

January 2019

Trust in water

Company monitoring framework: 2018 assessment

Individual company report – Portsmouth Water

Company monitoring framework assessment

This document outlines the results of our 2018 company monitoring framework assessment of Portsmouth 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 (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 retained Portsmouth 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 met our expectations in all but two of the assessment areas (assurance plan and water resources management plan and market information), it has not exceeded our expectations or demonstrated leading edge behaviour in any areas and it has not adequately addressed the concerns that we raised on its

assurance plan in the previous year. 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 the company has met our expectations in relation to financial monitoring. Portsmouth Water has followed our guidance, and the quality of data and the transparency of the published information met our expectations in many areas. We raised two queries to obtain clarification on the financial metrics disclosed in its Annual Performance Report for reconciling Return on Regulatory Equity (RORE) components and the interest cover calculations. These clarification queries were not considered to have had an impact on the overall confidence in the information presented.

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

The content of Portsmouth Water’s assurance statement was generally good, with useful detail including their assurance methodology. They also contained helpful

information on how bills have changed, and how the external assurance was conducted.

The company provided useful detail on the stakeholder engagement undertaken in developing the new connection charging arrangements.

The new connection charging arrangements met expectations. Helpful, albeit basic, examples were provided in the appendix. Information on how charges for developer services are derived is given, but is briefer than we would expect.

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

Portsmouth Water 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. Portsmouth Water has published performance information in the 'Outcome Delivery Incentives 2015-2020 report - July 2018' (ODI) report, and also summary information in the 'Annual Performance Report' (APR) and

'Annual Report and Accounts 2018'. The Annual Performance Report is accessed using the 'Our Company', 'Financial Statements', and 'Regulatory Accounts' links from the homepage.

The ODI report is accessed using the 'News' and 'Publications' links from the homepage. The performance information in the ODI report is relevant and easy to understand. Where applicable, it has provided clear information relating to past performance and for several performance commitments comparative data shows how Portsmouth Water is performing compared to the rest of the industry. This gives customers and other stakeholders a clear view of how the company performs compared to other companies.

In future years it would be helpful if links to the ODI reports could be published on the same page as the Annual Report & Accounts and Annual Performance Report. This would allow customers and other stakeholders to find performance information in one place. Annual Performance Reports for previous years are available on the 'Regulatory Accounts' page. ODI reports for previous years are available on the 'Publications' 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 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 had minor concerns in this area, principally as the draft water resources management plan does not provide any evidence of Board assurance. This raises concerns about the robustness of plan development which was raised in Ofwat's representation on the draft plan ([Portsmouth Water draft WRMP19 consultation response](#)). We also considered that the description of zonal constraints in the market information could have been more clearly described. In the planning tables there were a number of problems with discounting of costs to determine net present values with some appearing to be entered incorrectly. However, most of the draft plan is consistently presented with all required data provided.

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 Portsmouth Water has met our expectations for the long-term viability statement included in the Annual Performance Report, via a clearly signposted reference to the Annual Report and Accounts. The Directors have provided a statement that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the seven year period ending 31 March 2025, clearly setting out the approach to the assessment and the basis for the period reviewed.

The company has clearly set out its approach to assessing the long-term viability of the company and has provided a clear description of the risk management process and principal risks facing the company, describing each risk and the potential impacts on the company and its obligations, the movement in the current risk exposure, as well as mitigation and management actions taken. The company has clearly set out the scenarios tested and the links to the principal risks, the outcome of the testing and the mitigating actions available. The summary of viability scenarios tested includes “A combination of 2 risk events (driven by operational risk scenario modelling”, however, the company could have provided more detailed description on the actual combined scenarios considered and how the scenario combinations have been developed as set out in the Information Notice.

Areas where the company could make improvements are more clearly setting out the internal review processes that have been followed and the extent to which the company has used any third party assurance to ensure the quality and robustness of its long term viability statement.

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 data was accurate within acceptable tolerance levels and the company has published its 2017-18 data with high level commentary. However there is no evidence of assurance over its financial flows.

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.¹

¹Our 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

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 sign off of the statement demonstrates clear endorsement from the entire 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.

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.

This is a key test of whether companies are listening to their stakeholders and using their views to improve their practices.

What we found

We have minor concerns regarding the company's assurance plan. The plan provides a description of the governance structure and while there is an adequate description of the roles of the Board and Audit committee, there is no logical follow on with the lower levels of governance. As was the case last year, the scope of the plan still does not specifically mention anything other than the Annual Performance Report and Outcome Delivery Incentives. There is a description of an external reporter but this does not tie in with the role provided by Atkins as a technical auditor. Also while KPMG are indicated as being the auditor for the statutory accounts, as was the case last year, there is no mention of a financial audit on the Annual Performance Report within the assurance plan. The section on feedback from stakeholders is brief with barely any discussion on the role of customer and external groups. As was the case last year there is no mention of what specific assurance is being targeted at the risks identified.

Our assessment: **minor concerns**

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

Overall the company met our expectations in this area. All cost assessment tables were complete with no missing data. We raised several queries to seek explanation for data variances where there was no supporting commentary, some of which led to 2017-18 and historical data corrections. Whilst the company's accounting separation methodology was not externally assured, it was available and is an example of best practice, particularly as it explains why the allocation methods used are most appropriate and gives clear explanation of variances to prior year.

Our assessment: **meets expectations**

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

No assessment was made because we did not have any live cases involving Portsmouth Water 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 tables was consistent with previous data submissions, and any issues identified were relatively minor, isolated or resolved through queries.

Our assessment: **meets expectations**

1.11 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 within our assessment of the data tables in the policy areas of financial modelling, outcomes, risk and return and cross cutting themes (water resources). However, these issues were not considered to have had an impact on the overall confidence in the company’s business plan data quality.

Our assessment: **meets expectations**

1.12 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 have potentially impacted 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.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

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