

July 2019

Trust in water

PR19 draft determinations

SES Water – Securing confidence and assurance actions and interventions

PR19 Draft Determinations: SES 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 ‘SES’ denotes the company SES 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 ‘SES’ denotes the company SES 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 SES Water draft determination, please see the [draft determinations webpage](#).

Table 1 – SES 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	SES.CA.A1	Required	Provide restated 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. The Board’s original statement did not contain this assurance.	1 April 2019	SES Water’s Board provides the following updated assurance statement: “The Board is confident that the Company’s investment programme is robust and deliverable, that a proper assessment of options has taken place, and that the options proposed are the best for customers. The Business Plan does not contain any single large investment proposals. The Board has been involved in decision making about the nature of our capital investment programme, particularly in relation to leakage reduction, trunk mains, the resilience programme and compulsory metering”	No intervention required. The Board of SES Water provides a compliant assurance statement.	N/A
	SES.CA.A2	Required	Provide restated Board assurance that the Board has identified the risks associated with delivering the plan. The Board’s original statement did not contain this assurance.	1 April 2019	SES Water’s Board provides the following updated assurance statement: “The Board has identified the key risks associated with delivery of the Business Plan and confirms	No intervention required.	N/A

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
					that it has put in place appropriate risk mitigation and management plans."	The Board of SES Water provides a compliant assurance statement.	
	SES.CA.A3	Required	Provide restated Board assurance that the risk mitigation and management plans the Board has in place are appropriate. The Board's original statement did not contain this assurance.	1 April 2019	SES Water's Board provides the following updated assurance statement: "The Board has identified the key risks associated with delivery of the Business Plan and confirms that it has put in place appropriate risk mitigation and management plans."	No intervention required. The Board of SES Water provides a compliant assurance statement.	N/A
	SES.CA.A4	Required	Provide restated 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 statement should clearly set out the steps taken to provide this assurance. The Board's original statement did not explicitly 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 long term.	1 April 2019	SES Water's Board provides the following updated assurance statement: "The Board confirms the plan is financeable on both the notional and actual capital structure and that the plan protects customer interests in the short and long term."	No intervention required. The Board of SES Water provides a compliant assurance statement.	N/A
	SES.CA.A5	Required	Provide restated Board assurance that the Board's governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term. The Board's original statement did not contain this assurance.	1 April 2019	SES Water's Board provides the following updated assurance statement: "The Board is satisfied that the Business Plan will deliver operational, financial and corporate resilience to at least 2030, through its governance and assurance process and taking account of its track record of assurance."	No intervention required. The Board of SES Water provides a compliant assurance statement.	N/A
	SES.CA.A6	Required	Provide restated Board assurance that the company's full Board has provided comprehensive assurance to confirm that it will monitor delivery of its outcomes to ensure they meet its relevant statutory and licence obligations and has explained how it will do this. The Board's original statement did not contain this assurance.	1 April 2019	SES Water's Board provides the following updated assurance statement: "The Board is confident that the Company will deliver the outcomes and performance commitments in its plan and is committed to ongoing monitoring of delivery."	No intervention required. The Board of SES Water provides a compliant assurance statement.	N/A
	SES.CA.A7	Required	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: position statement' to include: <ul style="list-style-type: none"> - clear Board commitment to signal changes to stakeholders. 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.	1 April 2019	SES Water confirms its commitment to adopt the expectations on dividends for 2020-25 as set out in 'Putting the sector in balance: position statement' including a clear Board commitment to signal changes to stakeholders. It further confirms that changes to the dividend policy will be clearly signalled to stakeholders using a range of channels including Annual Performance Reports. The company's dividend policy considers actual performance against regulatory and other commitments.	No intervention but further action needed by SES Water.	We expect SES 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.

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
	SES.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: position statement' to include:</p> <ul style="list-style-type: none"> - visibility and evidence of substantial linkage of executive remuneration to delivery to customers; - clear explanation of stretching targets and how they will be applied; - commitment to publish the executive pay policy for 2020-25 once it has been finalised. <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>In addition to the initial assessment of plans response SES Water provides further correspondence on its proposed policy for 2020-25.</p> <p>SES Water states that its Board fully agrees with Ofwat's expectations with regard to transparency about executive pay and in particular any performance related element that is linked to performance for customers.</p> <p>The company states that the final underlying metrics and associated weightings are yet to be determined but the metrics themselves will be more heavily weighted than currently to delivery for customers. The company also confirms that the updated policy will be published in advance of April 2020.</p> <p>The company sets out that its remuneration committee has full powers to determine and recommend awards, including discretionary powers to vary or veto performance awards.</p>	<p>No intervention required but further action needed by SES Water.</p> <p>SES Water'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 a number of details to be finalised, for example the final details of the underlying metrics and weightings. Once finalised, we expect SES 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 report, about further updates to the development of its policy that will apply in 2020-25.</p>
	SES.CA.A9	Required	The company is required to resubmit a full set of tables and Ofwat financial model (based on version 16z released on 31 January 2019) on 1 April 2019.	1 April 2019	SES Water provides a revised financial model based on version 17z (as communicated to companies since the initial	No intervention required.	N/A

Test area	Action reference	Action type	Action	Date required	Summary of company response to action	Our assessment and rationale	Required interventions
					assessment of plans action was set) and data tables.	The company provides a satisfactory response to this action.	
	SES.CA.A10	Required	Provide a revised App1 addressing issues associated with false dead band figures and realistic caps and collars figures for leakage and PCC. For App4, provide further explanation for use of own acceptability research over input from a 3rd party.	1 April 2019	SES Water provides a revised App1 and App4 that address the issues identified.	No intervention required. The company provides a satisfactory response to this action.	N/A
	SES.CA.A11	Required	<p>The company should explain the assurance process it has taken to develop its tax forecasts to demonstrate that amounts proposed for tax take account of customer interests, in particular to clarify the scope of the assurance work that was undertaken and the outcome of that work.</p> <p>The company should also remove the requested company specific adjustment from its plan and associated financial modelling or provide compelling evidence following the three-stage approach set out in the PR19 methodology if it continues to request a company specific adjustment.</p> <p>There is inconsistency between the notional cost of equity in financial model and data tables. The company should ensure its subsequent submission is consistent in this respect.</p>	1 April 2019	<p>SES Water provides insufficient evidence of the assurance work undertaken on its tax forecasts in comparison to the level of assurance provided by other companies.</p> <p>Please refer to SES.RR.A1 and SES.RR.A9 for details of SES Water's response to the second and third parts of this action and our assessments and rationale.</p>	<p>No intervention required for the Draft Determination but further action needed by SES Water.</p> <p>We consider that the company provides insufficient evidence of the assurance work undertaken on its tax forecasts when compared to the level of assurance provided by other companies.</p>	<p>SES Water is required to provide further evidence to explain the assurance process it has taken to develop its tax forecasts.</p> <p>Should the company not provide sufficient evidence in advance of the Final Determination, we will consider whether it is appropriate to make an adjustment to the tax allowance in the Final Determination to reflect this.</p>
	SES.CA.B1	Advised	<p>Provide an updated financial model (based on version 16z released on 31 January 2019) that addresses the following areas of inconsistency with business plan tables:</p> <ul style="list-style-type: none"> - Unexpected signage for Trade and other payables - Wholesale creditors ~ residential retail' - 'Capex on assets principally used by retail,' 'Cost of equity (used in WACC) - actual structure' and the 'Charge for DC schemes' is in the business plan tables but is missing from the company's financial model 	1 April 2019	SES Water provides a revised financial model based on version 17z (as communicated to companies since the initial assessment of plans action was set) that includes the missing values for 'Capex on assets principally used by retail,' 'Cost of equity (used in WACC) - actual structure' and the 'Charge for DC schemes.' The company states that it does not agree that the signage is incorrect for 'Trade and other payables - Wholesale creditors ~ residential retail'.	No intervention required. The company provides a satisfactory response to this action.	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.

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