

November 2017

Trust in water

Company monitoring framework

2017 assessment

Individual company report – United Utilities

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Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of United Utilities' 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 United Utilities 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, 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 United Utilities 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.

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 United Utilities demonstrated that it had followed our guidance, and the quality of data and the transparency of the published information met our expectations. We raised two queries to obtain clarification regarding disclosures in their APRs, however no adjustments were subsequently required. We also identified a minor error in their disclosure of effective tax rate as this included tax in respect of prior years, however this 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

United Utilities published good quality information about its charges schemes and wholesale charges. It has a very informative Wholesale charges webpage where the links to all the relevant information are provided. The company could further improve its approach if it considered doing the same for its charges scheme section.

The company had timely and effective consultation with the Consumer Council for Water (CCWater). It provided details of this discussion and in the process highlighted the role CCWater plays in such matters. The company stated that it expected 99.9% of its customers to experience bill increases lower 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.

For the small number of customers not in this category, the company explained in a clear way the reason for the increase. In terms of the handling strategy it had put in place to help those customers, the company said that the strategy would be "consistent with the approach taken last year when the increase was similar." As a further improvement, the company could have provided a link to the document which explained this strategy for the benefit of someone who had only just become aware of this issue.

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, United Utilities 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. We did find an isolated instance where information was inconsistent; we considered that this particular instance did not reduce stakeholders' trust and confidence.

Transparent and accessible information

There is clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. United Utilities has published performance information on the [Performance](#) page of its website; this is accessed using the 'Corporate' link at the top of the homepage and then the 'About us' link. The company's website and annual report contain well-presented, clear and easy to understand performance information. To accompany the more detailed 'Annual Performance Report 2016/17', the company has produced a helpful summary for customers. This summary has gained the Plain English Campaign's Crystal Mark for clarity. This year, the company has also published a technical appendix within its Annual Performance Report that clearly sets out how the reported performance

levels and associated outperformance payment and underperformance penalty calculations have been determined for the performance commitments that are based on a basket of sub measures. Calculations are provided for the 2015-16 and 2016-17 reporting years. This appendix provides helpful information for us and other stakeholders.

In addition to the published documents, United Utilities has developed supplementary online content. This provides a digital presentation of the performance information to help to improve customers' and stakeholders' understanding. It includes a short video that summaries the company's Annual Performance Report 2016/17 and how it is going to improve service in the future.

Data assurance

There is clear evidence that United Utilities has been transparent with customers and stakeholders about the data assurance that has been put in place. The company employed Halcrow Management Sciences to review the performance and volume data relating to outcome delivery. The exceptions and key findings from the technical auditor's review, and an Independent Technical Assurance Statement, are set out in Appendix 1 of the Annual Performance Report 2016/17. This provides 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 clear evidence that the company has provided the wider assurance to demonstrate it is listening to customers. To accompany the Annual Report and Financial Statements and Annual Performance Report, the company has published a report from the [YourVoice](#) panel: 'Reflecting on United Utilities' performance – 2016-17'. This independent panel has an integral part in monitoring and challenging the company to deliver on its performance commitments. Every three months throughout 2016-17, the panel received and reviewed progress reports from United Utilities against its customer promises, and the performance commitments that these are based on. The YourVoice report provides customers and other stakeholders with 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 that were published in the PR14 final determination company-specific appendix.

Our assessment: **exceeds 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.

¹ Our findings here are, 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.

This is a key test of whether companies are listening to their stakeholders and using their views to improve their practices.

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.

United Utilities chose to update and publish an assurance plan. The plan itself is of a high standard. It clearly sets out the context and the company's approach to assurance and associated framework in an accessible format. It sets out the scope of the plan, why specific areas have been targeted and how the assurance process will address the identified risk. The final plan has been updated following stakeholder comments on the draft plan.

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 comprehensive summary of the data assurance carried out throughout the year. The data assurance summary sets the context, provides background and gives a good summary of assurance framework. The table provided clearly sets out all the assurance activities performed for each targeted area and detail on the findings which has a much wider focus than simply the annual performance report such as the cost allocation information and preparation for market opening. It includes a summary assurance report from the company's technical assurer.

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

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

We closed one case concerning United Utilities in the assessment period. This was an appeal under section 105 of the Water Industry Act 1991. The information provided by the company in relation to that case was provided on time and presented in a clear and helpful manner.

Our assessment: **meets expectations**

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 found that United Utilities provided an excellent level of helpful detail in its commentary, which we considered to be an example of good practice.
