their findings.

This assessment is designed to ensure that companies provide accessible assurance to stakeholders, to build trust and confidence in their data publications.

## What we found

The company published a brief summary of the data assurance carried out for the annual performance report. It lacks context and a clear statement about the company's responsibilities for providing/reporting robust information to all stakeholders. It is also lacking content that other company's have included such as:

- summary of the company's assurance framework, approach and methods;
- overview of the Board approval and sign-off process;
- learnings/new issues identified and how these will be used; and
- how stakeholders are/will be involved.

The data assurance summary is written in a technical style that assumes the reader is knowledgeable and well informed about assurance practices and the water sector context. We expect this to be written in a way that is accessible to all stakeholders. The data assurance summary is a self-standing document but does not appear to be published on the company's website.

Our assessment: **serious concerns**

## 1.11 Casework

### What we were looking for

In this assessment we looked at companies' responses to cases from 1 April 2015 onwards. We considered the company's response to our requests for information. We checked that companies had provided complete, accurate information within our timescales, and engaged effectively with us.

This assessment focused on our trust and confidence in companies' information provision, and complemented the other assessments that focused on information published by companies.

## What we found

We did not have any live cases against the company in the 2015-16 regulatory year.

Our assessment: **not applicable**