

January 2019

Trust in water

Company monitoring framework: 2018 assessment

About this document

This document sets out our assessment of water companies’¹ assurance practices, under our Company Monitoring Framework (CMF). It applies primarily to the assurance of information companies published in the 2017-18 financial year (that is 1 April 2017 to 31 March 2018). We have also assessed the information companies published on their 2018-19 charges and the data in the company business plans for the period 2020-25.

We carried out this assessment in line with the policy framework within ‘[Company monitoring framework final position](#)’ (updated June 2018). This sets out how we oversee the assurance of information that the water companies in England and Wales provide to customers and wider stakeholders and the actions that we expect companies to take.

We are publishing this assessment of companies’ assurance in the 2018 CMF alongside the Initial Assessment of Business Plans (IAP) announcement setting out the results of the IAP for the 2019 price review period (PR19) which covers the period 2020-25. Alongside this, we are also publishing more detailed company specific CMF documents for each company.

¹ In the context of this work, by water companies we mean the largest 17 water and wastewater companies and water only companies

Executive summary

2.1 The company monitoring framework

We expect companies to be open and transparent with all their stakeholders and to communicate clearly their performance.

If stakeholders are to have trust and confidence that the sector is meeting its promises, and that it will be held to account if it doesn't, they need to also have confidence that information published is of a high quality. The way a company chooses to provide assurance of this information is a key part of providing this confidence.

We use the company monitoring framework as a tool to encourage companies to deliver high quality assurance of the information that they produce. This is more than ensuring that companies have systems in place to check that data is correct. It is about companies demonstrating that they are communicating issues in a clear, accessible and transparent way and that the information gives a fair view of how a company is performing.

The company monitoring framework is one of a suite of tools we use to hold companies to account and to improve transparency. It complements the information we publish on companies' performance – for example the [Monitoring Financial Resilience Report](#) (published as part of our financial monitoring framework to provide insight into company financial resilience) and the [Service and Delivery Report](#) (highlighting company performance against their commitments).

These tools, alongside the Discover Water website which enables customers to see in one central place how companies are performing and delivering for them, provide greater transparency in how companies report their performance and the way that they provide confidence in that information.

1.2 Interaction with the Initial Assessment of Business Plans

Our initial assessment of company business plans (IAP) is an important part of our price review process. In the initial assessment we assess company business plans against our stretching requirements and expectations. Those companies that meet our stretching requirements are fast tracked and receive financial rewards and early draft determinations of their price, service and incentive package for 2020-25. Those companies that fall short receive additional scrutiny and later draft determinations.

The initial assessment incentivises companies to submit high quality, ambitious and innovative business plans. The quality of companies' information, and their track record on assurance are important parts of a high quality business plan. We have therefore taken account of the CMF 2018 in our initial assessment of business plans.² We have also looked at company business plan data quality and consistency as part of our assessment of CMF 2018 categorisations.

1.3 ²Key messages

We have seen a marked improvement in the quality of business plans in PR19 compared with PR14. This builds on the improvements made by companies over the last few years in the company monitoring framework. For example, we have seen more companies meeting our expectations on assurance plans and financial monitoring.

It is positive to see companies responding to our feedback and improving. For example, having been in the prescribed assurance category for the first two years of the CMF, Bristol Water has demonstrated sufficient improvement in the assurance of its information across the board to be promoted to the targeted assurance category in 2018.

There are still challenges in terms of companies ensuring they perform consistently across the board. We had a higher proportion of concerns in areas that have not been previously assessed in the CMF, such as the water resources management plan and market information (WRMP) and the new connections charging arrangements within the charges engagement assessment.

² The relevant parts of the IAP tests are confidence and assurance tests 5 and 6:

"To what extent does the company have a good track record of publishing high quality data taking into account the company's data submission, assurance process and statement of high quality?" and "How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?"

We expect companies to ensure that they have consistent, proportionately assured data across the board to put them in the best possible position to perform well in any areas that we may decide to assess as part of our regulatory toolkit in the future.

1.4 Our assessment this year

Our assessment places each company in one of three categories – ‘self-assurance’, ‘targeted assurance’ or ‘prescribed assurance’. The categorisations reflect our view of the quality of each company’s approach to assurance.

United Utilities has met the criteria to retain its self-assurance status but the other two companies which were self-assured last year, **South East Water** and **Northumbrian Water**, have not met the criteria of a self-assurance company and therefore have been demoted to targeted assurance in 2018. **Dŵr Cymru**, a targeted company last year, has met the criteria to be promoted to a self-assurance company in 2018.

Two of the four prescribed companies last year, **Thames Water** and **Bristol Water**, have met the criteria for promotion to the targeted assurance category. The other two companies in the prescribed assurance category last year, **Southern Water** and **Hafren Dyfrdwy** (previously Dee Valley Water³), have not met the criteria to be promoted to the targeted assurance category and therefore remain in the prescribed assurance category in 2018. One company which was in the targeted assurance category last year, **Affinity Water**, has not met the standards expected to remain in the targeted assurance category and therefore has been demoted to the prescribed assurance category in 2018.

All other companies remain in the targeted assurance category this year.

³ On 1 July 2018, modifications to the instruments of appointment of both Dee Valley Water and Severn Trent Water came into effect which aligned the boundaries of their respective areas of appointment to the national boundaries of Wales and England respectively. At this time the Welsh business – formerly served primarily by Dee Valley Water – was rebranded as Hafren Dyfrdwy. Consequently, although much of the information assessed for this year’s CMF was produced by the company as Dee Valley Water, the CMF categorisation is applied to the current company Hafren Dyfrdwy, which will be responsible for taking forward the actions set out in this report.

2.5 What our assessment means

The assurance category a company is placed in defines the level of discretion the company has in determining the assurance process for information it publishes going forward. The table below summarises this and sets out our categorisation of each company this year.

Category	What this means	Company
Self-assurance	Company must meet the minimum assurance requirements (set out in the position paper), but it has discretion to decide what additional assurance arrangements to put in place.	Dŵr Cymru United Utilities
Targeted	Company must meet the minimum assurance requirements. It must also carry out a risks, strengths and weaknesses exercise; publish a statement on this exercise; and consult stakeholders and publish draft assurance plans on the areas identified as risks/weaknesses.	Anglian Water Bristol Water Northumbrian Water Portsmouth Water Severn Trent England South East Water South Staffs Water South West Water SES Water Thames Water Wessex Water Yorkshire Water
Prescribed	Company must meet the minimum assurance requirements and the requirements for targeted companies, and its draft assurance plan must cover all information. Areas of most significance or greatest risk to customers require independent external assurance. It must publish its assurance plans for all information ahead of reporting and engage with stakeholders (and Ofwat) before it publishes its final assurance plans.	Affinity Water Hafren Dyfrdwy Southern Water

Section 2 of this document summarises our assessment of each company's assurance.

1.6 Good practice and areas for improvement

Ultimately, the company monitoring framework is intended to provide stakeholders with confidence in the information companies publish and to increase the transparency around how companies are performing. Companies need to own their information and continue to improve the clarity and transparency of what they publish.

When assessing company information, we saw examples of companies learning and developing their approach to assurance and a number of examples of good practice. Companies continued to perform strongly in the **Risk and Compliance Statement** and **Assurance Plan** assessments.

In the **Risk and Compliance Statement** assessment, all companies at a minimum met our expectations. There was a notable improvement in the quality of assurance provided this year with more companies exceeding our expectations by including information from technical advisors as part of the statement.

Assurance Plans set out the data assurance activities that water companies will put in place to provide accurate data that underpins the information companies will provide over the following year. In the **Assurance Plan** assessment, all but one company met our expectations, with six companies exceeding our expectations. We found several examples where companies had amended their approach in response to stakeholder engagement, and where they had reviewed best practice across the sector and incorporated this into their own publications. In **outcomes**, companies are improving the transparency and accessibility of information on their performance against their commitments and engaging with stakeholders on this. This year, we were also pleased to see that some companies are providing customer-focused performance reporting more than once a year and also using an increasing number of channels of communication.

Overall, we are pleased to note that companies' performance on **business plan data quality and consistency** has been good. This is a significant improvement on PR14 where a number of companies had to resubmit business plan data tables. In the **long-term viability statement** assessment, there has been a significant improvement in the quality of the statements which companies have produced, although one or two companies still need to make improvements. Companies are now more clearly setting out the basis on which they have made their assessments, the level of stress testing they have undertaken and the extent to which they have obtained third party assurance. In **financial flows**, all companies submitted their data and, in general, met our expectations in providing consistent, accurate data within acceptable tolerance levels.

We also identified some areas for improvement. In the **financial monitoring framework** assessment, we identified a range of minor issues across a number of companies, including basic data errors, misreporting of bad debt figures and calculation issues. We would

normally expect these to be identified by the companies' own assurance processes, so the number of errors was disappointing. In **financial flows**, going forward we expect companies to provide more accurate data, as well as evidence that the data has been assured.

On the whole, we were disappointed with the quality of **cost assessment** data in the Annual Performance Report (APR). All but one company had to provide more than one correction or clarification on their data and / or supporting commentary, with some responses resulting in numerous data changes. The amount and quality of the commentary provided varied significantly between companies. Best practice included commentary highlighting variances to the prior year's data and changes to reporting methodology. In the **charges engagement** assessment, we had particular concerns around some companies changing their charging documents after the deadline, sometimes without clearly explaining the changes made or where charges had increased. We also had concerns around the lack of clarity over some companies' new connections charges and over the lack of explanation from some companies on how their charges are derived. In the **water resources management plan and market information (WRMP)** assessment, in which over half of companies did not meet our expectations, we had concerns over internal inconsistencies within the draft WRMPs and in some cases between published draft WRMPs and company water resources market information. We also had concerns around the clarity of data presented and its accessibility within the documentation. It is important that this material is clear and consistent for stakeholders to understand and engage with where necessary.

1.7 Companies that have moved categories from last year

Our assessment this year means that some companies move categories compared to last year.

We assessed **Dŵr Cymru** as self-assurance this year, having been assessed as targeted last year. It met expectations in nearly all of our specific assessment areas (with minor concerns in two of our specific assessment areas), and exceeded our expectations and demonstrated good practice in two areas. It had adequately addressed the points for improvement that stakeholders had identified. We saw no evidence of behaviour that would reduce trust and confidence, and we consider that customers can consistently place confidence in the information it provides.

We assessed **Thames Water** as targeted this year, having been assessed as prescribed last year. The company demonstrated that it had acted upon feedback that we provided, and has made significant improvements meaning it met or exceeded expectations for all but two of the specific assessments areas. Companies in the prescribed category can only move up to the targeted category in one year.

We also assessed **Bristol Water** as targeted this year, having been assessed as prescribed last year. The company demonstrated that it had acted upon feedback that we provided,

and has made significant improvements meaning it met or exceeded expectations for all but three of the specific assessments areas. Companies in the prescribed category can only move up to the targeted category in one year.

We assessed **Affinity Water** as prescribed this year, having been assessed as targeted last year. Although the company met our expectations for many assessments, we concluded that the significance of our concerns in one assessment area, combined with a number of minor concerns in a number of other areas, meant that the company did not instil sufficient confidence about its ability to deliver, monitor and report performance.

We assessed **Northumbrian Water** as targeted this year, having been assessed as self-assurance last year. The company met our expectations in many areas and exceeded our expectations in only one area. However, the impact of the minor concerns we had in two areas – and in particular the fact that in both cases the concerns were at or near the bottom of the spectrum of “minor concerns” – meant that we considered that overall the company had not consistently met the high standards expected in order to maintain its self-assurance status.

We also assessed **South East Water** as targeted this year, having been assessed as self-assurance last year. The company met our expectations in many areas and exceeded our expectations in two areas. However we had minor concerns in four assessment areas therefore we considered that overall the company had not consistently met the high standards expected in order maintain its self-assurance status.

1.8 What happens next?

Our requirements vary according to which assurance category the company is in, with companies in the self-assurance category having more flexibility in their approach than companies in the targeted or prescribed assurance categories.

Companies that have moved categories will need to consider how this affects their assurance planning. Broadly, companies that have moved to self-assurance do not have to publish an assurance plan. Where we have moved companies down to the targeted or prescribed assurance categories, those companies will have additional assurance obligations, which are intended to give their stakeholders trust and confidence.

Going forward, during 2019 we plan to review our current approach to the governance and assurance of company reporting, to ensure that customers and stakeholders can understand and have confidence in the information that companies produce. We expect to conclude our review and publish the new framework in time for the start of the next price review period.

Our assessment

2.1 Our approach

We assessed companies' assurance across a range of publications, regulatory submissions and bilateral engagement. The high-level approach we take to categorising companies is set out in the '[Company monitoring framework final position](#)'.

This year we carried out a number of assessments to inform our decision on the categorisation of companies – these focused on thirteen specific areas as well as an assessment of any wider information that impacted on confidence in the information produced and that we therefore considered relevant to our overall decision for each company. Each of these assessments feed into an overall assessment in which Ofwat considers in the round what the findings mean for the overall confidence that can be placed in the information that each company produces. The decisions were based on the following high level approach:

- We took into account the relative importance of each individual assessment and any relevant wider issue: this has not been done in a mechanistic way but looked at holistically;
- We took into account whether individual assessments had exceeded, met or failed our expectations by a clear margin or not;
- Where there was more than one minor concern in individual assessments, we considered whether there was a pattern of minor concerns which could lead to a reduction in stakeholder confidence;
- Where there was a serious concern we considered whether this was significant enough, in the round, to lead to a reduction in stakeholder confidence

For a company to be assessed as self-assurance, they needed to meet expectations in most, if not all, assessments, by a clear margin with evidence of exceeding expectations and good practice to demonstrate leading-edge behaviour. Overall, we have to judge whether companies have consistently met the high standards that customers and other stakeholders expect and check that there are no behaviours leading to a reduction in the trust and confidence that stakeholders could place in a company's assurance. Examples of behaviours that may lead to a company being moved to targeted or prescribed are set out in the Company monitoring framework final position paper.

Section 2.3 sets out each of the assessments that contributed to our decision for each company and our overall findings for the sector as a whole. Alongside this document we have also published company-specific documents that provide additional detail about our assessments and decisions.

For each specific assessment area we have assessed each company as:

- exceeds expectations;
- meets expectations;
- minor concerns; or
- serious concerns.

2.2 Categorisation of all companies

The following table sets out the categorisation for each of the companies that we assessed under the CMF.

Self-assurance	Targeted	Prescribed
Dŵr Cymru United Utilities	Anglian Water Bristol Water Northumbrian Water Portsmouth Water Severn Trent Water SES Water South East Water South Staffordshire Water South West Water Thames Water Wessex Water Yorkshire Water	Affinity Water Hafren Dyfrdwy Southern Water

2.3 Findings for assessment areas

The scope and the key findings for each assessment area are set out in the following order below.

- Financial Monitoring Framework
- Charges Engagement
- Outcomes
- Risk and Compliance Statement
- Assurance Plan
- Water Resources Management Plan and Market Information
- Casework
- Financial Flows
- Long-term Viability Statement

- Cost Assessment
- PR19 Initial Assessment of Business Plan data consistency
- PR19 Initial Assessment of Business Plan data quality
- Wider assurance and information

2.3.1 Financial Monitoring Framework

Scope of Assessment	Key findings	Assessments
<p>This assessment considered 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.</p> <p>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 our guidance. This enables us, 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.</p>	<p>This year significantly more companies met our expectations than last year, with twelve companies meeting our expectations in 2018 compared to nine in 2017. We also had concerns with fewer companies this year than last year; five in 2018 compared to eight in 2017.</p> <p>Our review identified a range of issues, including basic data errors (missing figures, incorrect signage or incorrect format of reported numbers), inconsistencies between the published APR and the data capture submission and clarification of the impact of exiting the non-household retail market on the calculation of return on regulatory equity (RORE).</p> <p>In general the types of errors identified were technical in nature and we did not consider that they would affect stakeholders' view of performance of each company. However, ultimately the data reported was incorrect or required further explanation - and these types of errors should have been identified through companies' assurance and checking processes.</p> <p>Where we identified a pattern of data errors, we took this into account in our assessment. We also took into account the significance and impact of the errors and issues identified as well as the number. Overall we assessed five companies as having minor concerns.</p>	<p>Exceeds expectations none</p> <p>meets expectations</p> <ul style="list-style-type: none"> • Affinity Water • Dŵr Cymru • Northumbrian Water • Portsmouth Water • Severn Trent Water • SES Water • South Staffs Water • South West Water • Southern Water • Thames Water • United Utilities Water • Wessex Water <p>minor concerns</p> <ul style="list-style-type: none"> • Anglian Water • Bristol Water • Hafren Dyfrdwy • South East Water • Yorkshire Water <p>serious concerns</p> <ul style="list-style-type: none"> • none

	<p>As in previous years, we were pleased that companies generally responded proactively to our queries and resolved them quickly.</p>	
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2.3.2 Charges engagement

Scope of Assessment	Key findings	Assessments
<p>We have, to date, issued three sets of charging rules: Charges Scheme Rules; Wholesale Charging Rules; and Charging Rules for New Connection Services (English Undertakers). Each of these ‘charging rules’ require companies to publish a document in which they set out their charges relating to these rules. Their publications are charges schemes, charges schedules and charging arrangements respectively.</p> <p>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 primarily on the documents that the charging rules require companies to publish or submit to us (also</p>	<p>This year ten companies met or exceeded our expectations in this area compared to all seventeen companies last year. However, almost all of the concerns we noted this year were in the area of new connections charging arrangements which we have not previously assessed⁴. Companies performed well again this year in the areas of the charges engagement assessment that we have assessed in previous years.</p> <p>All companies published their information within the required timeframes, and generally we found the information was complete. There was wide variation in the quality of the assurance information submitted to us and in how companies communicated and engaged on any significant increases in charges. Providing concise, helpful detail, for example on the assurance process, on how rules are complied with, and on how they took stakeholder feedback into account, is a prerequisite for exceeding our expectations in this area.</p> <p>We do not expect companies to make changes to their charging documents after the deadline given in the relevant rules, other than as a result of an external change such as a</p>	<p><u>Exceeds expectations</u></p> <ul style="list-style-type: none"> • United Utilities • Thames Water <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Anglian Water • Dŵr Cymru • Northumbrian Water • Portsmouth Water • Severn Trent Water • SES Water • South West Water • Southern Water <p><u>Minor concerns</u></p> <ul style="list-style-type: none"> • Affinity Water • Bristol Water • Hafren Dyfrdwy • South East Water • Wessex Water <p><u>Serious concerns</u></p> <ul style="list-style-type: none"> • South Staffs Water

⁴ New connections charging rules came into force for companies wholly or mainly in England in April 2018.

<p>set out in Information Notice 17/09), including but not limited to:</p> <ul style="list-style-type: none"> • the published charging documents; • 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 statements of significant changes (if applicable); and • the handling strategies companies devise and put in place to address any significant changes to charges. <p>In some cases, we supplemented the information by submitting queries to some companies, looking more widely at material published on companies' websites, and cross-checking against customers' and stakeholders' comments or complaints on charging.</p>	<p>change to our charging rules. This was the first year that companies whose areas are wholly or mainly in England ('English companies') published their new connection charging arrangements, and some reissued these after the deadline of 1 February 2018. We were particularly concerned where companies did not clearly explain the specific changes made (so that customers were not able to quickly assess the implications for them) and / or where charges increased.</p> <p>A key benefit of companies' new connection charging arrangements is the increase in predictability brought about by the use of fixed charges (so that the bill can be determined before the work is carried out). Some companies' charging arrangements used words like 'estimate' and 'quotation' (or, worse, 'price on application'), even though in most cases our understanding is that they did intend the charges to be fixed. We are asking companies to be clearer on this in future.</p> <p>To give customers trust and confidence in charges, they want reassurance that the charges are fair and cost reflective. To support this, our rules require companies to explain how some charges are derived. We are concerned that many companies are not currently doing this adequately, particularly with respect to English companies' infrastructure charges, and we expect improvements next year.</p>	<ul style="list-style-type: none"> • Yorkshire Water
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2.3.3 Outcomes

Scope of Assessment	Key findings	Assessments
<p>The scope of the outcomes assessment was changed in 2018.</p> <p>In 2017 the assessment covered:</p> <ul style="list-style-type: none"> • reliable, timely and appropriate information; • transparent and accessible information; • data assurance; • wider assurance; • PR14 final determination company-specific appendix; and • restated performance commitment levels (where applicable). <p>In 2018 the assessment was limited to transparent and accessible information as we wished to avoid overlap with our PR19 past delivery assessment (IAP test 5).</p> <p>Within the transparent and accessible information test, we considered:</p>	<p>In general, companies met our expectations of transparent and accessible information, with all but three companies meeting or exceeding our expectations in this area.</p> <p>We found good evidence that companies are continuing to provide transparent, accessible information for stakeholders. Most companies provided accessible, stakeholder-friendly overviews of outcomes performance in their annual report. For example, where performance commitment levels had not been met most companies provided a clear explanation of the issue and, where appropriate, provided an explanation of how it would be rectified. This year, we were also pleased to see that some companies are providing customer-focused performance reporting more than annually and also the increasing use of communications using several channels.</p> <p>We found that performance commitment and outcome delivery incentive (ODI) information for previous reporting years was available and, in the main, easily accessible on company websites.</p> <p>Where we had previously found issues in performance reporting and had noted these in the 2016 and 2017 CMF individual company reports, we found that the companies had adequately addressed the issues, errors or inconsistencies.</p> <p>We found a few instances where the transparency and accessibility of outcomes information could be improved, and we took this into account in our assessment.</p> <p>We had minor concerns that one company did not clearly explain the underperformance and outperformance payments for the current reporting year in its main annual report. And we had minor concerns that one company did not adequately explain an adjustment it had made to an underperformance payment and it was not clear what the total underperformance payment was.</p>	<p><u>Exceeds expectations</u></p> <ul style="list-style-type: none"> • South Staffordshire Water • United Utilities • Yorkshire Water <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Affinity Water • Bristol Water • Dŵr DŵrCymru • Hafren Dyfrdwy • Northumbrian Water • Portsmouth Water • SES Water • South East Water • Southern Water • Thames Water • Wessex Water <p><u>Minor concerns</u></p> <ul style="list-style-type: none"> • Anglian Water • Severn Trent Water <p><u>Serious concerns</u></p> <ul style="list-style-type: none"> • South West Water

<ul style="list-style-type: none"> • Availability and accessibility of information for the 2017-18 reporting year, including how the company had addressed any issues, errors or inconsistencies that we had reported in the CMF individual company report in previous years; and • Availability and accessibility of information for previous reporting years. <p>This is an important assessment, to ensure that stakeholders can understand what companies are doing to deliver the outcomes that customers expect.</p>	<p>We had serious concerns that one company had not explained that it had made adjustments to the reported performance levels, and the associated underperformance payment, to mitigate the impact of severe weather. The adjustment resulted in a smaller underperformance payment being reported than would have been without the adjustment and the company had not provided convincing justification for the application of this adjustment.</p>	
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2.3.4 Risk and compliance statement

Scope of Assessment	Key findings	Assessments
<p>In this assessment we looked for a statement, explicitly endorsed by the company's board, 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.</p> <p>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.</p>	<p>Overall there has been an improvement in this area in the quality of assurance provided. This year more companies exceeded our expectations (three this year compared to one last year) by including information from technical advisors as part of the statement. This is valuable in increasing the confidence that stakeholders can have in the statements being provided by the companies' boards.</p> <p>Generally the companies met our expectations in stating that they had complied with the relevant statutory, licence and regulatory obligations, and that they are taking appropriate steps to manage and/or mitigate any risks. We did however have minor concerns with one company where the statement did not fully disclose the exceptions to meeting its material obligations.</p> <p>All companies have continued to ensure that their statements are appropriately signed on behalf of the Board.</p>	<p><u>Exceeds expectations</u></p> <ul style="list-style-type: none"> • Bristol Water • Dŵr Cymru • Yorkshire Water <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Affinity Water • Anglian Water • Hafren Dyfrdwy • Northumbrian Water • Portsmouth Water • Severn Trent Water • SES Water • South East Water • South Staffordshire Water • South West Water • Southern Water • United Utilities Water • Wessex Water <p><u>Minor concerns</u></p> <p>Thames Water</p> <p><u>Serious concerns</u></p> <p>none</p>

2.3.5 Assurance Plan

Scope of Assessment	Key findings	Assessments
<p>In this assessment we looked for the following in companies' assurance plans.</p> <ul style="list-style-type: none"> • Explanation of the assurance 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. <p>This is a key test of whether companies are listening to their stakeholders and using their views to improve their provision and practices.</p>	<p>Generally the standard of assurance plans has improved again from last year, as many companies continued to respond to feedback from their stakeholders and updated their plans to reflect examples of good practice from others. Only one company has not met our expectations in this area this year and six companies have exceeded our expectations.</p> <p>The continuing improvement in standard has resulted in higher expectations and this has been reflected in our assessment criteria.</p> <p>Most assurance plans were well written and accessible for stakeholders. We found many examples of good practice, where companies had clearly updated their plan to reflect new areas of reporting and changes in significance, clear explanation of why particular areas had been targeted and the planned assurance activities.</p> <p>We also found room for improvement in some assurance plans. We found that several were very high level, with little or no detail on the planned assurance activities on targeted areas. It was not clear if some companies had updated their plan from the prior year as there was no change in the targeted areas identified.</p>	<p><u>Exceeds expectations</u></p> <ul style="list-style-type: none"> • Dŵr Cymru • Northumbrian Water • South East Water • South West Water • United Utilities Water • Yorkshire Water <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Affinity Water • Anglian Water • Bristol Water • Hafren Dyfrdwy • SES Water • Severn Trent Water • South Staffordshire Water • Southern Water • Thames Water • Wessex Water <p><u>Minor concerns</u></p> <ul style="list-style-type: none"> • Portsmouth Water <p><u>Serious concerns</u></p> <p>none</p>

2.3.6 Water Resources Management Plan and market information

Scope of Assessment	Key findings	Assessments
<p>Companies are required to produce a water resources management plan every five years setting out their approach to maintaining the long-term supply and demand balance in a way that delivers best value for customers and the environment for the next 25 years. We review and provide comments on draft water resource management plans to Defra and the Welsh government, in our capacity as a statutory consultee.</p> <p>Our assessment in the company monitoring framework considered the quality of the information in companies' draft water resources management plans for the period 2020 to 2025. The assessment considered the quality of data and internal consistency in the plans, the extent to which stakeholders had been involved in the development of the plans, how clearly plans have been communicated to stakeholders and evidence of assurance of the plans. The assessment also considered the quality of the water resources market information published by the company. The assessment considered the quality and completeness</p>	<p>Companies' performance in this area was mixed with some companies performing well and others not performing well. Two companies exceeded expectations in this area because they had demonstrated good levels of customer engagement, clear assurance processes and detailed board involvement.</p> <p>However, for some companies we had concerns with inconsistencies within company documentation relating to draft water resources management plans and in some cases between published draft water resources management plans and company water resources market information. There were also concerns for many plans about the clarity of data presented and its accessibility within the documentation. It is important that this material is clear and consistent for stakeholders to understand and engage with where necessary.</p> <p>We had serious concerns with two companies which presented material with material inconsistencies, missing information and lacked evidence of board assurance.</p>	<p>Exceeds expectations</p> <ul style="list-style-type: none"> • South East Water • South West Water <p>Meets expectations</p> <ul style="list-style-type: none"> • Bristol Water • Severn Trent Water • Wessex Water • Yorkshire Water <p>Minor concerns</p> <ul style="list-style-type: none"> • Affinity Water • Anglian Water • Dŵr Cymru • Hafren Dyfrdwy • Northumbrian Water • Portsmouth Water • South Staffs Water • Thames Water • United Utilities <p>Serious concerns</p> <ul style="list-style-type: none"> • SES Water • Southern Water

<p>of the data, the clarity of its presentation and its consistency with the company's draft water resources management plan.</p>		
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2.3.7 Casework

Scope of Assessment	Key findings	Assessments
<p>This assessment relates to the information that companies provide to us when we engage with them to carry out our investigation and enforcement functions. We looked at companies' responses to cases from 1 April 2017 onwards. Our assessment considered companies' responses to our requests for information. We checked that companies had provided complete, accurate information within our timescales, and engaged effectively with us.</p> <p>This assessment focused on our confidence in companies' information provision, and complemented the other assessments that focused on information published by companies.</p>	<p>There were eight companies for which we received information to inform cases during the assessment period, and we were pleased to see examples of good practice. For example, we saw the majority of companies providing timely and clear information that was of a quality that enabled us to progress our investigations. We did, however record serious concerns with one company. The concerns we had included not responding fully to our requests for information, providing information that was unclear and delays for information provision. This affected our ability to rely on the information to progress our investigation and required steps to seek further clarifications.</p>	<p><u>Exceeds expectations</u> None</p> <p><u>meets expectations</u></p> <ul style="list-style-type: none"> • Affinity Water • Anglian Water • Bristol Water • Northumbrian Water • South West Water • Thames Water • Wessex Water <p><u>minor concerns</u> none</p> <p><u>serious concerns</u></p> <ul style="list-style-type: none"> • Southern Water

2.3.8 Financial Flows

Scope of Assessment	Key findings	Assessments
<p>The requirement for companies to submit financial flows covering the periods 2015-16, 2016-17 and 2017-18 is one of the key ways in which we are improving the transparency of financial flows to investors.</p> <p>In our assessment, we focused on companies' compliance with the requirements of IN18/08 in terms of data quality and assurance as well as how meaningful the data and supporting commentary is to stakeholders.</p>	<p>This is the first year that financial flows data has been required and this, combined with it being a new and technically complex area, we have therefore reduced our expectations for companies' performance in this area this year than those we would expect to apply in any future assessment.</p> <p>Against this reduced standard, overall companies performed well. All companies submitted their data and, in general, met our expectations in providing consistent, accurate data within acceptable tolerance levels. Going forward we expect companies to provide more accurate data. We are updating the guidance notes to clarify this and explain the requirements. This will be incorporated into the Regulatory Accounting Guidelines Consultation 2018-19.</p> <p>Some companies provided supporting narrative with their data, which varied in quality, with some companies providing no narrative at all. Going forward we expect all companies to provide an appropriate level of commentary to convey a clear explanation of the data being presented.</p> <p>Evidence of companies having their data assured was less apparent, with few companies including confirmation that their data had received some level of assurance. As noted in IN18/08 we are incorporating the submission of financial flows data into the APR for 2018/19 and as such going forward it will be covered by</p>	<p><u>Exceeds expectations</u></p> <ul style="list-style-type: none"> • Anglian Water • Thames Water <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Affinity Water • Dŵr Cymru • Northumbrian Water • Portsmouth Water • SES Water • Severn Trent Water • South East Water • South Staffs Water • South West Water • United Utilities • Wessex Water • Yorkshire Water <p><u>Minor concerns</u></p> <ul style="list-style-type: none"> • Bristol Water • Hafren Dyfrdwy • Southern Water <p><u>serious concerns</u></p> <p>none</p>

	the audit / assurance requirements pertinent to the APR.	
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2.3.9 Long-term Viability Statement

Scope of Assessment	Key findings	Assessments
<p>This assessment focused on the transparency and assurance on companies' long-term financial resilience in their long-term viability statements (LTVS). It The assessment considered the approach they have taken to assessing their long-term financial viability, and the extent to which companies have followed our guidance for issuing long term viability statements as set out in IN18/04. In particular, it considers how long-term financial viability statements are linked to the wider risk assessment including mitigating actions, the extent to which companies have stress tested their projection, whether those stress tests are appropriate, whether they have clearly explained their approach and the evidence of assurance over the process.</p>	<p>The requirement to produce a long-term viability statement (LTVS) was new for 2016-17 and this is the second year that most companies have included a statement as part of their annual reporting.</p> <p>Our work identified that all companies have stepped up to the challenge of considering a forward looking period for their long term viability statement of at least 5 years and the majority of companies have gone further than that selecting review periods of between 7 and 12 years</p> <p>Overall there has been a significant improvement in the quality of the statements which companies have produced, although some companies still need to make improvements. Companies are now more clearly setting out the basis on which they have made their assessments, the level of stress testing they have undertaken and the extent to which they have obtained third party assurance.</p>	<p>Exceeds expectations none</p> <p>Meets expectations</p> <ul style="list-style-type: none"> • Anglian Water • Affinity Water • Bristol Water • Dŵr Cymru • Northumbrian Water • Portsmouth Water • Severn Trent Water • South East Water • South Staffs Water • South West Water • Southern Water • Thames Water • United Utilities • Yorkshire Water <p>Minor concerns</p> <ul style="list-style-type: none"> • Hafren Dyfrdwy • SES Water • Wessex Water <p>Serious concerns none</p>

2.3.10 Cost Assessment

Scope of Assessment	Key findings	Assessments
<p>Our assessment focused on the assurance of cost assessment data submitted in the annual performance report. The assessment of efficient costs is a key element of setting price controls. We need good quality, consistently reported cost assessment data to do this effectively. This year's assessment considered the completeness and accuracy of the cost assessment data, allocation of costs and assurance over data. It also considered how meaningful the data and supporting commentary is to stakeholders.</p>	<p><u>Data availability</u> We were pleased to see that all companies provided complete data sets for 2017-18 Annual Performance Report (APR).</p> <p><u>Reporting quality</u> All except one company (SES Water) were asked to provide more than one correction or clarification on their data and / or supporting commentary.</p> <p>Queries were raised across several tables and we were mostly satisfied with the responses received from companies, however some did give rise to numerous data changes.</p> <p>The amount and quality of the commentary provided varied significantly. Best practice included commentary highlighting variances to the prior year's data and changes to reporting methodology.</p> <p><u>Accounting separation</u> All companies published their accounting separation methodology on their websites, although some were more difficult to locate than others.</p> <p>Three companies demonstrated best practice by providing robust and detailed commentary on internal and external audit processes, and a breakdown of how costs have been allocated including changes in allocation methods.</p>	<p><u>Exceeds expectations</u></p> <p>None</p> <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Bristol Water • Portsmouth Water • SES Water • South East Water • Thames Water • United Utilities • Yorkshire Water <p><u>Minor concerns</u></p> <ul style="list-style-type: none"> • Affinity Water • Anglian Water • Hafren Dyfrdwy • Dŵr Cymru • Northumbrian Water • Southern Water • South Staffs Water • Severn Trent Water • South West Water • Wessex Water <p><u>Serious concerns</u></p> <p>none</p>

2.2.11 PR19 Initial Assessment of Business Plan - data consistency

Scope of Assessment	Key findings	Assessments
<p>As set out in the company monitoring framework – final position 2018 paper, we take account of how companies’ business plans have performed against our initial assessment tests on data quality and assurance as part of our 2018 CMF assessment. The relevant parts of the initial assessment tests are confidence and assurance tests 5 and 6.</p> <p>This assessment considers the relevant parts of confidence and assurance test 5 that we take into account in the CMF are:</p> <p>“To what extent does the company have a good track record of producing high quality data taking into account the company’s data submission, assurance process and statement of high quality?”</p> <p>We do not take into account the part of test 5 which relates to the companies’ 2018 CMF categorization in order to avoid double counting.</p>	<p>Overall, companies’ business plan data has been largely consistent with that in their 2017-18 APR with eleven companies meeting our expectations in this area.</p> <p>We did however identify minor issues with respect to the consistency between the business plan tables and annual performance report for six companies. The most common areas of inconsistency between business plan data and the APR were in cost assessment (all six companies) and outcomes (five companies).</p> <p>These issues are explained in more detail in the PR19 Initial Assessment of Business Plans.</p>	<p><u>Exceeds expectations</u> none</p> <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Bristol Water • Dŵr Cymru • Northumbrian Water • Portsmouth Water • SES Water • Severn Trent Water • South West Water • Thames Water • United Utilities • Wessex Water • Yorkshire Water <p><u>Minor concerns</u></p> <ul style="list-style-type: none"> • Affinity Water • Anglian Water • Hafren Dyfrdwy • South East Water • South Staffs Water • Southern Water <p><u>Serious concerns</u> none</p>

2.2.12 PR19 Initial Assessment of Business Plan - data quality

Scope of Assessment	Key findings	Assessments
<p>As set out in the company monitoring framework – final position 2018 paper, we take account of how companies’ business plans have performed against our initial assessment tests on data quality and assurance as part of our 2018 CMF assessment. The relevant parts of the initial assessment tests are confidence and assurance tests 5 and 6.</p> <p>Test 6 assesses how consistent, accurate and assured the company’s PR19 business plan tables are, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided</p>	<p>Overall, business plan data quality has been good. This is a substantial improvement on PR14 where a number of companies had to resubmit business plan data tables.</p> <p>We did however identify minor issues with the business plan data quality for two companies and we had serious issues with the business plan data quality for one company. For all three companies, we had concerns about data quality in the areas of cost assessment, financial modelling and risk and return and for one company we also had concerns in outcomes.</p> <p>These issues are explained in more detail in the PR19 Initial Assessment of Business Plans.</p>	<p><u>Exceeds expectations</u> none</p> <p><u>Meets expectations</u></p> <ul style="list-style-type: none"> • Anglian Water • Bristol Water • Dŵr Cymru • Northumbrian Water • Portsmouth Water • SES Water • Severn Trent Water • South Staffs Water • South West Water • Southern Water • Thames Water • United Utilities • Wessex Water • Yorkshire Water <p><u>Minor concerns</u></p> <ul style="list-style-type: none"> • Hafren Dyfrdwy • South East Water <p><u>Serious concerns</u></p> <ul style="list-style-type: none"> • Affinity Water

2.2.13 Wider assurance and information

Scope of Assessment

This assessment considers any information - across a range of publications, regulatory submissions and bilateral engagement - that impacted on 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.

Findings

This year, a number of companies appeared to ignore the requirement to (as set out in [IN18/07](#)) to provide a performance statement, which is a short statement setting out how the company is delivering for everybody who depends on its services and how the company has set its aspirations.

We also had a specific serious concern around one company's lack of communication with customers with respect to a restatement of revenues between retail and wholesale for 2015-16 and 2016-17 in the annual performance report (with some customers having been overcharged as a result of the initial error).

2. What happens next?

3.1 Assurance planning

As part of the CMF, companies already in the targeted or prescribed assurance categories should have conducted a risks, strengths and weaknesses assessment with their stakeholders, and published a statement by 30 November. Companies must then use their risks, strengths and weaknesses exercises to develop a draft assurance plan, for consultation, and publish a final assurance plan.

We expect companies to reflect on the feedback we provide and take it into account in their approach to assurance. Specifically for companies that move assurance categories their approach may need to be amended to reflect the requirements for the category they move to. Below, we set out what this means for companies who we have promoted or re-categorised into a category below its previous one.

2.2 Companies promoted from targeted assurance to self-assurance

This section applies to Dŵr Cymru which has moved to the self-assurance category.

We do not require companies in the self-assurance category to carry out a risks, strengths and weaknesses exercise, or develop and publish assurance plans, in the same way that we do for companies in other categories. This is because companies in this category have demonstrated that stakeholders can place confidence in the information that they provide.

Dŵr Cymru will already have published its risks, strengths and weaknesses statement and we expect it to continue to use this as a guide to inform its approach to assurance. However, Dŵr Cymru now has more flexibility in terms of how they approach assurance.

2.3 Companies promoted from prescribed to targeted

This section applies to Thames Water and Bristol Water which have moved to the targeted category.

We expect companies with targeted assurance to conduct a risks, strengths and weaknesses exercise, to identify priority areas for them to develop assurance plans. Thames Water and Bristol Water were assessed as prescribed last year, so will already have published this document. However, they will not now be required to complete the additional steps which only apply to prescribed companies.

2.4 Companies re-categorised from self-assurance to targeted assurance

This section applies to Northumbrian Water and South East Water, which have moved to the targeted assurance category.

We expect companies with targeted assurance to conduct a risks, strengths and weaknesses exercise, to identify priority areas for them to develop assurance plans. Companies in the targeted assurance category before we published this document will have published a risks, strengths and weaknesses statement by 30 November. However, given the date of this document, we would expect companies re-categorised from self-assurance to targeted assurance to publish this statement by 8 March 2019.

The requirement to publish a draft assurance plan for consultation (which may be published at the same time as the Risks, Strengths and Weaknesses exercise), and to finalise that assurance plan, applies to Northumbrian Water and South East Water, and all other companies in the targeted assurance category. We expect all companies in the targeted and prescribed categories to publish their final assurance plans in advance of publishing their annual performance reports data. In practice, most companies chose to publish their final assurance plans by 31 March last year.

If any company anticipates difficulties meeting this expectation, we advise them to contact Ofwat.

3.5 Companies re-categorised from targeted to prescribed assurance

This section applies to Affinity Water, which has moved to the prescribed assurance category this year.

As with companies with a targeted assurance status, companies who were already in the prescribed assurance category before we published this document will have conducted a risks, strengths and weaknesses exercise, and published this statement by 30 November 2018. For companies who have moved to the prescribed assurance category, they may choose to revisit their risks, strengths and weaknesses as a first step towards developing wider and more detailed assurance plans. We would expect this to be completed and published for consultation by 8 March 2019.

Having identified priority areas for improvement, companies in this category must seek independent external assurance in these cases, or by exception explain why this is not appropriate. Companies in the prescribed assurance category must also publish all of their

assurance plans on their website ahead of publishing their annual performance reports. In practice, we would expect this to be done by 31 March 2019

If any company anticipates difficulties meeting this expectation, we advise them to contact Ofwat.

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

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