

November 2017

Trust in water

Company monitoring framework

2017 assessment

Individual company report – Northumbrian Water

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Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of Northumbrian Water'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 placed Northumbrian Water in the self-assurance 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, there were no examples of behaviour that would reduce trust and confidence and the company demonstrated behaviours that met our expectations by a clear margin with some leading-edge behaviour, which we expect from companies in the self-assurance category.

Based on all of the relevant evidence, **we have decided to change Northumbrian Water's assurance status to 'self-assurance'**.

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

Overall the company demonstrated that it followed our guidance, and the quality of data and the transparency of the published information met our expectations in most areas. Our review identified a minor error in relation to the calculation of return on regulated equity (RORE), however this was small and, in the absence of any other concerns, was not considered to lead to a reduction in the overall trust and confidence in the information presented.

Our assessment: **meets expectations**

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

The company provided good visibility of its charges information on its website; it has put the links to all the relevant charging scheme and wholesale charges documents on a single landing page. This makes it very easy for stakeholders to access all the relevant documents.

The company also provided detailed information on the changes it was going to make in 2017-18. It stated that none of its bills were forecast to increase by more than 5%. As a further improvement, the company 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**

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;
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- 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, Northumbrian 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.

Northumbrian 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. Northumbrian Water has published its 'Annual Performance Report' and 'Annual Performance Summary' on the [Annual Performance Report](#) page of its website. There is a direct link to this from the top of the homepage and this makes it very visible for customers and other stakeholders.

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 'Data Assurance Summary 2016/17' states that it has identified two new areas of risk: leakage performance and satisfaction with taste and odour. The company provides information on the improvements that it has implemented as a result.

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. A statement from the Water Forums' Chair is included in the 'Annual Performance Report' and this includes information of where it has challenged the company. This provides customers and other stakeholders with a clear independent opinion on the company's progress in delivering its performance commitments.

In 2016 and 2017, the annual environmental performance report (the deliverable for performance commitments W-F2, S-F2 and R-E2) has been published later than the financial statements and annual performance report. In the interests of transparency and to allow proper scrutiny, if the report is due to be published later than the annual performance report we would expect this to be made clear in the annual performance report. An improvement could be to ensure that it is published simultaneously with the financial statements and annual performance report in future years.

PR14 final determination company-specific appendix

There is sufficient evidence that the company has implemented its proposals for outcome delivery and reporting as set out 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
 - clear information on the composition of the board and its sub-committees.
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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 remuneration committee is not independently chaired. We recognise within the principles that this is not essential but we do expect an explanation to be provided where this is not the case. It would be helpful for the company to improve transparency in this area so that stakeholders can understand the decisions it has taken in deciding whether to comply with our principles or to explain why it has taken an alternative approach.

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 assurance plan is clearly structured and well written in non-technical language making it accessible for all stakeholders. It sets out the context of the exercise and provides a good summary of the company's assurance framework. There is strong evidence of continuing good engagement with stakeholders. The plan clearly sets out which specific areas are to be targeted and why. It also sets out the assurance activities that will be performed. This year's plan has been expanded to provide more information on stakeholder engagement and how the plan has changed in response to the feedback. The plan has been updated to cover existing and new areas of risk identified.

Our assessment: **exceeds 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 overhauled the format and increased the content from the brief summary it published last year. It is well-written using a mix of narrative and diagrams. The company published a succinct and comprehensive summary of the data assurance carried out throughout the year with an excellent outcome of assurance table.

The data assurance summary takes the reader through the company's assurance process and links to previous documents published. There is good coverage of all areas targeted in the assurance plan with a table clearly setting out all the assurance

activities performed for each targeted area and detail on the findings. The scope of the summary is much wider than the annual performance report and covers other assurance activities related to the forthcoming price review. The summary also recognises learnings and considers their impact for future assurance plans.

It highlights the changes to the company's risk strengths and weakness statement since the assurance plan for 2016-17 was published in February 2017.

Our assessment: **exceeds 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 Northumbrian 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

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