

Information notice

IN 17/03 February 2017



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 monopoly company annual performance reporting 2016-17

This information notice sets out the way in which we expect all companies to report their performance for 2016-17.

Background

Most people in England and Wales cannot choose their water or 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 they charge and service they deliver. And an important part of this is the information they publish about how they have performed.

We expect all monopoly 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 other stakeholders to compare the performance of individual companies to the rest of the sector. The largest companies also publish their information on a website called 'Discover Water'.

Providing comparative information helps companies make decisions – and customers and other stakeholders challenge them – about performance and future targets. We also use the information that companies publish to look at their performance in different areas.

Each company's board is accountable for the quality and transparency of the information it provides on its 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.

What companies will publish

We have 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 **risk and compliance statement**, appropriately signed off, in which the Board clearly confirms that the company:
 - considers that it has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
 - has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations;
 - has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

Where the company considers it is unable to provide such a statement it should explain why it is unable to do so.

- 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 2017 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 **17 largest companies** to use and one for the **small companies** to use.

We are currently developing a data capture system for online submission of information which will replace our use of Excel table templates for our information requirements. We plan to pilot its use this year before the system goes live in 2018.

We will engage with companies throughout the year to get their input in designing the data capture system. We will hold a workshop to discuss functionality requirements with companies and then engage on a one to one basis to test and roll out the system for use.

Box A Annual performance report – key points

Regulatory Accounting Guideline 3.09 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 presents 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 do not 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 does 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 an 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 outcome delivery incentive data

We collated each company's [2014 price review](#) (PR14) outcome, performance commitment and outcome delivery incentive 'base data' into a single [Excel spreadsheet](#). We collected this data from published 2014 price review documents for each of the largest 17 companies and checked it with those companies. The latest version of the spreadsheet (published 16 December 2016) includes 2015-16 actual performance levels as published by each company in its annual performance report.

In [IN 16/09 Regulatory accounting guidelines 2016-17](#) (published 31 October 2016) we set

out the following changes to outcomes annual reporting.

- Pro forma 3B is a new table for reporting sub-measure performance. The table is pre-populated with performance commitment sub-measure base data, which we have checked with companies, to allow actual performance to be entered for each sub-measure.
- Pro forma 3C is a new table for data relating to the Abstraction Incentive Mechanism (AIM), which started for most companies in 2016-17. The table captures information for the 13 companies to which the AIM applies.
- Pro forma 3D is a new table for reporting Service Incentive Mechanism (SIM) performance. The table needs to be completed with the qualitative (survey) scores, quantitative (complaints) data, and the resulting overall score.

Financial metrics

Our [financial monitoring framework](#) includes a set of financial metrics which we ask companies to report on to enable us to monitor both the performance and the financial stability of companies and to provide us with enhanced visibility of company financing and capital structures. These financial metrics are set out in tables 4H and 4I of the 2017 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.

Cost assessment information

We will be asking companies to provide information that will inform our cost assessment within our future markets and price setting work ('Water 2020'). As 2016-17 is a transition year the cost assessment information is not included in our 2017 requirements. We will incorporate the information requirements in the regulatory accounting guidelines for 2017-18 and the information will then be published in the 2018 annual performance report.

For 2016-17 cost assessment data please be advised that Ofwat will be issuing a separate information request. We expect to issue this no later than 15 April 2017 for a submission by 15 July. This should follow the same format for the information request last year.

Next steps

Companies are due to publish their annual performance report by 15 July 2017.

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 at the same time as they publish their annual performance report on their own websites, and no later than 15 July 2017.

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 at the next meeting. 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

February 2017 – Ofwat publishes 2016-17 data collection template.

28 February 2017 – regulatory accounts working group meeting.

March 2017 – Ofwat consults on changes to the guidance and requirements for reporting performance in 2017-18 which will include new requirements to inform the cost assessment within our future markets and price setting work.

April 2017 – Ofwat issues information request for 2016-17 cost assessment data.

By 15 July 2017 – Companies publish their annual performance report, risk and compliance statement and data assurance summary.

Also by 15 July 2017 – Companies submit 2016-17 cost assessment information.

Summer/autumn 2017 – Companies prepare and publish their draft assurance plans for 2017-18.

Autumn 2017 – Ofwat publishes the final guidance and requirements for 2018 annual performance report.

By 30 November 2017 – Ofwat publishes the assessment of company assurance categories for 2017-18.

Enquiries

If you have any questions about this information notice, please send them to FinanceAndGovernance@ofwat.gsi.gov.uk

More information

[Discover Water website](#)

[Comparing companies](#), Ofwat webpages

[2017 annual performance report tables](#), Excel template

[2017 annual performance report tables – small companies](#), Excel template

[Outcomes, performance commitments and outcome delivery incentives 2015-16](#), Excel file

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

Regulatory accounting guidelines:

- [RAG 1.07](#)
- [RAG 2.06](#)
- [RAG 3.09](#)
- [RAG 4.06](#)
- [RAG 5.06](#)

[Company monitoring framework: 2016 assessment](#), November 2016

[Information and assurance](#), Ofwat webpages

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

[2014 price review](#)

[Risk-based approach to regulation](#)

[Ofwat's 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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