

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – Wessex Water

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## Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of Wessex 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 Wessex 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, we found evidence of behaviour that we considered leads to a reduction in trust and confidence and no evidence of leading-edge behaviour.

Based on all of the relevant evidence, **we have decided to retain Wessex 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.

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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 a number of small errors which indicated that Wessex Water had not followed our reporting guidance. None of those errors would have had a significant impact on the readers' view of the company performance.

- the interest cover was reported in the wrong format
- the effective tax rate was calculated by reference to the total corporation tax for the year (including prior year adjustments) than to the current corporation tax
- the tax reconciliation note was prepared by reference to statutory corporation tax rather than to appointee corporation tax

Our assessment: **minor concerns**

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## 1.2 Charges schemes assurance

### 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 make our assessment by looking at the following:

- Board assurance statements;
- compliance with aspects of the charging rules which fall within the scope of the overall CMF assessment;
- significant movements in charges and how they are assessed and explained; and
- handling strategies to address significant movements in charges.

### What we found

Wessex Water produced a joint Board Assurance Statement which explained very well its assurance process, both internal and external, and why the Board believes the company has met our charging rules requirements.

The Board noted the several interactions the company had had with the Consumer Council for Water (CCWater), but it did not set out what the interactions were about and how the discussions had, if at all, impacted on the company's charges.

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 stated that none of its bills were forecast to increase by more than 5%. As an 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.

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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, Wessex Water provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary. We did find instances where information was inaccurate or inconsistent, but we considered that these particular instances did not reduce stakeholders' trust and confidence.

The company provided accurate, reliable information in table 3C (abstraction incentive mechanism) and 3D (service incentive mechanism). Wessex Water does not have any performance commitment sub-measures and therefore did not provide information in table 3B.

#### Transparent and accessible information

There is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Wessex Water has published information on the [Performance](#) page of its website; this is accessed using the 'About us' link from the homepage.

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When the company first published its 'Delivery for our customers 2016-17 annual review summary' in July 2017 we had a slight concern that the company's reporting of its G2 (compliance with drinking water standards – mean zonal compliance) performance was not fully transparent. In table 3A the company reported 2016-17 MZC as 99.95% and in the penalty deadband. In its annual review summary the company reported its actual performance against the PC level as 'changed'. We asked the company to explain what this meant. It has now amended the document and an updated version has been published on the company website. In future we expect to see drinking water compliance, which is of particular importance to customers, being reported consistently in table 3A and the published annual performance reports.

### **Data assurance**

There is clear evidence that the company has been transparent with customers about the data assurance that has been put in place. The Annual Performance Report 2016-17 contains a report from Mott MacDonald, Wessex Water's technical auditor. 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 very clear evidence that the company has provided the wider assurance to demonstrate that it is listening to customers. The Wessex Water Partnership acts on behalf of customers and has been established to provide independent advice and challenge to the company on the delivery of its business plan commitments. The Wessex Water Partnership Annual Report July 2017 includes information about how it has challenged the company's performance commitments. This provides customers and wider stakeholders with a comprehensive, independent opinion on the company's progress in delivering its performance commitments.

The Wessex Water Partnership Annual Report is available on the [Wessex Water Partnership website](#). Going forward it would be helpful to customers and wider stakeholders if the report was made available alongside the company's Annual Performance Report. If the report is only available on the Wessex Water Partnership website it may limit the accessibility to customers and wider stakeholders.

### **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.

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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,

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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.<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.

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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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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 plan sets out the context and the results of its risks, strengths and weaknesses exercise highlighting changes from the previous year. The targeted areas identified are quite wide and the actions identified are at a high level. More detail around the assurance activities planned would provide greater trust and confidence to stakeholders. There is good evidence of engagement with stakeholders.

The plan is a self-standing and accessible overview and references a more technical document 'regulatory assurance manual' which contains a good summary of its overall assurance framework and the role of internal and external audit.

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 summary of the data assurance carried out throughout the year. The data assurance summary references the auditor's report (elsewhere in annual performance report) and contains a clear statement from a technical auditor. There is a brief overview of the company's assurance framework, approach and limited detail on the activities performed and their findings.

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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.

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

We closed one case concerning Wessex Water during the assessment period. No assessment has been provided as we did not request any information from Wessex Water during the assessment period for this case.

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 where poor assurance could impact on trust and confidence in the information produced. It may include matters which do and do not fall directly into the specific assessment areas we look at each year. In doing so, we consider the context in which the information is published or shared.

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## **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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