

November 2017

Trust in water

Company monitoring framework

2017 assessment

Individual company report – Portsmouth Water

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Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of Portsmouth 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 retained Portsmouth 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 Portsmouth 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

Our review identified small errors relating to the company's disclosure of dividends which impacted on the calculation of dividend metrics and in their tax reconciliation note, however these were 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

Portsmouth Water produced a Board Assurance Statement which explained clearly its assurance process and why the Board believes the company has met our charging rules requirements.

The statement was in the form of a letter addressed to Ofwat. However, the statement is primarily to provide confidence to the company's customers and other stakeholders, rather than Ofwat. The statement confirmed that the company consulted with the Consumer Council for Water (CCWater) in a timely and effective manner and received a letter of support for its proposed charges from CCWater. The company's approach would have been improved if it had explained to its customers the nature of its discussions with CCWater.

The company stated that it had reviewed "over 30 groups of customer ... including the average in a class and an upper and lower customer in the class as required by Ofwat guidelines. Specifically the price increase is between 1.9% and 2.3%." As a further improvement, it could have provided a table to show the level of bill increases for these 30 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;
- 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, Portsmouth 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. Portsmouth 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 continues to be transparent and accessible to customers and other stakeholders. Portsmouth Water has published performance information on the [Outcome delivery incentives](#) reports page of its website; this is accessed using the 'Publications' link on the homepage.

The performance information in the 'Outcome Delivery Incentives 2015-2020 report July 2017' is relevant, easy to understand and well sign-posted. Where applicable, it has provided clear information relating to past performance and for several performance commitments comparative data shows how Portsmouth is performing compared to the rest of the industry. This gives customers and other stakeholders a clear view of how the company performs compared to other companies.

For performance commitments with financial incentives the company continues to include estimated outperformance payments or underperformance penalties if the current performance levels continue, and the estimated impact on bills. Customers and other stakeholders have a very clear view of past performance and an indication of the impact if performance remains at similar levels in future years. This is clear evidence that the company has carefully considered how to communicate its performance information.

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. The WS Atkins Report published as part of Portsmouth Water's Outcome Delivery Incentives report July 2017 provides customers and other stakeholders with assurance that the assessment of the company's performance has been reviewed by an independent technical auditor who has challenged the company's data, methodologies, processes and supporting evidence. Atkins say that they did not encounter any notable risks to the reported figures.

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. In particular the publication within the Outcome Delivery Incentives report July 2017 of the 'CCG Report on ODI performance 2016/17' provides customers and other stakeholders with an independent opinion on the company's progress in delivering its performance commitments. This report includes the CCG's opinion on the remedial actions taken or planned to address the two performance commitment levels that were not met in 2016-17.

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.

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 incentive 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 Portsmouth Water restated the 2015-16 performance level for its B1 (leakage) performance commitment. The company's Annual Performance Report 2017 says "The actual leakage performance commitment for 2015/16 should be adjusted to 28.23 MI/day, following assurance work by Atkins this year". We queried the company to ask why and how this performance had been adjusted. In its response, the company explained that during its audit Atkins found that there was a reference error in the water balance spreadsheet that affected the reporting of non-household measured consumption, which also affected the spreadsheet used to report last years' water balance. Last

year, in its Outcome Delivery Incentives Report 2016 the company had reported actual leakage performance commitment for 2015/16 as 28.06 Ml/day. The B1 performance has a financial incentive with outperformance payments and underperformance penalties applying at the end of the period, and to average leakage over the five year period.

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.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 sign off of the statement demonstrates clear endorsement from the entire board.

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.

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 assurance plan is very brief and high level, with less content than last year. No new risks or changes in scope have been explicitly identified in the plan compared to last year. It was not clear if the new reporting areas for 2016-17 were included in the scope of the exercise to identify which areas should be targeted. The plan only covers the annual performance report and outcome delivery incentives. The plan informs the reader that the APR is audited by Atkins, with no explanation of who this is, the role of financial auditors, and why/how this external assurance is being targeted at what specific reporting areas of the APR. There is very little detail on the company's internal assurance activities and on the company's framework and general approach to assurance. There is no mention of what specific assurance are being targeted at the risks identified.

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 overhauled the format and increased the content from the summary it published last year.

The company published a succinct summary of the data assurance carried out throughout the year.

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. The scope of the summary is much wider than the annual performance report and covers other assurance activities related to statutory reporting.

Although the summary states that no material issues were found from the assurance activities performed, it would be helpful to provide more detail on each of the assurance activities performed and the findings.

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 Portsmouth 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.
