

November 2016

Trust in water

Company monitoring framework

2016 assessment

Individual company report – South Staffordshire Water Plc

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Company monitoring framework assessment

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

South Staffordshire Water has met our expectations for its assurance practices in five of our assessment areas. In one area the company exceeds our expectations. However we have identified some 'minor concerns' in the remaining four assessments.

We were pleased with much of what we saw in South Staffordshire Water's publications this year. However, we have ruled out improving South Staffordshire Water's assurance status, as this would have required it to have consistently met the high standards that customers and other stakeholders expect. We identified concerns with the company's financial information, and its response to our targeted review on tax. These are behaviours that would lead to a reduction in the trust and confidence that stakeholders place in the company.

We have therefore decided to retain South Staffordshire 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:

Our view	Assessment
Minor concerns	Financial monitoring framework
Meets expectations	Charges schemes assurance
Meets expectations	Financial information
Meets expectations	Final 2010-15 reconciliation data submission
Meets expectations	Outcomes
Minor concerns	Compliance with principles of board leadership, transparency and governance
Minor concerns	Risk & compliance statement
Meets expectations	Assurance plan
Minor concerns	Targeted reviews
Exceeds expectations	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

Our review identified a number of errors which required the data to be resubmitted. These were due to the company disclosing net debt based on company debt

covenants which was not in line with Ofwat guidance. In addition the company did not fully disclose dividends paid up to its parent company to enable them to pay interest on loans. Other than these issues we found that the company had largely followed our guidance, we have therefore assessed this as minor concerns.

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. It provided adequate information on the two new tariffs it was introducing and was clear on incidence effects.

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

Overall we have no concerns with the assurance of the final 2010-15 reconciliation submission. The company met our expectations for the submission in respect of all the elements that are relevant to the company.

There were no minor data ambiguities in and across tables and information provided by the company. Consequently we did not need to query the information provided in the submission.

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

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

South Staffordshire Water provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary.

There is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders.

There is sufficient but limited evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. An area for further improvement is the publication of a statement or report from the company's technical assessor, Monson Engineering. This would provide customers and other stakeholders with additional assurance that the assessment of the company's performance has been reviewed, and the data, methodologies, processes and supporting evidence have been challenged.

There is sufficient 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.

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

Our assessment: **meets 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 most of our board leadership transparency and governance principles.

However its remuneration reports and corporate governance reports are lacking in detail and it has not provided an explanation of its group structure (which is particularly important as it had a significant change in shareholding in the reporting year). This lack of transparency can undermine the confidence of stakeholders in the governance of the company.

Our assessment: **minor concerns**

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 statement that its board 'can confirm that there are sufficient processes and internal systems of control to meet the statutory, license and regulatory obligations'. It has also provided confirmation that it is complying with certain, specific obligations. However it has not provided a statement that it is

complying with all its relevant statutory, licence and regulatory obligations as required.

Although not fully meeting our expectations the statement that has been provided is appropriately signed to demonstrate endorsement by the whole board.

Our assessment: **minor concerns**

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 sets out the context and the scope of the company's assurance procedures. There is clear evidence of good engagement with stakeholders and the plan sets out the feedback the company received and the action taken. The assurance plan is focused on the use of external assurance, but coverage of the internal assurance work could give more confidence in the process. In addition, the detail given around the activities of external assurers is technical.

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 tax reconciliation note published in the company's annual performance report is a very brief narrative that quantifies the variance between PR14 final determination and the reported current tax charge. The table format accompanying narrative could have been clearer.

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 succinct and comprehensive summary of the data assurance carried out throughout the year with an excellent outcome of assurance table which included learnings and new issues identified.

The data assurance summary is written as a self-standing document that is easy to read and is prominent on the company's website where there is a well presented and informative company monitoring framework page.

Our assessment: **exceeds expectations**

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**