

November 2016

Trust in water

Company monitoring framework

2016 assessment

Individual company report – United Utilities Water Plc

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Company monitoring framework assessment

This document outlines the results of our 2016 Company Monitoring Framework (CMF) assessment of United Utilities' assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess United Utilities' 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

United Utilities has generally met, and in some cases exceeded, our expectations for assurance practices. We were impressed by the quality of its assurance plan, which demonstrated that it had listened to customers and responded by making changes to its initial draft. This was good evidence of United Utilities addressing its targeted areas for improvement. United Utilities' independent panel (YourVoice) published a report alongside this year's annual performance report and financial information which was effective in highlighting customer views and suggestions for how the company should respond. This proactivity was underpinned by a strong performance on transparency and simple, clear communication - backed up by a Plain English Crystal Mark.

We did note minor weaknesses in United Utilities' assurance. The main weakness was that the compliance statement did not explicitly state that the company complies with all relevant regulatory, statutory and licence obligations. We also noted that there were a couple of instances where more, or clearer, narrative explanations would have helped stakeholders to understand their publications better. We also

picked up a couple of minor data ambiguities, though these were in part a consequence of the company interpreting our guidance in a not unreasonably way.

United Utilities in most cases met or exceeded our expectations, and we found no evidence of behaviour which would reduce trust and confidence or significant problems with assurance plans. **We have decided to move United Utilities to 'self-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
Meets expectations	Financial monitoring framework
Meets expectations	Charges schemes assurance
Meets expectations	Financial information
Meets expectations	Final 2010-15 reconciliation data submission
Meets expectations	Outcomes
Meets expectations	Compliance with principles of board leadership, transparency and governance
Minor concerns	Risk & compliance statement
Exceeds expectations	Assurance plan
Meets expectations	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

Following our review of the information published by United Utilities, we raised a query as it was not clear how the net debt disclosed reconciled to the borrowings figures shown in the balance sheet. The figures disclosed were correct, but we would recommend further explanations should be included in the annual performance report for clarity. No other issues were identified, so overall we assessed that the company met our expectations.

Our assessment: **meets expectations**

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

United Utilities met all the requirements for this assessment. It put in place appropriate handling strategies to manage incidence effects of changes in charges.

It provided details of the levels of bill increases for commercial and industrial customers and the numbers of affected customers as we expected. However, it

would have been helpful if the company had provided the reasons for the bill increases. Overall United Utilities met our expectations for this assessment.

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 negative 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.

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. However there was insufficient level of detail provided in the initial commentary to allow us to assess the change protocol. Consequently we raised a number of queries seeking to clarify our understanding of the information provided in the submission which the company resolved proactively to our satisfaction.

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;
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- 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, United Utilities 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.

However, in table 3A the company reported a 2015-16 actual performance level of "UQWASC" (upper quartile for water and sewerage companies) for performance commitment A-1 Service incentive mechanism (SIM). At the time of reporting, the industry-wide overall (weighted average of survey and complaints) SIM scores were not available and therefore United Utilities would not have been able to state whether it had met its CPL or not. In future years we would expect the company to only report its performance in table 3A, and whether it has met its committed performance level, if sufficient information is known for it to do so.

Transparency and accessibility is generally very good. For example, the company has produced an easy to read summary for customers to accompany the more detailed annual performance report. This summary gained the Plain English Campaign's Crystal Mark for clarity. However, an area where there remains room for further improvement is the reporting of performance and incentives in connection with sub-measures. These are ultimately being measured using indices and it is not clear to customers and other stakeholders how the rewards and penalties that have been accrued have been calculated.

There is sufficient evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. For example, the company employed Halcrow Management Sciences to review the performance and volume data used to support the Performance Commitments/Outcome Delivery Incentives data within table 3A, and Halcrow's technical assurance report has been included in the company's annual performance report.

There is clear evidence that the company has provided the wider assurance to demonstrate it is listening to customers. To accompany the annual report & financial statements and annual performance report, the company has published a report from the YourVoice panel: 'Reflecting on United Utilities' performance – 2015-16'. This independent panel has an integral part in monitoring, assuring and reporting on the delivery of the company's performance commitments. The panel also looks at how company research can continue to capture and strengthen the views of its customers. The YourVoice report 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 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 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 statement that it has 'sufficient understanding of its relevant statutory, licence and regulatory obligations for 2015/16.' It has also provided confirmation that it is complying with specific, key 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 clearly sets out the context and the company's approach to applying the framework. There is an accessible summary of the company's assurance framework. The scope of plan and why specific areas have been targeted and how the assurance process will address the identified risk are clearly set out. There is clear evidence that the final assurance plan had been updated following stakeholder comments on the draft plan.

Our assessment: **exceeds 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 company published a clear tax reconciliation note quantifying the differences, though we feel that more narrative would have been helpful to explain variances.

The published cost allocation methodology statement clearly set out the changes made for 2015-16 reporting as a result of the CEPA recommendations made following our targeted review into sludge and water resources.

Our assessment: **meets expectations**

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 comprehensive summary of the data assurance carried out throughout the year. The data assurance summary sets the context, provides background and gives a good summary of assurance framework. The table provided clearly sets out all the assurance activities performed for each targeted area and detail on the findings which has a much wider focus than simply the annual performance report. It includes a summary assurance report from the company's technical assurer.

Although the data assurance summary is written as a section within the company's published annual performance report it is easy to read and is prominent on the company's website through a search for "data assurance" which returns the annual

performance report amongst other assurance-related documents in the search results.

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**
