

November 2017

Trust in water

Company monitoring framework

2017 assessment

Individual company report – South Staffordshire Water

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Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of South Staffordshire Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess the company 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 Staffordshire 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 South Staffordshire 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 a technical error in the reporting of the company's net debt figures. This error affected the calculation of RORE and a number of other metrics and these errors were subsequently corrected.

The company has also made changes to their reporting for debt and RORE for 2015-16. We originally queried this information with the company in 2016 and had understood from the company that no changes were required. The corrected figures have now been incorporated into the 2016-17 APR reporting. We consider that the length of time between identifying the errors and correcting them, reduce the trust and confidence that can be placed in the company.

Our assessment: **minor concerns**

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

South Staffordshire Water's Board Assurance Statement is very clear and informative. The Board explained clearly why it believed it was in a position to issue the assurance.

The statement says that "the Consumer Council for Water (CCWater) has reviewed the Company's draft charges schemes and any comments and changes have been incorporated." The company's approach would have been improved if it had set out the discussions it had with CCWater and the comments that informed those changes.

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 is not expecting bills to increase by more than 5%. It stated that it had analysed bills for 35 different customers on different tariffs, but as a further improvement, it could have provided a table to show by how much bills were increasing for those 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, South Staffordshire 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 comprehensive evidence that the company's reporting is transparent and accessible to customers and other stakeholders.

South Staffordshire Water has published its 'Full Statutory Accounts and Annual Performance Report 2016-17' on the [Annual reports](#) page of its website; this is accessed using the 'About Us' link on the homepage, then clicking 'Our publications'.

Cambridge Water has published the same report on its [Annual Performance Report](#) page of its website; this is accessed using the 'About Us' link on the homepage. Both websites also include a 'Summary Annual Performance Report'.

In addition, one of the slider tiles on the South Staffs Water home page links to a monthly performance dashboard. This provides customers and other stakeholders with easy to understand, up-to-date information about performance and service improvements. This dashboard, along with the annual performance summary shows that the company has carefully considered how to be transparent about its performance, and how to communicate this information to 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. Within the Full Statutory Accounts and Annual Performance Report 2016-17 it has included a statement from its independent technical verifier, Monson Engineering Ltd, on the external assurance of financial outcome delivery incentives. It has also included a statement from the company's Group Internal Audit Manager to confirm that the reputational ODI figures have been validated and checked to supporting information. These provide customers and other stakeholders with additional assurance that the company's methodologies and processes for the financial outcome delivery incentives have been audited and challenged.

Wider assurance

There is sufficient evidence that the company has provided the wider assurance to demonstrate that it is listening to customers. For example, it has explained that the Independent Water Customer Panel meet once a quarter and challenge the company on how it engages with customers and performs as a business, and that table 3A (outcome performance) was presented to the panel on July 2017. An area where there remains room for further improvement is the publication of stakeholder feedback, such as a statement from the panel to provide 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.

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 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 sets out the context and the scope of the company's assurance procedures. Additional targeted areas have been identified in the plan, with full explanation and justification.

The plan is a self-standing and accessible overview and references its 'assurance framework' which contains a good summary of its overall assurance framework and the role of internal and external audit. It would be helpful to give a link to the assurance framework document from within the assurance plan.

The company has set out clearly how it has responded to the feedback on the information it produced last year when updating its 2017 assurance plan.

Our assessment: **meets 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 published a succinct and comprehensive summary of the data assurance carried out throughout the year with an excellent outcome of assurance table which included learnings and new issues identified.

The scope is focused on the annual performance report and does not cover other information such as new connections and the cost assessment information which are areas in its assurance plan.

The data assurance summary is written as a self-standing document that is easy to read and is prominent on the company's website where there is a well presented and informative company monitoring framework page.

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 South Staffordshire Water in the 2016-17 regulatory year.

Our assessment: **not applicable**

1.9 Wider issues

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.
