

January 2019

Trust in water

# **Company monitoring framework: 2018 assessment Individual company report – United Utilities**

## Company monitoring framework assessment

This document outlines the results of our 2018 company monitoring framework assessment of United Utilities' 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 consider United Utilities has demonstrated consistently that customers and other stakeholders can place trust and confidence in the information that it provides. Therefore **we have decided to retain United Utilities' assurance status as "self-assurance"**.

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.

In line with our expectations for a self-assurance company, the company demonstrated behaviours that met our expectations by a clear margin in most areas with examples of leading-edge behaviour, exceeding our expectations in three areas

(charges engagement, outcomes and assurance plan). We had a minor concern in one area, the water resources management plan and market information, however we did not consider this significant enough to require a change in the company's assurance category.

## 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 United Utilities demonstrated that it had 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 regarding the financial metrics disclosed in the company's Annual Performance Report (APR) relating to interest cover and derivation of retail exit in the return on regulatory equity (RORE) calculation. These clarification queries were not considered to have had an impact on the overall and confidence in the information presented.

Our assessment: **meets expectations**

## 1.2 Charges engagement

### What we were looking for

We have to date issued three charging rules: Charges scheme charging rules; wholesale charging rules; and new connection services charging rules (English undertakers). The rules require companies to publish their charges they set under these rules in Charges Schemes, Charges Schedule and Charging Arrangements respectively.

For this assessment, we focused on how well companies have engaged with their stakeholders about their charges and charging policies through their publications and actual interactions. We based our assessment on the 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 the engagement on and publication of charges information, where appropriate under the charging rules;
- the information companies provide in their Statement of Significant Changes; and
- the handling strategies companies devise and put in place to address significant movements in charges.

In some cases, we supplemented the information by submitting queries to companies, looking more widely at material published on companies' websites, and cross-checked against customers' and stakeholders' comments or complaints regarding 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

United Utilities have highly informative assurance statements. The documents are clear to read and provide good explanations of the new connection charges. United Utilities was able to clearly demonstrate effective consultation with The Consumer Council for Water and other stakeholders throughout the development of all three

charging schemes, showing the engagement undertaken and how feedback has been taken into account. United Utilities also conducted bill analysis on a variety of customers in order to assess whether charges were expected to increase.

United Utilities' new connection charging arrangements are clear and accessible, and contain seven worked examples which make them easier to understand.

Our assessment: **exceeds 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

United Utilities has exceeded our expectations for this assessment because the Annual Performance Report (APR) presents outcome delivery information clearly, with information for each performance commitment including an overview of performance to date, lessons learnt, action plan, and future performance (in terms of risk, issue, concern, change or opportunity). This year's Annual Performance Report also contains the company's predicted performance for the remaining two years of the AMP6 period (2018-19 and 2019-20).

In addition to the published documents, the company website provides direct content including a short video, and a summary guide which is designed to provide an overview of the company's performance.

United Utilities has also secured Plain English accreditation for the summary guide and the YourVoice panel review. This ensures that performance is transparent to customers and other stakeholders.

Overall there is clear evidence that the company's reporting is transparent and accessible to customers and other stakeholders. United Utilities has published performance information on the 'Performance' page of its website; this is accessed using the 'About us' link from the home page. The company's website and performance reports contain well-presented and clear performance information.

Annual performance reports and associated documents for the last three years are available on the 'Performance' web page.

Our assessment: **exceeds 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

We have minor concerns in this area. There are inconsistencies between the plan narrative and planning tables in the draft water resources management plan. For example, the representation of leakage reduction was inconsistent between the narrative and planning tables. The recorded benefits of third party options were also inconsistent between the plan narrative and the planning tables.

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 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 United Utilities has met expectations on the long term viability statement. The directors have provided a statement that they have a reasonable expectation that the company will be able to continue in operation and meet liabilities as they fall due over the five year period to 31 March 2023, clearly setting out the approach to the assessment and the basis for the period reviewed.

The company has clearly set out its approach to long-term planning by cross referencing to relevant areas of the statutory accounts. The company has provided a clear description of the risk management process and principal risks facing the company, describing each risk with the principal impacts on the company and its obligations, the current risk exposure and issues, as well as mitigation and management actions taken. The company has set out the scenarios tested and the potential impact on gearing and certain financial ratios and the ability of the company to maintain an investment grade credit rating, along with the mitigating actions available to manage the most severe scenarios.

While we found that overall the company met our expectations we identified one area for improvement. The company could provide a clearer explanation of the internal review processes it has followed. The company states that “this assessment has been through a robust internal review process, which has included scrutiny and challenge from the Audit Committee ...”. However there is no detailed description of the nature of this review or involvement of the Board in the governance process.

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

United Utilities met our expectations in this area. The company's data was accurate, the company published all three years of financial flows data within its Annual Performance Report, but with no supporting narrative, and had its submission assured by its external auditors.

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>

---

<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.

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

United Utilities has met our expectations in this area. The company's 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

Our assessment 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

Self-assurance companies have discretion over the exact approach and structure of assurance they undertake. Although they are not required to update and publish

assurance plans, where these are published we review them and provide feedback and an assessment on the quality of those plans in the same way as for companies in the targeted or prescribed categories. Any information about any company's approach to engaging with stakeholders and explaining their approach may feed into our company monitoring framework assessment, whether this is detailed in an assurance plan or not.

United Utilities chose to update and publish an assurance plan. The plan is of a high standard. It describes the involvement of stakeholders and consumers in determining assurance procedures. It sets out the targeted areas for review and explains that while there are a number of new targets from last year, some of the previous targets are no longer necessary. The assurance process is detailed but well explained for each of the targeted areas.

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 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

United Utilities' cost assessment tables were complete with no missing data. There was helpful commentary to support the tables and the data was robust. Although queries were raised, these resulted in only very minor data changes. The company's accounting separation methodology was available, although we considered that the company's assurance of the accounting separation methodology required some

improvement. There was insufficient detail provided on internal governance processes and no evidence of external assurance processes. These concerns were not significant enough to impact on stakeholder confidence.

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. 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.

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 United Utilities during the assessment period – a request to appoint an arbitrator and an appeal under section 105 of the Water Industry Act 1991. With regards to the appeal, we provided an assessment on this case in last year's assessment and we requested no further information during this assessment period. As such, we have provided no assessment. With regards to the request to appoint an arbitrator, no assessment has been provided as we did not request any information from United Utilities during the assessment period for this case.

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 no material issues within our assessment of the data tables.

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.

Ofwat  
Centre City Tower  
7 Hill Street  
Birmingham B5 4UA

Phone: 0121 644 7500  
Fax: 0121 644 7533  
Website: [www.ofwat.gov.uk](http://www.ofwat.gov.uk)  
Email: [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk)

January 2019

© Crown copyright 2019

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3).

Where we have identified any third party copyright information, you will need to obtain permission from the copyright holders concerned.

This document is also available from our website at [www.ofwat.gov.uk](http://www.ofwat.gov.uk).

Any enquiries regarding this publication should be sent to us at [mailbox@ofwat.gsi.gov.uk](mailto:mailbox@ofwat.gsi.gov.uk).

