

January 2019

Trust in water

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

## Company monitoring framework assessment

This document outlines the results of our 2018 company monitoring framework assessment of Wessex 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 Wessex 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.

We have minor concerns in three assessment areas (charges engagement, long-term viability statement and cost assessment) and the company has not exceeded our expectations or demonstrated leading edge behaviour in any areas. It has therefore not met the criteria to be promoted to the self-assurance category.

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. Wessex 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 (APR) relating to dividend yield and dividend cover and sale of the business retail business. 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

We had minor concerns in the area. The company reissued its new connection charging arrangements in June following a two month consultation where, amongst other things, it added some charges that it had inadvertently omitted (they were in

the 2017-18 charges). Although the changes were clearly documented as part of the consultation, that documentation was removed after the consultation. There was also a lack of proactive engagement and longer term documentation of the changes. The changes being necessary also had implications for the effectiveness of the original Board assurance.

In common with most companies, we expect the company's explanations of how charges are derived, consistent with the rules, to be improved next year.

The company did however perform well in some respects, notably in setting out clearly its effective engagement with stakeholders, and its explanation of its assurance processes.

Our assessment: **minor concerns**

## 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

Wessex Water has met our expectations for this assessment. There is sufficient evidence that the company's reporting is transparent and accessible to customers

and other stakeholders. Wessex Water has published performance information in the 'Annual Review Summary 2017-18' report, and also in the 'Annual Performance Report 2018'. The Annual Performance Report can be accessed using the 'About us' and 'Performance' links from the homepage. Annual performance reports for previous years are available from the 'Our results archive' on the 'Performance' 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, the company met our expectations in this area. Planning tables for the draft water resources management plan and market information were completed adequately. We noted some minor inconsistencies in the plan narrative and

planning tables but we do not consider that these materially impacted the plan outcomes or confidence in the data submitted.

Our assessment: **meets expectations**

## 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

We have minor concerns with respect to the long term viability statement set out by Wessex Water in the 2018 annual report and accounts. The directors have provided a statement that they have a reasonable expectation that the company will be able to fulfil its obligations including meeting its liabilities as they fall due for a period of seven years to 31 March 2025, setting out to some extent the approach to the assessment and the basis for the period reviewed.

The viability statement states that the directors have reviewed the principal risks contained in the Annual Review Statement. The same information is provided

alongside the viability statement within the annual report and accounts (pages 44-46 of the viability statement) and would be better referenced there. The company has presented a risk assessment that details the process undertaken in reaching the principal risks which are set out in the strategic report. However, there is little detail of the impact on the company or the likelihood of the risk occurring, the current status of the risk or the movement of the net exposure since the previous report.

The risk management process states that a process of reviewing whether risks are currently in our out of tolerance has been introduced but no results are provided from this review. There is little evidence that past delivery for customers or expected performance has been considered within the risk assessment. To improve the section the company could have considered some key financial risks such as inflation, interest rate and tax.

The statement evidences that stress and scenario testing has been completed with the process detailed and the key assumptions underpinning the scenarios have been clearly identified. The company has not stated how the combined scenarios were developed or how the impact of the testing may affect the overall performance of the company.

We also identified a minor concern with the internal assurance process. The statement provided lacked detail about the governance structure underpinning the assessment and any work undertaken internally beyond the risk management process. The company has signposted a report on the long-term viability statement that has been reviewed by a third party assurer.

Our assessment: **minor concerns**

## **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 as it has provided consistent, accurate data within acceptable tolerance levels. However the company's original submission was on the wrong template. Going forward, we expect the company to publish its data and to have it externally assured.

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.

---

<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. The assurance plan is combined with the company's risks, strengths and weaknesses exercise and highlights changes from the previous year. The plan clearly identifies the targeted areas and evidences the reasons for inclusion. The number of targeted areas has reduced from thirteen in 2017 to eight in 2018 and some of these are only broadly defined with actions identified at a high level. More detail around the planned assurance activities targeted at the identified risks would enhance trust and confidence in the assurance process to stakeholders.

There is evidence of good engagement with stakeholders and the plan clearly identifies where changes have been made in response to feedback. The plan references a very detailed regulatory assurance manual which contains a good summary of its overall assurance framework and covers the role of external auditors

and internal audit. It would be helpful if this was a direct link from the plan to aid navigation.

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 have minor concerns in this area. All cost assessment tables were complete however we had minor concerns as we had to raise a significant number of queries where more detailed commentary would have been helpful. This resulted in a minor data change for one of the 2017-18 tables and changes to historical data for one table. The accounting separation methodology was available and the company provided robust evidence of internal and external assurance over the document.

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 Wessex Water in the assessment period. These were trade effluent appeals under section 122 of the Water Industry Act 1991. The information provided in those cases was complete, accurate, provided on time and of a quality that enabled us to rely on it to progress the cases. As such, we consider Wessex Water meets 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 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**

## **1.12 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 in the data tables for risk and return and financial modelling, but this did not affect our overall confidence on 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 this statement.

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).

