

January 2019

Trust in water

# **Company monitoring framework: 2018 assessment**

## **Individual company report – Dŵr Cymru**

## Company monitoring framework assessment

This document outlines the results of our 2018 company monitoring framework assessment of Dŵr Cymru'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 (CMF), 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 decided to promote Dŵr Cymru to the “self-assurance” category.**

Dŵr Cymru has demonstrated the consistently high standards required for a “self-assurance” company and met the criteria to be promoted to the self-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 checked that the company has demonstrated that targeted areas from the previous year have been adequately addressed and that there was an absence of problems with the company's assurance plan in the previous year. 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.

In line with our expectations for a self-assurance company, Dŵr Cymru demonstrated behaviours that met our expectations by a clear margin in most assessment areas and exceeded our expectations, demonstrating leading edge behaviour in two areas, risk and compliance statement and assurance plan.

For the purposes of this summary, we note that we had minor concerns in the areas of cost assessment and the water resources management plan and market information (WRMP). In cost assessment, we had to raise some queries which led to some data changes, however the company did provide evidence of external assurance over its accounting separation methodology. In relation to the company's WRMP, we noted some inconsistencies between the draft plan and planning tables and that the planning tables did not contain all the information needed to fully understand the company's plans. However, this was a presentational issue related to a misinterpretation of the requirements rather than indicative of a material underlying issue. The company also demonstrated some good practice in the WRMP, as customer and stakeholder engagement in the development of the plan was well evidenced, as was the internal and external assurance and the assurance on market information.

Considering the company's performance in the round, and that the company exceeded expectations in two areas, we do not consider our minor concerns discussed further below significant enough to prevent the company from being promoted to the self-assurance category.

In this document we have set out a brief summary of the assessments that we undertook as part of the company monitoring framework in 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 the company has met our expectations in relation to financial monitoring. Dŵr Cymru has followed our guidance, and the quality of data and the transparency of the published information met our expectations in many areas. 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 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

Dŵr Cymru provided a clear and concise assurance statement that met our expectations. To improve further, the company could explain how its engagement with stakeholders impacted its final published charging documents, and the actions it took in response to that engagement.

The company provided detailed information relating to its assessment of the impact of bill increases on a number of different household customer types. The company stated that there was no significant bill increase for business customers.

As Dŵr Cymru's area of appointment is wholly or mainly in Wales it was not required to publish new connection charging arrangements.

Our assessment: **meets expectations**

## 1.3 Outcomes

### What we were looking for

We want to ensure that stakeholders understand company performance to deliver the outcomes that the company committed to deliver 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 and responded to their customers and other stakeholders.

This is an important assessment, to ensure that stakeholders can understand what 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, in order 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

Dŵr Cymru has met our expectations for this assessment. There is convincing evidence that the company's reporting is transparent and accessible to customers and other stakeholders. Dŵr Cymru has published its Annual Performance Report 2017-18 (APR) documents on the 'Company Reports' page of its website; this can be accessed using the 'Library' link on the homepage. The information is clearly presented: the Annual Performance Report comprises an overview and parts 1 to 4. The 'Annual Performance Report 2017/18 - Part 3' document contains clear, easy-to-understand performance commitment ('Measure of Success') information, including helpful comparative and graphical information, and planned improvement summaries. Annual performance reports for previous years are available on the 'Company Reports' web page.

Our assessment: **meets expectations**

## 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 resources 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 had minor concerns in this area. The draft water resource management planning tables did not contain all the information needed to fully understand the company's plans, however, we considered this to be a presentational issue relating to the data tables linked to a misinterpretation of the requirements rather than indicative of a material underlying issue. The plan narrative provided a clear view of the company's position but inconsistencies between the plan and the planning tables were identified: for example, for the key metric of leakage reduction, a 15% reduction was proposed in the narrative but the figures in the planning tables did not align with this. However, in terms of good practice, customer and stakeholder engagement in the plan development was well evidenced, as was the internal and external assurance and assurance on market information.

Our assessment: **minor concerns**

## **1.5 Long-term Viability Statement**

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

This assessment focused on the transparency and assurance of 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 stress tested their projections, whether they 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 Dŵr Cymru has met our expectations for the long-term viability statement included in the Annual Performance Report. The directors have provided a statement that they have reasonable expectations that the company is financially resilient and can continue in operation and meet liabilities as they fall due for a period of twelve years to 31 March 2030.

The company has set out its risk management process with reference to the changes in risk trends over time. The company has set out its approach to long-term planning and has provided a clear description of the principal risks facing the company including the mitigation and management actions to be taken. The company has clearly set out the scenarios tested and the links to the principal risks with evidence of the key assumptions underpinning the scenarios, although there is little detail of the mitigating actions to be taken based on the outcomes of the testing.

The company has set out the internal business planning work stream to provide the assurance undertaken on the assessment of long term viability. There is clear signposting to the third party assurance where the forecasts have been assessed.

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 has met our expectations in this area. All data tables were complete. The company published its data tables, along with supporting narrative, in the Annual Performance Report and had these externally assured. However, the company originally submitted its Financial Flows using the wrong template. We do not consider that this had an impact on stakeholder confidence.

Our assessment: **meets 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.

### 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.

The company exceeded our expectations because the Board's statement is supported by a letter from the company's independent technical adviser which summarises the review it carried out on how the company assesses compliance with its obligations. This is valuable in increasing the confidence stakeholders can have in the statements being provided by the Board.

Our assessment: **exceeds expectations**

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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.

## 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 exceeded our expectations. The company has produced a strong assurance plan drawn from the risks, strengths and weaknesses exercise. There is an extensive outline of how stakeholders' and consumers' opinions have helped identify the targeted areas that require assurance. The three lines of defence table sets out the activities performed under each line, namely risks and controls, oversight functions and independent assurance. The eleven targeted areas are each thoroughly described in terms of the various assurance procedures applied. The plan also updates the principles of effective governance, transparency and public accountability and company culture. A table in the appendix clearly sets out what has changed in terms of targeted areas from the prior year, with good explanation and justification.

Our assessment: **exceeds 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 are 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**

Overall, we had minor concerns in this area. All of the company’s cost assessment tables were complete with no missing data. However, a significant number of queries were raised which were not fully explained by the commentary and several led to data changes. The company’s accounting separation methodology was available and has been externally assured.

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 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**

No assessment was made because we did not have any live cases involving Dŵr Cymru during the assessment period.

Our assessment: **not applicable**

## **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 assessment. The relevant parts of the initial assessment tests are: confidence and assurance test 5 which covers data consistency (considered here), and test 6 which covers data quality (covered below). 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**

Overall the performance and financial data reported in the company's business plan table was consistent with previous data submissions, and any issues identified were relatively minor, isolated or resolved through queries.

Our assessment: **meets expectations**

## 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 issues in financial modelling and in cost assessment with the treatment of transition expenditure and some minor inconsistencies between data tables and commentaries. However, these were not considered to have had an impact on our 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

This year, for the first time, all companies were required (as set out in [IN18/07: Expectations for monopoly company annual performance reporting 2017-18](#)) to provide a performance statement, setting out how the company is delivering for the stakeholders that rely on its services and how its aspirations have been shaped. In our assessment we considered whether or not the company had provided this statement, and whether it was compliant with the requirements of IN18/07.

The company has not provided a short statement setting out how it is delivering for those who depend on its services and how it has set its aspirations. While relevant information has been provided across its annual reporting, this is not in the form of a short statement as requested in IN 18/07.

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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