

January 2019

Trust in water

# **Company monitoring framework: 2018 assessment Individual company report – Anglian Water**

## Company monitoring framework assessment

This document outlines the results of our 2018 company monitoring framework assessment of Anglian Water's assurance. It includes a summary of our assessment, and explains how we assess the company's assurance, and our findings.

In the company monitoring framework, we are looking for evidence that companies are meeting the high standards of assurance that stakeholders expect. We consider whether companies are providing clear, transparent and accurate data, and we assess the way companies present information to customers and other stakeholders. We also look at how transparent companies are in explaining, company structures, decision-making processes or any performance issues. For 2018 we also considered under the company monitoring framework data quality and consistency in company business plans submitted as part of the price review.

Further information on this year's assessment is available in our '[Company monitoring framework 2018 assessment](#)' publication. The framework is available in our '[Company monitoring framework final position paper](#)', which we updated in June 2018.

### Summary of our assessment

Considering the issues in the round, **we have retained Anglian Water in the 'targeted' assurance category.**

We have looked at how well the company has performed against the expectations we have set for each of our assessments, including whether they have:

- met or exceeded our expectations by a clear margin,
- demonstrated leading edge behaviour, and
- displayed behaviours that could lead to a reduction in trust and confidence.

We have also considered any other issues or information relevant to the confidence that can be placed in the company's information in making our overall assessment.

Whilst the company has exceeded our expectations in one area (financial flows), we have minor concerns in five areas (financial monitoring framework, outcomes, cost assessment, water resources management plan and market information and

business plan data consistency). Therefore we have retained the company in the targeted assurance category for 2018.

## Results of our assessment

### 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 we had minor concerns regarding the transparency and consistency of the information published by the Anglian Water in relation to financial monitoring. We identified significant inconsistencies in the financial metrics reported by the company in their published Annual Performance Report (APR) compared to the values submitted to Ofwat. The Company has acknowledged the issue and has demonstrated its commitment to report in line with expectations for 2018-19.

Our assessment: **minor concerns**

## 1.2 Charges engagement

### What we were looking for

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.

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, as per [IN17/09](#), including but not limited to:

- the published charging documents;
- Board assurance statements;
- assurance of companies’ engagement on and publication of charges information, where appropriate under the charging rules;
- the information companies provide in their Statement of Significant Changes (if applicable); and
- the handling strategies companies devise and put in place to address significant changes to charges.

Where we considered it appropriate, we supplemented the information by submitting queries to some companies, looking more widely at material published on company websites, and cross-checking against customers’ and stakeholders’ comments or complaints on charging.

This year our assessment has included new connection services charging rules for companies wholly or mainly in England, which came into force in April 2018, for the first time.

### What we found

Anglian Water’s assurance statement was clear and informative. We were impressed with Anglian Water’s handling strategies, on which it consulted with The Consumer Council for Water.

The company showed that it had consulted with stakeholders when creating its new connection charging arrangements. It would be useful to see how any feedback from stakeholders was taken into account. The company has included worked examples to explain how the charges have changed. Generally the new connections charging arrangements were clear and accessible with helpful tables showing costs of each possible addition to the charges.

Our assessment: **meets expectations**

## 1.3 Outcomes

### What we were looking for

We want to ensure that stakeholders understand what companies are doing to deliver the outcomes that customers expect and agreed at PR14. This year our assessment focused on the availability and accessibility of published performance data and how that information is communicated to stakeholders. We expect companies to be transparent, provide accessible information for customers and other stakeholders, and show that they have listened / responded to their customers and other stakeholders.

This is an important assessment, to ensure that stakeholders can understand whether companies are doing to deliver the outcomes that customers expect.

This year our assessment did not include the quality of companies' assurance over published data, to avoid duplication with the data consistency and data quality assessments in the initial assessment of company business plans (see sections 1.11 and 1.12).

### What we found

We have a minor concern that the Annual Integrated Report (AIR) document does not clearly explain the outperformance payments for the current reporting year, either in the commentary or in the summary of table 3A. The information is contained within the Annual Performance Report (APR), but we consider that its absence from the main AIR could lead to a reduction in confidence. We note that last year this information was available in the AIR, and therefore there has been a change in how the company is reporting this information.

To improve accessibility to customers and other stakeholders a further improvement would be to include a link to the Annual Performance Report on the Annual Reports page, and vice versa. Apart from this minor concern there is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Anglian Water has published performance information in its Annual Integrated Report 2018 (AIR) and Annual Performance Report 2018 (APR). In addition, the interactive 'How we're doing' performance website allows stakeholders to find out how the company is doing against its performance commitments. The AIR is on the 'Annual reports' page of its website; this is accessed using the 'More about Anglian Water' link available from the 'About us' link on the homepage.

The company's website, Annual Integrated Report and Annual Performance Report contain well-presented, clear and customer-focussed performance information. Reports for previous years are available on the company's website from the 'Archived annual reports' link on the 'Annual reports' page."

Our assessment: **minor concerns**

## **1.4 Water resources management plan and market information**

### **What we were looking for**

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.

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 had 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. In that respect, the assessment considered the quality and completeness of the data, the clarity of its presentation and its consistency with the company's draft water resources management plan.

This is the first time that water resources management plans and market information have been included within the company monitoring framework.

## What we found

Overall we have minor concerns in this area, principally due to inconsistencies between the plan narrative, planning tables and technical reports in the draft water resources management plan. Specific points were raised in the Ofwat representation on the draft plan, for example, the explanation of a key plan area, the problem characterisation, is inconsistent between the narrative and technical appendix ([Anglian Water draft WRMP19 response](#)). We also consider that the company should provide greater clarity on the assurance process followed and Board involvement for the final plan, reflecting the highly complex plan presented, in order to provide greater confidence in the information presented.

Our assessment: **minor concerns**

## 1.5 Long-term Viability Statement

### What we were looking for

This assessment focused on the transparency and assurance on companies' long-term financial resilience as set out in their long-term viability statements.

This assessment is important in providing Ofwat and other stakeholders with assurance that companies have the long-term financial resilience to meet the needs of consumers in the long-term.

The assessment considered the extent to which companies have followed our guidance for issuing long term viability statements as set out in [IN18/04](#) and in particular the approach they have taken to assessing their long-term financial viability. The assessment considers how their long-term financial viability statement linked to their wider risk assessment including mitigating actions, the extent to which companies have stress tested their projections, whether they have clearly explained their approach and the evidence of assurance over the process.

This is the first time that information on the long-term viability statement has been included as a separate category in the company monitoring framework (last year it was included within the “financial monitoring framework”).

## What we found

Overall Anglian Water has met our expectations with respect to the long-term viability statement included in the Annual Performance Report. The directors have provided a statement that the business has a reasonable expectation of being able to continue in operation and meet liabilities as they fall due for a period of five years to 31 March 2023, setting out the approach to the assessment and the basis for the period reviewed.

In support of this statement, the company states that it has performed extensive stress testing using severe, plausible and reasonable scenarios reflecting factors posing the greatest risk to the business. The company has published a detailed assessment of its principal risks, showing the potential impact on customers and the business, an assessment of the unmitigated risk along with the controls in place to manage and mitigate the risk and the company's assessment of the current status of the risk.

An area where improvement could be made is outlining the impact of the stress scenarios modelled on overall performance of the company, the ability of the company to service its debt and on its credit rating, as set out in the information notice [IN18/04](#). The statement lists potential shareholder equity injections as a mitigating action in the event of an unacceptable deterioration in the company's financial metrics. However, there is no indication of investor support for such actions. The company has set out the assurance undertaken on the assessment of long-term viability within the statement by signposting the Audit Committee report. No statement has been made regarding the use of third party assurance.

Our assessment: **meets expectations**

## 1.6 Financial Flows

### What we were looking for

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.

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.

This is the first time that information on financial flows has been included within the company monitoring framework.

## What we found

The company exceeded our expectations in this area as it published all the data tables within its Annual Performance Report with detailed accompanying narrative and its data was assured by its external auditors. We identified one minor variance on the company's data but this did not affect our confidence in the data.

Our assessment: **exceeds expectations**

## 1.7 Risk & compliance statement

### What we were looking for

This assessment is designed to test our confidence in companies' approach to compliance and risk management. The risk and compliance statement is intended to facilitate a company-led approach to compliance.<sup>1</sup>

Our assessment looks 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 year we have also taken into account relevant information provided in companies' annual reporting to ensure that they are consistent.

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<sup>1</sup> Our findings here, and throughout our company monitoring framework 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**

## 1.8 Assurance plan

### What we were looking for

In this assessment we looked for the following in companies' assurance plans:

- 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; and
- 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 company's assurance plan met our expectations. There is an adequate description of the company's assurance framework and approach with two separate stages of 'in-year' and 'year-end' technical and commercial areas. The scope of the exercise is all encompassing with a range of targeted areas outlined and additional risks identified alongside the new controls put in place. Evidence of good engagement with stakeholders has been included. More information on what specific assurance activities are being performed to address the specific risks identified could provide stakeholders with more confidence in the exercise.

Our assessment: **meets expectations**

## 1.9 Cost assessment

### What we were looking for

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.

This is the first time that cost assessment has been included as a separate category in the company monitoring framework (last year it was included within "wider assurance and information").

### What we found

We had minor concerns in this area. All cost assessment tables were complete with no missing data. However we had to raise several queries to seek explanation for mostly minor data variances where commentary did not provide sufficient explanation. Some of the queries led to data corrections. The accounting separation methodology was available but we had concerns about assurance (no details of assurance were provided) and cost driver choice.

Our assessment: **minor concerns**

## 1.10 Casework

### What we were looking for

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. We 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.

This assessment focused on our confidence in companies' information provision, and complemented the other assessments that focused on information published by companies.

## What we found

We closed two cases concerning Anglian Water in the assessment period. These were trade effluent determinations under section 122 of the Water Industry Act 1991. We assessed the information provided in those cases as being complete, accurate, provided on time and of a quality that enabled us to rely on it to progress the cases. Based on this, we consider Anglian Water met our expectations.

Our assessment: **meets expectations**

## 1.11 PR19 Initial assessment of business plans – data consistency

### What we were looking for

In September 2018, companies provided us with their business plans for the 2020-25 period. Our initial assessment of business plans tests how companies have met our expectations and requirements for meeting the needs of customers. 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

As set out in our '[Company monitoring framework final position paper](#)', updated in June 2018, 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 company monitoring framework assurance categorisation. The relevant parts of the initial assessment tests are confidence and assurance tests 5 which covers data consistency (considered here), and test 6 which covers data quality (covered later). The full scope of test 5 is:

“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, and our 2018 assessment of the company under the company monitoring framework?”

In our company monitoring framework assessment we have focused on the elements related to data consistency and not included the initial assessment of business plan element related to the company monitoring framework to avoid double counting.

## **What we found**

We found minor issues overall with the consistency of performance and financial data reported in the company's business plan tables with previous data submissions, due to inconsistencies between the company's business plan tables and Annual Performance Report in the areas of cost assessment and outcomes. In cost assessment one business plan table was materially different requiring a balancing adjustment although the overall impact was minor as totex is unaffected. In outcomes, we identified minor inconsistencies where The Consumer Council for Water data was misquoted and we also had concerns around the calculation of affordability benefits due to the inclusion of leakage allowance.

Our assessment: **minor concerns**

## **1.12 PR19 Initial assessment of business plans – data quality**

### **What we were looking for**

This section considers confidence and assurance test 6 which looks at:

“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?”

### **What we found**

Overall the business plan provides sufficient and convincing evidence that its PR19 business plan tables including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided are consistent, accurate and assured. We identified some issues within our assessment of the data tables in the policy area of financial modelling, but these were not considered to have had an impact on the overall confidence in the company's business plan data quality.

Our assessment: **meets expectations**

## **1.13 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 could potentially impact on confidence in the information produced by companies 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 found no issues that we considered relevant to our assessment of the company in relation to wider assurance and information this year.

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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