

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – Affinity Water

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## Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of Affinity Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess Affinity Water's assurance, and our findings.

In the context of the CMF, we are looking for evidence that companies are meeting the high standards of assurance that stakeholders expect. As well as checking that companies are providing clear, transparent and accurate data, we also look at the way companies present their information which should be accessible to customers and other stakeholders. We also look at how transparent companies are in how they explain any performance issues, company structures, and decision-making processes. We consider that all these elements contribute to the trust and confidence that customers and other stakeholders place in them.

Further information on this year's assessment is available in our [Company monitoring framework 2017 assessment](#) publication. The framework itself is available in our '[Company monitoring framework final position](#)', which we updated July 2017.

### Summary of our assessment

Considering the issues in the round, we have retained Affinity Water in the targeted category.

We have looked across how well the company has met or exceeded our expectations in all of our assessments, including whether they have demonstrated that they have met expectations by a clear margin, demonstrated leading edge behaviour, and whether there were any behaviours that we considered led to a reduction in trust and confidence. Taking all of this into account, while the company met our expectations in most areas and the company has not demonstrated behaviours that would lead to it being demoted, we found evidence of behaviour that we considered leads to a reduction of trust and confidence.

Based on all of the relevant evidence, **we have decided to retain Affinity Water's assurance status as "targeted".**

In this document we have set out a brief summary of the assessments that we undertook as part of the CMF in 2017.

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## 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

Overall Affinity Water demonstrated that it followed our guidance, and the quality of data and the transparency of the published information met our expectations in many areas.

Our review identified a minor error relating to the disclosure of dividends which resulted in further errors in the dividend cover and dividend yield metrics provided. A more significant error was in relation to RORE where the information published by Affinity Water did not include the detailed analysis of the individual components of performance which was required by the RAGs. When the company provided this to us we also identified an error in their calculations which required correction.

Our assessment: **minor concerns**

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## 1.2 Charges engagement

### What we were looking for

We have to date issued three charging rules: Charges scheme charging rules; wholesale charging rules; and new connection services charging rules (English undertakers). The rules require companies to publish the charges they set under these rules in Charges Schemes, Charges Schedule and Charging Arrangements respectively. They must publish these documents in February each year, which is at least two clear months before they take effect.

For this assessment, we focus on how well companies have engaged with their stakeholders about their charges and charging policies through their publications and actual interactions. We based our assessment on the following:

- Board assurance statements;
- Assurance of the engagement on and publication of charges information, where appropriate under the charging rules;
- the information companies provide in their Statement of Significant Changes; and
- the handling strategies companies devise and put in place to address significant movements in charges.

### What we found

Affinity Water's Board Assurance Statement noted that the company had consulted CCWater in a timely and effective manner on its charges, a further improvement would be to set out what the discussions were about and how the discussions had, if at all, impacted on the company's charges.

The company's relevant charges documents can all be accessed from a single landing page on its website; this makes it very easy for stakeholders to access the documents in which they are interested.

The company stated that none of its household bills were forecast to increase by more than 5%. It provided a table to show the levels of bill increases for business and residential (metered and unmetered) customers across a range of consumption and property RVs.

Our assessment: **meets expectations**

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## 1.3 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

#### Reliable, timely and appropriate information

Overall, Affinity Water has provided accurate, reliable information in tables 3A (outcome performance), 3C (abstraction incentive mechanism) and 3D (service incentive mechanism), and its annual reporting commentary. This is the first year that companies have been required to complete table 3C; we found that the company provided good information on its 23 abstraction incentive mechanism (AIM) sites.

Affinity Water does not have performance commitment sub-measures and therefore did not provide information in table 3B.

#### Transparent and accessible information

There is clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Affinity Water has published performance information on the [Our Performance](#) page of its website; this is accessed using the 'About us' link on the homepage. The company's area is broken down into eight water resource zones, which it calls communities, and are named after local rivers and streams. Publication of the community performance report ('Our Year in Review 2016/17') and the 'Monthly Community Performance' dashboards provide customers with an easy to understand summary of the company's performance. Reporting

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performance at community level provides greater transparency for customers in each geographical area.

An area for further improvement is the accessibility of previous years' Annual Performance Reports on the company website. It would be helpful if these were available by way of the 'Our Performance' web page.

### **Data assurance**

There is sufficient evidence that the company has been transparent with customers and other stakeholders about the data assurance that has been put in place. The 'Annual Report and Financial Statements 2016-17' states that the company employ an external Reporter to scrutinise, challenge and give independent advice on the procedures the company uses to collect and report the information underpinning its compliance statement. As a result of its year-end reporting process the company has identified three areas of improvement for future reports; it will be reviewing and improving calculations and reporting on leakage, average water use and mains bursts.

An area for further improvement is the publication of an easily accessible statement or report from the company's external engineering/technical Reporter. 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 has been challenged.

### **Wider assurance**

There is very 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. To accompany 'Our Year in Review' and the 'Annual Report and Financial Statements – 2016/17', the company has published 'Our Customer Challenge Group Annual Report'. The report provides an account of all the issues the group looked at in the 15 months from January 2016 to March 2017. The issues span the delivery of Affinity Water's current business plan (AMP6) and look ahead to the next business plan and the PR19 process. The Customer Challenge Group's report provides customers and other stakeholders with a clear, independent opinion on the company's progress in delivering its performance commitments.

### **PR14 final determination company-specific appendix**

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

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### **Restated 2015-16 performance commitment level**

Accurate reporting of performance is important for trust and confidence. Company assurance processes are key to this and we want to incentivise high quality assurance. But we recognise that some information is, by its nature, uncertain and may need to be revised. Our assessment looks at assurance in the round; if serious errors were in place and undetected then our assessment reflects this.

As part of its 2017 annual performance reporting Affinity Water restated the 2015-16 performance level for its R-A2 ‘value for money survey’ performance commitment. The company’s Annual Report and Financial Statements for the year ended 31 March 2017 says “We have restated our 2015/16 performance to better reflect customers’ perceptions on value for money. We conduct surveys with nearly 2,000 customers, but only report on customers that know the value of their bill as this measure has been assessed to be the more robust indicator of Value for Money perceptions. This has decreased the sample size to approximately 1,000 and reduced the score by 2.1 points.” The R-A2 performance commitment has a reputational incentive and therefore the restated value has no financial impact.

We found that the company had provided sufficient explanation for the restated 2015-16 performance level. While the impact is visible to customers, we consider that the size and impact of the restatement was not significant enough to affect trust and confidence in the overall view of performance, nor individual commitments, or our previous view of company assurance. We would have concerns if we felt that an error appeared systemic, but this does not appear to be the case.

Our assessment: **meets expectations**

## **1.4 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 as part of the company's annual reporting has demonstrated how it is meeting our board leadership transparency and governance principles.

Our assessment: **meets expectations**

## **1.5 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.<sup>1</sup>

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<sup>1</sup> Our findings here, and throughout our CMF assessment, are without prejudice to any issues that we may investigate under our enforcement powers and subsequently find wanting. It would be inappropriate to pre-empt the outcome of any investigations that might consider whether the assurance provided is indeed appropriate or accurate. Any adverse findings in this respect may be taken into account in future assessments.

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## What we found

The board has provided a clear statement confirming that the company has an understanding of, and is meeting, its obligations. It has also confirmed that the company has sufficient processes and internal systems of control to meet those obligations and has systems and processes in place to identify, manage and review its risks.

The statement has been appropriately signed off on behalf of the board.

Our assessment: **meets expectations**

## 1.6 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

This is the first time the company has been required to publish an assurance plan.

The plan clearly sets out the company's general assurance framework including internal systems and processes and the role of board. It covers internal and external assurance. It has good evidence of engagement with stakeholders, and clearly sets out the response to feedback. The targeted areas identified are broad: for example it refers to 'other regulatory reporting', hence the plan is very high level. More information on what specific assurance activities are being performed to address the specific risks identified could provide stakeholders with more trust and confidence in the company's assurance framework.

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Our assessment: **meets expectations**

## 1.7 Data assurance summary

### What we were looking for

We checked that companies have:

- published a data assurance summary for 2016-17 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 has improved the format and increased the content from the summary it published last year and explains the purpose of the data assurance summary. The company published a succinct summary of the data assurance process that is well written in a technical style. The data assurance summary is a short section in the annual performance report. Being bound in the annual performance report it is accessible but not prominent on the company's website.

Information about the individual assurance activities performed throughout the year are set out in a table but without describing the results of the exercises. The reader is directed to sections of the annual performance report to see the results of the exercises performed. The data assurance summary could be improved by setting out the detail on each assurance review carried out and the results together.

The scope is focused on the annual performance report and does not cover other information such as charging and the cost assessment information request.

Our assessment: **meets expectations**

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## 1.8 Casework

### What we were looking for

In this assessment we looked at companies' responses to cases from 1 April 2016 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 closed two cases concerning Affinity Water in the assessment period. These were both determinations under section 45 of the Water Industry Act 1991. The information provided by the company in relation to those cases during the assessment period was provided on time and of a quality that enabled us to rely on it to progress those cases.

Our assessment: **meets expectations**

## **1.9 Wider assurance and information**

### **What we were looking for**

This assessment considers any information - across a range of publications, regulatory submissions and bilateral engagement - that impacted on trust and confidence in the information produced and that we therefore considered relevant to our overall decision for each company. In carrying out this assessment, we consider the context in which any relevant information was published or shared.

### **What we found**

We found no issues that we considered relevant to our assessment of the company in relation to wider assurance and information this year.