

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – SES Water

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## Company monitoring framework assessment

This document outlines the results of our 2017 company monitoring framework (CMF) assessment of SES 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 SES 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 SES 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.

We amended text on page 6 on 1 December 2017. These amendments did not alter our assessment of the company.

## 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

No issues were identified during our review of the information used for financial monitoring purposes and no queries had to be raised.

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

SES Water submitted a joint Board Assurance Statement to cover both its charges scheme and wholesale charges.

The statement confirmed that the company had timely and effective consultation with the Consumer Council for Water (CCWater) which included a discussion on proposed charges and a review of the charges schemes. To improve this, the company could have set out the areas of the charges scheme it had reviewed with CCWater.

The company stated that it did not expect any of its bills to increase by more 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 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, SES Water has provided accurate, reliable information in tables 3A (outcome performance), 3C (abstraction incentive mechanism) and 3D (service incentive mechanism), and its annual reporting commentary. The company does not have performance commitment sub-measures and therefore did not provide information in table 3B.

#### Transparent and accessible information

There is clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. SES Water has published performance information on the [Performance Reports](#) page of its website; this is accessed using the 'About us', then 'Publications' links from the homepage. The company's website and annual report contain well-presented, clear and easy to understand performance information. Previous years' performance information is available from the same page as the most recently reported year. In addition, the SES Water website has information graphics to provide customers and other stakeholders with easy to understand performance information; the 'Annual Report Summary 2017' interactive webpage contains a dashboard for each of the company's aims and allows users to click through for case studies and performance commitment information.

### **Data assurance**

There is sufficient evidence that the company has been transparent with customers and stakeholders about the data assurance that has been put in place. The company employed an independent third-party organisation, Black & Veatch, to carry out assurance on non-financial performance data, and states that no material errors were identified in the calculations and that a small number of process improvement actions were noted and will be incorporated into future processes. The company has published an Independent Assurance Statement alongside its Annual Report 2017. 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 sufficient evidence that the company has provided the wider assurance to demonstrate it is listening to customers. The independent [Customer Scrutiny Panel \(CSP\)](#) provides feedback on the company's customer engagement programme and monitors progress, from a customer perspective, against the company's performance commitments. The 'Annual Report 2017' contains messages from the Chairman of the CSP and also the local consumer advocate for the Consumer Council for Water. This 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: **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.<sup>1</sup>

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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.

## 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.

### What we found

The introduction section covers context and work done to date. There is adequate evidence of the company's engagement with stakeholders. The scope of information considered is sufficient and the plan contains a good summary of the company's approach to assurance starting with documented process and internal review, all the way up to board approval. The targeted areas identified are broad, for example it refers to the annual performance report as a whole where it would be helpful to break this down to the different sections subject to different assurance activity.

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 has published a succinct and comprehensive summary of the data assurance carried out throughout the year with an excellent table detailing the outcome of the assurance activities.

The summary covers all the areas targeted in the assurance plan. It would be helpful to have more granular structure to the table to distinguish between internal and external assurance and to break out the broad topic area titled as "regulatory reporting".

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 SES 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**

We had concerns about the tax information included in the Annual Performance Report. We considered that SES Water did not adequately explain the difference between the actual and allowed tax to stakeholders, which required several queries to resolve.

We also noted that SES Water did not provide confidence grades for the cumulative enhancement tables in its original submission for cost assessment information. The confidence grades would have allowed us to assess data quality. We would expect to see the information assured in accordance with the future framework.