

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – South East Water

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## Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of South East 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 South East 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 retain South East Water's assurance status as '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.

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## 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 disclosures in their tax reconciliation note and in relation to their financial derivatives. However, the errors were technical in nature and would not affect how stakeholders would view the information and, consequently, the trust and confidence in the information.

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.

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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

South East Water's Board Assurance Statement is very clear and informative. It explained clearly why the Board believed it was able to provide the assurance.

The statement confirmed that the company shared its bill analysis with the Consumer Council for Water (CCWater) and the Chair of its Customer Panel and that it included in its impact assessment all the recommendations from both parties.

All the company's relevant charges documents can 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 assurance statement confirmed that the company "calculated the changes in bills between 2016/17 and 2017/18 over a wide range of bill types and ... all increases are below five per cent." As a further improvement, the company could have provided a table to show the level of bill increases for the customer types it considered.

Our assessment: **meets expectations**

## 1.3 Outcomes

### What we were looking for

In this assessment we looked for:

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- 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, South East 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. South East Water has published performance information on the [Our performance](#) page of its website; this is accessed using the 'About us' link on the homepage. The 'Performance, People and Planet 2016/2017' report is clear and easy to understand. Where the company has not met its 2016-17 committed performance level it has provided an explanation of the performance issue and, where appropriate, provided an explanation of how it will address the issue in the best interests of customers.

### **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 'Performance, People and Planet 2016/17' report explains that Jacobs is the company's independent assurance partner and its role is to assist the board to ensure completeness of the annual reporting, compliance with relevant duties and obligations, and to ensure that the information provided to demonstrate compliance with relevant duties and obligations is consistent, comparable, reliable and robust. The Annual Report and Financial Statements state that the findings from annual audits will be incorporated into the process of producing the company's response to the requirements of the company monitoring framework which will be published in summer/autumn 2017.

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At the time of our assessment, we were unable to find a summary of the findings from the technical audits. An area for further improvement is the publication of an easily accessible statement or summary report from the assurance partner simultaneously with the Annual Performance Report and Annual Report and Financial Statements. 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. The company's Customer Challenge Group (CCG) has produced an Annual Report for the period April 2016 to March 2017. The report gives the CCG's views on the company's performance against its 2016-17 performance commitment levels, and its activities to support customers with additional needs over the same period.

The CCG's report provides customers and other stakeholders with a clear, independent opinion on the company's progress in delivering its performance commitments. In addition, the CCG has continued to have a series of 'deep dives' where it asks the company for a detailed paper on a given issue and devotes a special period of time to more in-depth discussion. These deep dives enable members to gradually learn more about the water sector and allow for more detailed challenge of the company's activities. In 2016-17 there were deep dives on leakage, supply interruptions, environmental performance, and customer interactions and engagement.

### **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**

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## 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.

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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.

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.

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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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## What we found

Self assurance companies have discretion over the exact approach and structure of assurance they undertake. Although they are not required to update and publish assurance plans, where these are published we review them and provide feedback and an assessment on the quality of those plans in the same way as for companies in the targeted or prescribed categories. Any information about any company's approach to engaging with stakeholders and explaining their approach may feed into our CMF assessment, whether this is detailed in an assurance plan or not.

South East Water chose to update and publish an assurance plan. The company's assurance plan itself was clear, well written and accessible to a non-technical audience. It sets out the context for and purpose of the assurance plan and the work done to date. There is a clear summary of the company's approach to assurance. We were encouraged by the level of stakeholder engagement and the explanation of how the company took account of the stakeholders' comments. The risk, strengths and weaknesses assessment undertaken appeared thorough and the scope of information considered was sufficient. The plan set out the mitigating actions/activities for each risk area the company identified.

It is clear how the company has responded to the feedback on the information it produced last year in its 2016-17 assurance plan. We note that the company updated its assurance plan and published it, even though as a self-assured company it was not required to.

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.
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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 data assurance summary is written in a style that is easy to read. Being bound in the annual performance report, it is accessible though not prominent on the company's website.

The data assurance summary is written in a style suitable for a wide audience. It is informative on the majority of issues that it covered, although there is no summary table to cover the assurance audits performed and their respective outcomes.

The scope is focused on the annual performance report and does not cover other information such as charging.

The company has continued with the format and content used for the summary last year whilst the standard of summaries generally across the sector has improved from last year.

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.

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## What we found

No assessment was made because we did not have any live cases involving South East Water during 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.

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