

November 2016

Trust in water

Company monitoring framework

2016 assessment

Individual company report – Wessex Water Services Ltd

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Company monitoring framework assessment

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

Wessex Water has met our expectations in all but one aspects of its assurance.

However, we have identified a serious concern with the company's risk and compliance statement, which did not state 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 statement is designed to give stakeholders trust and confidence in companies' approach to compliance and risk management. It is intended to facilitate a company-led approach to compliance. Wessex Water has demonstrated in its statement that it understands the requirement, so we expect the company to confirm that it complies with it.

In the context of meeting our expectations in all other assessments assurance, we have nonetheless decided that Wessex Water has not behaved in a way that reduces stakeholders' trust and confidence such as to require re-categorisation to the "prescribed" category. **We have therefore decided to retain Wessex 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
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
Serious concerns	Risk & compliance statement
Meets expectations	Assurance plan
Meets expectations	Targeted reviews
Minor concerns	Data assurance summary
Meets expectations	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 minor error in the calculation of post-tax return on regulated equity which used an incorrect inflation assumption. We also noted that Wessex

Water referred to a 5 year period used in its long term viability statement assessment in its APR, but only used a period of 3 years in its statutory accounts. We considered that these minor issues did not impact on stakeholders trust and confidence, and overall the company met our expectations for this assessment.

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

The company's assurance statement shows a good understanding of the process and requirements, and is clear for customers and other stakeholders.

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, other than a very minor data inconsistency between the published annual performance report and the tables submitted to us.

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 sign-off.

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 RCM and 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;
- 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, Wessex Water provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary.

There is very clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. The performance information in 'Delivering for our customers 2016 - annual review summary' is relevant, easy to understand and well sign-posted.

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 publication of an independent technical auditor's assurance report by Mott McDonald provides customers and other stakeholders with some assurance that the assessment of the company's performance has been reviewed by an independent technical auditor.

There is very clear evidence that the company has provided the wider assurance to demonstrate it is listening to customers. To accompany the annual report and accounts and annual performance report, the company has published a report from the Wessex Water Partnership. This independent group scrutinises and assesses the company's delivery against all its outcomes, performance commitments and incentives. The Wessex Water Partnership's ('Partnership') report provides customers and other stakeholders with a comprehensive independent opinion on the company's progress in delivering its performance commitments.

In particular, the Partnership reported that the company had comfortably out-performed the 2015-16 target for its internal flooding performance commitment and has accrued a reward - even though performance deteriorated between 2014-15 and 2015-16. At the end of the five-year period the Partnership will be discussing the use of this reward with the company, along with any other rewards or penalties achieved.

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: **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 not provided a 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 company has provided a comprehensive description of the obligations that it is required to meet and how it tracks performance. However there is no statement from the board that it has actually complied with these obligations.

Our assessment: **serious 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 work done to date, including the improvements made from PR14. We are supportive of the company's plans to improve reporting to meet its customers' needs. There is clear evidence of engagement with stakeholders. The identified targeted areas are quite wide and the assurance plan sets out how the company is planning to tackle these. We consider clearer links back to the risks, strengths and weaknesses exercise could have aided transparency.

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 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 succinct summary of the data assurance carried out throughout the year. The data assurance summary relies on the auditor's report (elsewhere in annual performance report) and a short statement from a technical auditor. There is no overview of the company's assurance framework, approach or detail on the activities performed and their findings.

The data assurance summary is informative, and written in a style suitable for a wide audience. As the data assurance summary is not a self-standing document it is not prominent on the company's website. We were however able to track it down by searching for "data assurance" using the company website's search function.

Our assessment: **minor 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 have not opened any cases concerning Wessex Water since April 2015. We opened once case prior to April 2015 and this was a determination under section 181 of the Water Industry Act 1991 (the Act). In this case the information was provided a week after the deadline. However, whilst the correspondence was not provided in a

helpful format, the rest of the response was provided in a manner we would expect using the number format we had set out.

Our assessment: **meets expectations**