

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – Dŵr Cymru

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## Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of Dŵr Cymru's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess the company'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 Dŵr Cymru 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, we found evidence of behaviour that we considered leads to a reduction in trust and confidence].

Based on all of the relevant evidence, **we have decided to retain Dŵr Cymru'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. 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 number of small errors which indicated that Dŵr Cymru had not followed our reporting guidance. None of those errors would have had a significant impact on the readers' view of the company performance.

- the dividend yield was reported as a positive figure rather than a negative figure
- the effective tax rate was calculated by reference to the total corporation tax for the year (including prior year adjustments) rather than to the current corporation tax
- there was a small reconciling item in relation to financial derivatives which was not fully explained.

Our assessment: **minor concerns**

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## 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

The information Dŵr Cymru published about its charges scheme and wholesale charges met our expectation. The company consulted in a timely manner with the Consumer Council for Water (CCWater). A further improvement would be to set out what it discussed with CCWater and how this discussion had impacted, if at all, on its final charges scheme and/or wholesale charges.

The company stated that it did not expect any of its bills to increase by more than 5%. Beyond this, it could have supported this statement with, for example, a table showing the level of bill increases for a representative set of household and non-household customers.

Our assessment: **meets expectations**

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## 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, Dŵr Cymru has provided accurate, reliable information in tables 3A (outcome performance), 3B (sub-measures) and 3D (service incentive mechanism), and its annual reporting commentary. We have previously agreed with the company that it is not covered by the Abstraction Incentive Mechanism (AIM) and therefore it did not provide information in table 3C.

#### Transparent and accessible information

There is clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Dŵr Cymru has published the performance information in an 'un-zipped' format on the [Our Assurance Framework](#) page of its website; this is accessed using the 'Company Information' link on the homepage. A 'zipped' version of the Annual Performance Report is available via the 'Library and Reports' tile on the homepage.

The 'Annual Performance Report 2016-17 Part 3 – Performance Summary' contains clear, easy-to-understand performance commitment ('Measure of Success') information. Where applicable, it includes a graph to show the company's previous years' actual performance, performance commitments with the outperformance payment and underperformance penalty zones, and a graph to show its performance relative to other water and sewerage companies. It also includes short performance

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and ODI ('customer compensation') summaries. For the asset health performance commitments that are made up of a suite of indicators (sub-measures), the company has provided a performance graph for each sub-measure.

In 'Annual Performance Report 2016-17 Part 3 – Performance Summary' the company explains on page 15 that in April 2017 Natural Resources Wales introduced new Incident Categorisation Guidance which classifies incidents by reference to their impact. Our understanding is that this will not affect Dŵr Cymru's reporting for performance commitment B3, the number of category 3 pollution incidents. If it does, we would expect the company to follow the process set out in [Information Notice 16/17: Changes to outcomes in the 2014 price review company-specific appendices](#), published 12 May 2016.

### **Data assurance**

There is clear evidence that Dŵr Cymru has been transparent with customers and stakeholders about the data assurance that has been put in place. The company employed Jacobs to review both the reported full year performance for the performance commitments set out in the company's final determination and the reporting documentation and processes that were used to produce the figures. A statement provided by Jacobs is included in Appendix 1 of the 'Annual Performance Report 2016-17 Part 3 – Performance Summary'. This provides 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 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. The [Customer Challenge Group's web page](#) has a link to the CCG's report to the Dŵr Cymru Board Meeting on 5 May 2017. The report contains a commentary on the company's Annual Performance Report and explains the areas of focus for business improvement – interruption to supply, customer acceptability of colour and taste, level of complaints and bad debt – that were considered by the CCG. This provides customers and other stakeholders with an independent 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 as set out in the PR14 final determination company-specific appendix.

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

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 Dŵr Cymru restated the 2015-16 performance level for two of its performance commitments:

- A2: Customer acceptability (drinking water) - contacts per 1,000 population. The performance commitment has a financial incentive. The company's 'Annual Performance Report 2016-17 Part 3 – Performance Summary' says "The 2015 number has been updated to reflect the inclusion of contacts from customers where problems arose from customers' own private plumbing". The original and restated performance values are both within the underperformance penalty deadband and therefore the restated value has no financial impact.
- E2: Help for disadvantaged customers (customers benefiting from social tariffs). The company's 'Annual Performance Report 2016-17 Part 3 – Performance Summary' says that the 2015-16 performance has been restated to ensure consistency in relation to the number of schemes (affordable tariffs/ means of assistance) included. The 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 levels. While the impact is visible to customers, we consider that the size and impact of the restatements were 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 errors appeared systemic, but this does not appear to be the case.

Our assessment: **exceeds expectations**

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## 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**

## 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.

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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>

## 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.

The statement provided by the board is supported by the inclusion of a letter from the company's independent technical adviser on regulatory reporting issues which summarises the review which it carried out in relation to the approach and processes which the company follows to assess compliance with its obligations. This helps give stakeholders confidence in the statements the board provides.

Our assessment: **exceeds expectations**

## 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.

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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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- 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 company has addressed our concerns regarding the scope of the risks, strengths and weaknesses exercise and last year's assurance plan. The scope now includes all information it produces and clearly sets out where assurance activities are being targeted and why. The tables in the document set out the existing assurance activities (both external and internal) and new targeted assurance, using the 3 lines of defence model. The plan also covers effective governance, transparency and public accountability and company culture. The company has clearly reviewed our comments and assessment of other companies plans to identify best practice, which it has applied to good effect in its plan.

Our assessment: **exceeds expectations**

## 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 summary of the data assurance process. The data assurance summary does not provide sufficient detail on the assurance activities carried out and the results.

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The data assurance summary is written in a style that is easy to read though being bound in the annual performance report, it is not prominent on the company's website. The assurance framework is referenced across different parts of the annual performance report making it difficult for stakeholders to find all the information. It would be helpful for readers to have a summary within the data assurance summary.

Our assessment: **minor concerns**

## 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 five cases concerning Welsh Water during the assessment period. Three of these cases were sewer adoption appeals and two were determinations regarding work in private land (closed in November 2016 and March 2017). There was no information requested from the company in relation to the sewer adoption appeals, so they do not form part of this assessment. Further, the determination we closed in November 2016 was part of last year's assessment and no additional information was requested as part of this assessment. Our assessment is therefore based just on information provided by the company in relation to the determination that we closed in March 2017. The company provided information for that case on time and of a quality that enabled us to progress that case.

Our assessment: **meets expectations**

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## **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.

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