

November 2017

Trust in water

Company monitoring framework

2017 assessment

Individual company report – Anglian Water

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Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of Anglian Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess Anglian 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 Anglian 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 there are examples of good practice and the company has not demonstrated behaviours that would lead to it being demoted, it has not demonstrated consistently by a clear margin behaviours that would justify promotion to the 'self-assurance' category.

Based on all of the relevant evidence, **we have decided to retain Anglian 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.

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

However, our review identified a small number of errors, in relation to disclosure of financial derivatives and presentation of information about dividends. These errors were subsequently corrected by the company. Anglian Water also needed to restate their return on regulated equity (RORE) figures due to an error in their calculation. Taking into account the pattern of errors and the importance of the RORE information to stakeholders our assessment, on balance, is minor concerns.

Our assessment: **minor concerns**

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

Anglian Water published very good quality information about its charges scheme and wholesale charges. The contents of its Board Assurance Statements included very useful background information. The company provided evidence of bill impact analysis of the bills that were forecast to increase by more than 5%.

The company did not provide evidence that it had engaged with the affected customers, but we recognise that the bill increases are part of a multi-year transaction that commenced in the previous year and for which the company had already engaged sufficiently with the affected customers.

Our assessment: **Exceeds expectations**

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;
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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

Reliable, timely and appropriate information

Overall, Anglian Water has provided accurate, reliable information in tables 3A (outcome performance), 3B (sub-measures), 3C (abstraction incentive mechanism) and 3D (service incentive mechanism), and its annual reporting commentary.

Transparent and accessible information

There is clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Anglian Water has published performance information on the [Annual reports](#) page of its website; this is accessed using the 'About Us' link on its homepage. The company's website and 'Annual Integrated Report 2017' contain well-presented, clear and easy to understand performance information.

The company's previous 'Annual Integrated Report 2016' is available on its website, although making it available in the same place as the 2017 report would make the 2016 report more accessible.

In addition to the 'Annual Integrated Report', there is a new, innovative performance dashboard on the Anglian Water website. This provides customers and other stakeholders with easy to understand performance information, and includes definitions and case studies. This shows that the company has carefully considered how to be transparent about its performance, and how to communicate this information to customers.

Data assurance

There is sufficient evidence that Anglian Water has been transparent with customers and stakeholders about the data assurance that has been put in place. The company has submitted a data assurance summary which explains its general assurance processes and its response to feedback on its 2015-16 data assurance summary.

The 'Annual Integrated Report' states that assurance is provided by external reviews carried out by Halcrow. An area for further improvement is the publication of an easily accessible statement or report from this external reviewer. 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 sufficient evidence that the company has provided the wider assurance to demonstrate it is listening to customers. For example the company explains its overall approach to customer engagement as well as providing details of targeted engagement with customer, employees and others. We also note that the company states that the independent Customer Engagement Forum has monitored current performance and challenged areas where the company has not met targets, or significantly exceeded them. An area for further improvement is the publication of an easily accessible stakeholder feedback report, such as a statement from the independent Customer Engagement Forum, to provide opinion on the company's progress in delivering its performance commitments.

PR14 final determination company-specific appendix

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**

1.4 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
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- 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 generally meeting our board leadership transparency and governance principles.

There was one small area where the company could further improve its reporting. The company's chairman also sits on the board of other companies within the group. This does not raise any particular issues given the nature of the group within which Anglian Water sits. However the company should explain how this does not undermine the chairman's independence. A lack of transparency in this area could undermine the confidence stakeholders have in the board leadership and governance of the company.

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.¹

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.

¹ 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.

What we found

The document clearly sets out the context and background to the plan. The company's assurance framework and approach to the exercise has been clearly explained and the section on the 'in-year' audits clearly explains the rationale. The scope of the exercise is sufficient and the plan sets out the targeted areas clearly, including the new risks identified alongside the new controls put in place. 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 exercise.

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 published a succinct and comprehensive summary of the data assurance carried out throughout the year.

A summary of the assurance review is presented in a tabular format. The table indicates which external assurer has looked at what topic area but with the exception of the outcome delivery incentives it does not state the findings. The data assurance summary could be improved by setting out the results from all the assurance reviews carried out. The scope is focussed on the annual performance report and does not cover other information such as charging and the cost assessment information request.

The data assurance summary is written as a self-standing document that is easy to read and is prominent on the company's website.

Our assessment: **meets expectations**

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

No assessment was made because we did not have any live cases involving Anglian Water in the 2016-17 regulatory year.

Our assessment: **not applicable**

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

One area we observed Anglian Water exceeding our expectations was our review of cost assessment information submitted in the annual performance reports. The company provided a good level of detail in its commentary, which covered every table of the submission.

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