

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – Dee Valley Water

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## Company monitoring framework assessment

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

We have seen evidence of improvement from last year in this year's assessment of Dee Valley Water.

Considering the issues in the round, we have retained Dee Valley Water in the prescribed 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, 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 Dee Valley Water's assurance status as "prescribed"**.

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In this document we have set out a brief summary of the specific 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**

Our review identified a small error relating to the company's disclosure of net debt. This required a correction to a number of other metrics, however the impact was immaterial and not considered to be such as to reduce overall trust and confidence in the information presented.

Our assessment: **meets expectations**

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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

Dee Valley Water's Board Assurance Statement noted that the company had consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges. Beyond this, it would be an improvement to set out what the discussions were about and how those 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 it did not expect any of its bills to increase by more than 5%. It stated it scrutinised bills of 30 different customer groups but it would have been of benefit to provide information to support this.

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, Dee Valley Water has provided accurate, reliable information in tables 3A (outcome performance) and 3D (service incentive mechanism), and its annual reporting commentary. We did find two isolated instances where information was inconsistent; we considered that these particular instances did not reduce stakeholders' trust and confidence.

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

In March 2015 we set out our expectations for reporting the non-household Service Incentive Mechanism (SIM) for companies operating wholly or mainly in Wales in [Service incentive mechanism – guidance for collating customer service information for calculating the SIM score](#). This document states that the non-household SIM for Wales will take the form of a quantitative measure based on written complaints, escalations, and Consumer Council for Water investigations and although it was not relevant to the assessment this year, we expect Dee Valley Water to report its non-household SIM in line with this measure in all future Annual Performance Reports until SIM is replaced by the new customer experience measure.

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### **Transparent and accessible information**

There is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Dee Valley Water has published performance information on the [Annual regulatory reports](#) page of its website; this is accessed using the 'About Us' link on the homepage. The 'Annual Performance Report 2016-17' provides clear and easy to understand performance commitment commentary. The 2016-17 'Annual report and financial statements' includes a strategic report with a high-level summary of the company's performance commitments and explains the reasons for any underperformance or outperformance. The company's previous APR (2016) is available on its website, although an area for improvement would be to make it available in the same place as the 2017 report.

We have a concern that the 'Annual Performance Report 2016-17' says that in addition to the report, the company will produce a summary report for customers in early August to provide a performance overview, and it will also ensure that a Welsh language performance summary is made available. During our assessment we were unable to find these summaries on the company website.

### **Data assurance**

There is sufficient evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. Within the '2016-17 Assurance Summary' it has included a statement from Black & Veatch, its non-financial technical assurance provider. 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 sufficient but limited evidence that the company has provided the wider assurance to demonstrate that it is listening to customers and delivering the services they want and can afford. An area for further improvement is the publication of stakeholder feedback as a result of the company's wider assurance and engagement. For example, the 'Assurance Summary' says that at a meeting in June 2017 the company invited the Customer Challenge Group (CCG) to comment on its 2016-17 performance and also review the outcome of external assurance on its performance commitments. Publishing an easily accessible summary of the CCG's comments would provide customers and other stakeholders with additional transparency around the wider assurance that the company has put in place.

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

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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'.

In its 'Assurance Summary', the company say that 2016-17 had been a transitional year – in February 2017 it became part of the Severn Trent group and since then work has begun, but not yet finished, to introduce the standards of risk management, internal control and regulatory compliance monitoring used within Severn Trent Plc. During the year, as the company has carried out assurance activities in line with its published assurance plan, it has identified areas for further improvement in the future. It also recognises that the period of transition presents both opportunities to address these issues, but also risks to its reporting – particularly the reliance on manual intervention. It will be responding to these issues in future assurance plans.

Our assessment: **minor concerns**

## **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.

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## What we found

The information provided as part of the company's annual reporting does not demonstrate how it has met our board leadership transparency and governance principles.

The company changed ownership during the reporting year when it was acquired by Severn Trent Water in February 2017. This led to governance changes at the company which included, amongst other things, the directors of Severn Trent Water becoming the directors of Dee Valley Water.

However Dee Valley Water has not explained how the revised governance arrangements in place allow it to comply with our principles or any explanation of why it has chosen to take an alternative approach. There was a lack of relevant information contained within the Dee Valley Water annual report. While some of this, such as information on directors' remuneration, can be found on in the ultimate parent company (Severn Trent plc) report, this may not be immediately obvious for the stakeholders of Dee Valley Water.

Our assessment: **serious concerns**

## 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 the 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

The plan has developed from last year and there is evidence that the company has acted on stakeholder feedback. The background section sets out context and work done to date. The plan demonstrates engagement with stakeholders and the action taken in response to feedback received. The plan provides a brief summary of the company's assurance framework. The scope is sufficient for a prescribed company. A table has been used to collate which data is covered by what assurance activities, but it remains very high level with no examples of the sort of work to be performed except for the five highest risk areas. We consider the detail is too high level in the other areas for a prescribed company and does not enable stakeholders (including Ofwat) to gain confidence and if necessary provide comments or guidance in relation to these areas.

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Our assessment: **minor concerns**

## 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.

The company published a succinct and comprehensive summary of the data assurance process.

The data assurance summary covers of all areas in the assurance plan describing all the assurance activities performed the findings. The scope of the summary is much wider than the annual performance report and recognises the impact the change of ownership and the forthcoming price review will have on future assurance plans.

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.

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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 one case concerning Dee Valley Water during the assessment period. No assessment was made because we did not request any information from Dee Valley Water during the assessment period for this case.

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**

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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