

July 2019

Trust in water

PR19 draft determinations

Anglian Water – Securing confidence and assurance actions and interventions

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PR19 Draft Determinations: Anglian Water – Securing confidence and assurance actions and interventions

Following our initial assessment of plans, we categorised two types of actions for slow-track and significant scrutiny companies:

- required actions for companies which in general were required for draft determinations (or final determinations for some aspects of past delivery); and
- advised actions for companies to do by a specific date but that are not required for our draft determinations.

Table 1 below sets out the required and advised actions, a summary of the company's response to the action, our assessment of the company's response, and any further interventions we are making as part of the draft determination.

Each action has a unique reference. The prefix 'ANH' denotes the company Anglian Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Actions whose numbers are preceded with an 'A' denote required actions and actions whose numbers are preceded with a 'B' denote advised actions.

Table 2 below sets out any further interventions that are not resulting from an action which we are making as part of the draft determination.

Each further intervention that is not resulting from an action has a unique reference. The prefix 'ANH' denotes the company Anglian Water. The central acronym references the test area where the action has been identified, please see the 'PR19 draft determinations: Glossary' for a key to these acronyms. Intervention numbers are preceded with a 'C'.

For all other documents related to the Anglian Water draft determination, please see the [draft determinations webpage](#).

Table 1 – Anglian Water's response to required actions and interventions for draft determinations

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
Securing confidence and assurance	ANH.CA.A1	Required	Provide restated Board assurance that the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK and Welsh Government's strategic policy statements. The company's plan and subsequent query response did not provide sufficient and convincing evidence that the Board was also signing the statement in the 'Supporting information' in addition to its Board assurance statement.	1 April 2019	Anglian Water provides the following updated Board assurance statement: "We, the members of the Board are satisfied that the Plan will enable the Company to meet its current statutory and licence obligations. Insofar as future legislation and licence changes are consistent with the Government's strategic priorities, the Board is also satisfied that the Plan will also enable the Company to comply with future legal requirements."	No intervention required. The Board of Anglian Water provides a compliant assurance statement and in its revised and restructured board assurance statement, sufficient and convincing evidence that the statement is made by the company's full Board.	N/A
	ANH.CA.A2	Required	Provide Board assurance that large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers. We found no evidence of an assurance statement within the signed component of the Board assurance statement.	1 April 2019	Anglian Water provides the following Board assurance statement: "We, the members of the Board, are satisfied that large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers. We set out below some	No intervention required. The Board of Anglian Water provides a compliant assurance statement and in its revised and restructured board assurance statement, sufficient and convincing evidence that the	N/A

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
					of the evidence which supports this statement."	statement is made by the company's full Board.	
	ANH.CA.A3	Required	Provide Board assurance that the Board has identified the risks associated with delivering the plan. We found no evidence of an assurance statement within the signed component of the Board assurance statement.	1 April 2019	Anglian Water provides the following Board assurance statement: "We, the members of the Board, confirm that the material risks associated with delivering the Plan have been identified by the Board. We set out below some of the evidence which supports this statement."	No intervention required. The Board of Anglian Water provides a compliant assurance statement and in its revised and restructured board assurance statement, sufficient and convincing evidence that the statement is made by the company's full Board.	N/A
	ANH.CA.A4	Required	Provide Board assurance that the risk mitigation and management plans the Board has in place are appropriate. We found no evidence of an assurance statement within the signed component of the Board assurance statement.	1 April 2019	Anglian Water provides the following Board assurance statement: "We, the members of the Board, are satisfied that risk mitigation and management plans are in place and that such plans are appropriate. We set out below some of the evidence which supports this statement."	No intervention required. The Board of Anglian Water provides a compliant assurance statement and in its revised and restructured board assurance statement, sufficient and convincing evidence that the statement is made by the company's full Board.	N/A
	ANH.CA.A5	Required	Provide Board assurance that the company's business plan is financeable on both the notional and actual capital structure and the plan protects customer interests in both the short and long term. The original statement did not provide assurance that the plan protects customer interests in the short and long term.	1 April 2019	Anglian Water provides the following updated Board assurance statement: "We, the members of the Board, confirm that the Plan is financeable on both the notional and actual capital structure and that the Plan protects customer interests in both the short and the long term. This assurance is given on the basis that the Appointee WACC is 2.4% with an underlying cost of equity of 4.0% in line with the Ofwat guidance. We set out below the steps taken to provide this assurance together with some of the evidence which supports this statement."	No intervention required. The Board of Anglian Water provides a compliant assurance statement and in its revised and restructured board assurance statement, sufficient and convincing evidence that the statement is made by the company's full Board.	N/A
	ANH.CA.A6	Required	Provide Board assurance that the Board's governance and assurance processes will deliver resilience in the round and the long-term. We found no evidence of an assurance statement within the signed component of the Board assurance statement.	1 April 2019	Anglian Water provides the following Board assurance statement: "We, the members of the Board are satisfied that the Plan will deliver operational, financial and corporate resilience over the next control period and the long term through governance and assurance processes, taking account of our track record for performance."	No intervention required. The Board of Anglian Water provides a compliant assurance statement and in its revised and restructured board assurance statement, sufficient and convincing evidence that the statement is made by the company's full Board.	N/A

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
	ANH.CA.A7	Required	<p>On dividend policy the company is required to confirm that it is committed to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance' to include:</p> <p>clear Board commitment to publish detail on dividend policies in the APR and to signal changes to stakeholders; and</p> <p>commitment to transparency about how the dividend policy in 2020-25 takes account of obligations and commitments to customers for the dividend policy that is applied in 2020-25 and when determining dividends.</p> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019	<p>Anglian Water confirms its commitment to adopting the expectations on dividends for 2020-2025 as set out in the 'Putting the sector back in balance' position statement.</p> <p>The company confirms that when setting dividend payments, the board will have due regard to regulatory targets in meeting obligations to its customers. It highlights its commitment to publishing its dividend policy in the Annual Integrated Report and Annual Performance Report.</p>	<p>No intervention but further action needed by Anglian Water.</p> <p>The company provides sufficient evidence of its intention to meet the expectations on dividends as set out in 'Putting the sector in balance' position statement but its response lacks detail on how it will demonstrate annually to stakeholders that it has met them.</p> <p>It provides insufficient transparency as to:</p> <ul style="list-style-type: none"> i) the specific obligations and commitments to customers; ii) the level of performance delivery they will be considered against; and iii) how they will impact on dividends. 	<p>We expect Anglian Water to be transparent about how the dividend policy in 2020-25 takes account of obligations and commitments to customers and to demonstrate that in paying or declaring dividends it has taken account of the factors we set out in our position statement. We expect the company to respond to this issue in its response to our draft determination.</p> <p>We expect Anglian Water to demonstrate that its dividend policy for 2020-25 takes account of obligations and commitments to customers and other stakeholders, including performance in delivery against the final determination. In doing so, the company should refer to the examples of best practice we have identified among companies.</p>
	ANH.CA.A8	Required	<p>On executive pay the company is required to confirm that it is committed to adopt the expectations on performance related pay for 2020-25 as set out in 'Putting the sector in balance' to include:</p> <p>visibility and evidence of substantial linkage of executive remuneration to delivery to customers;</p> <p>clear explanation of stretching targets and how they will be applied;</p> <p>clearer explanation of how the policy will be rigorously applied and monitored;</p> <p>commitment to report how changes, including the underlying reasons, are signalled to customers; and</p> <p>commitment to publish the executive pay policy for 2020-25 once it has been finalised.</p> <p>Please provide an update on the steps you are taking to fully meet the expectations as set out in our putting the sector in balance position statement.</p>	1 April 2019	<p>Anglian Water states it is committed to meet the expectations set out in our 'Putting the sector in balance' position statement. It has reviewed its policy for 2020-25 the details of which are:</p> <p>The previous annual bonus scheme and LTIP will be replaced by a single scheme, the Deferred Bonus Scheme</p> <p>The new scheme will have three sets of measures (i) direct customer measures, including C-Mex and customer vulnerability, (ii) customer delivery measures, which will include a small number of ODIs which customers have identified as being their priority and (iii) a customer centric measure of efficiency.</p> <p>Stretching targets, will as a minimum, be based on those included in the final determination.</p> <p>The remuneration committee of Anglian Water will oversee and implement the policy. They will also have discretionary powers to vary or withhold payments for any deterioration in performance and also to look at performance in the round, to ensure focus is maintained on customers' needs.</p>	<p>No intervention but further action required by Anglian Water.</p> <p>The company's proposed policy demonstrates the company's commitment to move in the direction of the expectations set out in 'Putting the sector in balance.' position statement.</p>	<p>There remain some details to be finalised, for example details of the underlying metric and associated weightings. Once finalised, we expect Anglian Water to provide an update in its response to the draft determination to demonstrate that it is committed to meet the expectations we have set out in 'Putting the sector in balance' position statement.</p> <p>We expect the company and its remuneration committee to ensure its performance related executive pay policy demonstrates a substantial link to performance delivery for customers through 2020-25 and is underpinned by targets that are stretching. Trust and confidence can best be maintained where stretching performance is set by reference to the final determination and taking account of stretching regulatory benchmarks (for example delivery of upper quartile performance) and should include a commitment that it will continually assess performance targets to ensure targets will continue to be stretching throughout 2020-25.</p> <p>We expect the company to report transparently, in its annual performance</p>

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
					<p>The company will continue to publish details of its policy in the company's Annual Integrated Report.</p> <p>Anglian Water states that it has consulted with its online community about the high level principles that it is planning to apply and 82% of customers consulted support the proposed changes.</p>		report, about further updates to the development of its policy that will apply in 2020-25.
	ANH.CA.A9	Required	Provide Board assurance that the Board will monitor delivery of its outcomes to ensure they meet its relevant statutory and licence obligations. We found no evidence of an assurance statement within the signed component of the Board assurance statement.	1 April 2019	Anglian Water provides the following updated Board assurance statement: "We, the members of the Board, are confident that the Plan will deliver the outcomes and performance commitments set out in it and that they meet relevant statutory and licence obligations and take into account the UK Government's strategic policy statements. The Board also confirms that it will monitor delivery of those outcomes and performance commitments."	<p>No intervention required.</p> <p>The Board of Anglian Water provides a compliant assurance statement and in its revised and restructured board assurance statement, sufficient and convincing evidence that the statement is made by the company's full Board.</p>	N/A
	ANH.CA.A10	Required	Provide a revised financial model (based on version 16z released on 31 January 2019) and data tables on 1 April 2019.	1 April 2019	Anglian Water provides a revised financial model based on version 17z (as communicated to companies since the initial assessment of plans action was set) and data tables.	<p>No intervention required.</p> <p>The company provides a satisfactory response to this action.</p>	N/A
	ANH.CA.B1	Advised	Provide an updated financial model that does not overwrite our CPI(H) + RPI wedge calculation in 2020/21 and the TDS discount factor.	1 April 2019	Anglian Water's updated financial model does not overwrite the CPI(H) + RPI wedge calculation in 2020-21 and the Tonnes of Dry Solids (TDS) discount factor.	<p>No intervention required.</p> <p>The company provides a satisfactory response to this action.</p>	N/A

Table 2 – Further interventions for draft determinations

Intervention reference	Our assessment and rationale	Interventions
N/A	N/A	N/A

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.gov.uk

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