

November 2017

Trust in water

Company monitoring framework

2017 assessment

Individual company report – South West Water

www.ofwat.gov.uk

ofwat

Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of South West 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 West 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 there are examples of good practice and the company has not demonstrated behaviours that would lead to it being demoted, it has not demonstrated consistently by a clear margin behaviours that would justify promotion to the 'self-assurance' category.

Based on all of the relevant evidence, **we have decided to retain South West Water's assurance status as "targeted"**.

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 South West Water demonstrated that it had followed our guidance, and the quality of data and the transparency of the published information met our expectations. We raised a query in relation to the calculation of return on regulated equity (RORE), however no amendments were required to the 2016-17 figures.

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

South West Water set out helpful background information on its assurance process. On the wholesale charges landing page of its website, it provided links to all the relevant wholesale charges documents. A further improvement would be to consider replicating this for the charges scheme landing page.

The company stated that it expected bill increases of over 5% for a small number of customers. While the reason for this increase was not clear, it provided a table which showed the customer types in this category and the likely bill increases. The company stated that it was seeking to promote metering across its customer base, but it could be improved by making it clear whether the absence of metering was the reason for these bill increases.

We are concerned that charges information that was clearly visible on South West Water's website at the beginning of the charging year is now not as visible as before. We expect that charges information, which is relevant for the whole year, should be visible throughout that year on the company's website.

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

For most of its performance commitments, South West Water has provided accurate, reliable information in table 3A (outcome performance), table 3B (sub-measure performance), table 3D (Service Incentive Mechanism) and its annual reporting commentary for both the South West and Bournemouth areas. We did find isolated instances where information was inaccurate or inconsistent; we considered that these particular instances did not reduce stakeholders' trust and confidence. However, going forward we would expect the company to include actual performance against the specific sub-measures in table 3B, both in the published Annual Performance Report and also within the Excel spreadsheet that is submitted to us.

We have previously agreed with the Company that it is not covered by the Abstraction Incentive Mechanism (AIM) for both the South West and Bournemouth areas, and therefore it did not provide information in table 3C.

Transparent and accessible information

There is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Information is published on the [Annual Reporting 2017](#) web page; this is accessed using the 'About us' links on the South West Water and Bournemouth Water home pages. The 2017 'Annual

Performance Report and Regulatory Reporting' document provides clear and easy to understand performance commitment commentary with graphs for each performance commitment showing the last three years' performance with symbols to show clearly whether the performance commitment level has been met or not. There are short, customer-focused summary performance reports on the South West Water and Bournemouth Water websites, and a [How are we doing?](#) page on the South West Water website. This shows that the company has considered how to communicate with customers.

Data assurance

There is sufficient evidence that South West Water has been transparent with customers and stakeholders about the data assurance that has been put in place. For example, South West Water's annual performance report and Regulatory Reporting document explains its assurance framework in a clear and transparent manner. Within the '2017 Annual Performance Report and Regulatory Reporting' document there is a Technical Auditors' Report from CH2M. This provides customers and wider stakeholders with additional assurance that the performance commitment methodologies have been audited and challenged.

Wider assurance

There is sufficient evidence that South West Water has provided the wider assurance to demonstrate it is listening to customers and delivering the services they want and can afford. The independent [WaterShare Panel](#) reviews and challenges the company's recommendations on how any outperformance payments can be shared with customers.

The publication of the Bournemouth Water [Customer View Group Annual Report 2016/17](#) provides customers and other stakeholders in the Bournemouth area with an independent opinion on the company's progress in delivering its performance commitments. The 'Customer View Group Annual Report 2016/17' includes a link to a challenge diary which shows how they have challenged the company, and the company's response. An area for further improvement is the publication of a similar, easily accessible statement or report from South West Water's independent [WaterFuture Panel](#). This would provide customers and other stakeholders in the South West Water region with an independent opinion, and give additional transparency around the wider assurance that the company has put in place.

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 generally meeting our board leadership transparency and governance principles.

There was one small area where the company could improve its reporting. The principles contain the expectation that where there is not an independent chair there should be a senior independent director in place. The company does not have a senior independent director in place. This is allowed for under the principles as a company can choose to take an alternative approach in limited situations where it explains why it has done this. However the only explanation provided is in the context of the UK Corporate Governance Code (UK Code) rather than in the context of our principles. It would be helpful for the company to improve transparency in this area, by providing an explanation in the context of the principles and not just the UK Code, so that stakeholders can understand the decisions it took when 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. The company provided a section on risk management within its statement which provides some detail on the approach which it took in this area. However it would have helped improve its reporting if it had also provided a specific statement that the company has systems and processes in place to identify, manage and review its risks within this section.

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

This is the first time the company has been required to publish an assurance plan.

The assurance plan clearly set out the context and work done to date which demonstrates good stakeholder engagement, highlighting where the company has amended its draft plan as a result of stakeholder feedback. The plan clearly explains the company's approach and explains where risks lie and where the resulting assurance should be targeted. The risk assessment undertaken was thorough and the scope of information considered is wide. The assurance plan transparently details how the framework has been applied, with a good summary of approach covering internal and external assurance.

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

The summary covers the 'typical' assurance approach taken and provides some detailed examples of the framework in practice. But it does not provide detail on all the targeted areas identified in the company's assurance plan, which reduces transparency of the exercise for stakeholders. The data assurance summary could be improved by setting out the detail on each assurance review carried out and the results.

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 data assurance summary is written in a style that is easy to read and is available 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 South West 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

This year we reviewed cost assessment information submitted in the annual performance reports. We had minor concerns with the information that South West Water submitted. The company did not complete two tables, as it had set the materiality threshold at a level which meant no projects were reported. We consider the materiality was set too high for these tables. Following discussion with us after the July submission, the company changed the threshold and re-submitted the data.
