

November 2016

Trust in water

Company monitoring framework

2016 assessment

Individual company report – Bristol Water plc

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Company monitoring framework assessment

This document outlines the results of our 2016 company monitoring framework (CMF) assessment of Bristol Water's assurance. It includes a summary of our assessment, and further information on the exercises we undertook to assess Bristol Water's assurance, and our findings.

In the context of our CMF, in order to be in the self-assurance category, we were looking for leading edge companies to meet the high standards of assurance that stakeholders expect. As well as providing clear, transparent and accurate data, we expect companies to present their information in a way that stakeholders can engage with. We were looking for companies who can demonstrate a successful and positive approach to stakeholder engagement, including in their approach to developing their assurance plans where appropriate. Transparency about company structures, procedures and decision-making processes is another important area of focus that helps companies to earn their stakeholders' trust and confidence.

Further information on this year's assessment is available in our '[Company monitoring framework 2016 assessment](#)' publication. The framework itself is available in our '[Company monitoring framework final position](#)', published in June 2015.

Summary of our assessment

In December 2015, we re-categorised Bristol Water's assurance status to 'prescribed'. This followed assurance shortcomings identified during Bristol Water's PR14 appeal to the CMA. As we stated in our '[Company monitoring framework final position](#)' paper, when we downgrade a company, we will not consider it for an upgraded assurance rating until 18 months after downgrading. We will therefore not consider changing Bristol Water's assurance status in this exercise. We have nonetheless provided our assessment of Bristol Water's assurance activities, to enable constructive feedback for the company. Note that from next year's assessment this rule will no longer apply – see section 4.1.4 of our Company Monitoring Framework 2016 assessment publication for further information on this.

Bristol Water has met our expectations across the majority of our assessments. Its data was in most cases accurate and well-explained. Bristol Water has demonstrated compliance with our principles of board leadership, transparency and governance, and provided clear, transparent information about its group structure, performance and compliance.

We did uncover data ambiguities in several of our assessments. For example, in the targeted tax review, we were concerned that a large tax reconciliation variance was not appropriately explained. We also found shortcomings with the data assurance summary and assurance plan. As we set out in our [‘Company monitoring framework final position’](#) paper, for us to promote companies to a higher assurance category we need to be satisfied that, amongst other things, there are no significant issues with their assurance and audit plans.

We have retained Bristol Water’s ‘prescribed’ status. We encourage Bristol Water to address our minor concerns, to improve its assurance status next time.

In this document we have set out a brief summary of the individual assessments that we undertook as part of our Company Monitoring Framework (CMF) assessment in 2016. The remainder of this document provides brief feedback on the company’s performance against each of our eleven assessment areas for this year:

Our view	Assessment
Meets expectations	Financial monitoring framework
Meets expectations	Charges schemes assurance
Meets expectations	Financial information
Meets expectations	Final 2010-15 reconciliation data submission
Meets expectations	Outcomes
Meets expectations	Compliance with principles of board leadership, transparency and governance
Meets expectations	Risk & compliance statement
Minor concerns	Assurance plan
Minor concerns	Targeted reviews
Minor concerns	Data assurance summary
Minor concerns	Evidence from casework activities

Results of each assessment exercise

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

The company engaged well during the process. We identified a minor error in relation to the disclosure of net debt and noted that they did not include a reference to the long term viability statement that was published in their statutory accounts within their annual performance report.

On reviewing the disclosures in relation to retail revenue, we identified a misclassification between household and non-household revenue which Bristol Water is seeking to address. The total revenue figures reported are correct and this error did not raise any concerns about the overall financial resilience of the company. Overall the company met our expectations for this assessment.

Our assessment: **meets expectations**

1.2 Charges schemes assurance

What we were looking for

Companies must publish their forward charges schemes in February each year. We checked that companies:

- published and assured their charges schemes;
- complied with our charging rules;
- assessed and explained significant movements in charges; and
- devised and put into effect effective handling strategies to address significant movement in charges.

This is an important assessment, because our charging rules are designed to protect customers through stable, transparent and predictable charging, in the absence of competition.

What we found

Bristol Water complied with our charging rules and met our expectations for this assessment. It provided evidence of assurance and reported no significant movement in charges.

Our assessment: **meets expectations**

1.3 Financial information

What we were looking for

In this assessment we looked for an absence of omissions or errors, where the companies reported their actual performance and to compare aspects of this performance to the assumptions made at the PR14 final determination. We did not look at all areas but chose four key risk areas to look at this year which were:

- wholesale total expenditure reporting;
- revenue and profit statements, disaggregated by price control;
- methodology statement on how costs are allocated across the price controls; and
- disclosures required for transactions with non-regulated associate companies.

We developed a log of the issues, errors and inconsistencies we uncovered as part of our analysis. We assessed the nature and number of issues identified to form a view on the quality of assurance in each company's published financial information.

This is an area where companies' data assurance is important, because a range of stakeholders will use this information and rely on its accuracy. It also informs important preparatory work for PR19.

What we found

We identified no issues during our review of the four areas we chose to look at this year.

Our assessment: **meets expectations**

1.4 Final 2010-15 reconciliation data submission

What we were looking for

In this assessment we assessed companies' adherence to our guidance ([IN15/17](#), December 2015) covering assurance, data and commentary requirements. Our guidance covered a range of requirements including data table completion, explanatory requirements, supporting evidence and board signoff.

This is an important area for companies' data assurance, because the submission is used to update the final reconciliation of the PR09 incentive arrangements for the 2010-15 period which directly impact the companies' revenue allowances they can recover from customers.

What we found

Overall we have no concerns with the assurance of the final 2010-15 reconciliation submission. The company met our expectations for the submission in respect of all the elements that are relevant to the company.

We noted minor data ambiguities in and across tables which when queried were easily corrected and we considered them to be in part a consequence of interpreting our guidance in a not unreasonable way.

Our assessment: **meets expectations**

1.5 Outcomes

What we were looking for

In this assessment we looked for:

- reliable, timely and appropriate information for customers and other stakeholders;
- transparent and accessible information for customers and other stakeholders;
- appropriate data assurance;
- evidence that the company has listened and responded to its customers and other stakeholders; and

- compliance with the outcome delivery and reporting proposals as set out in the PR14 final determination company-specific appendix.

This is an important assessment, to ensure that stakeholders can understand what companies' are doing to deliver the outcomes that customers expect.

What we found

Overall, Bristol Water provided accurate, reliable information in table 3A (outcome performance) and its annual reporting commentary, however we did find instances where information was inaccurate or inconsistent. We considered that these particular instances did not reduce stakeholders' trust and confidence.

There is sufficient evidence that the company's reporting is transparent and accessible to customers and other stakeholders.

There is clear evidence that the company has been transparent with customers and other stakeholders about the data assurance that has been put in place. In particular the publication of 'Bristol Water - 2015-16 Annual performance report and GSS payments assurance report' from Atkins provides independent technical assurance. This provides customers and other stakeholders with assurance that the assessment of the company's performance has been reviewed by an independent technical auditor who has challenged the company's data, methodologies, processes and supporting evidence and ensured objective reporting.

There is sufficient evidence that the company has provided the wider assurance to demonstrate it is listening to customers and delivering the services they want and can afford.

There is evidence that the company is implementing its proposals for outcome delivery and reporting that were published in the PR14 final determination company-specific appendix. However we were unable to find evidence that the commitment to publish details of performance against the performance commitments every six months has been met.

Our assessment: **meets expectations**

1.6 Compliance with principles of board leadership, transparency and governance

What we were looking for

In this assessment we looked for how the information which the company provided demonstrated that it has met our board leadership transparency and governance principles. This included the provision of:

- transparent governance information, including group structure and on director remuneration;
- evidence that the board of the regulated company has full control over the company, including its long-term strategy, and is fully focused on its obligations; and
- clear information on the composition of the board and its sub-committees.

This is an important assessment, designed to give stakeholders trust and confidence that the company is structured appropriately and transparently, and complies with its legal obligations.

What we found

The information provided in the company's annual reporting has demonstrated that it has met our board leadership transparency and governance principles.

Our assessment: **meets expectations**

1.7 Risk & compliance statement

What we were looking for

In this assessment we looked 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 assessment is designed to give stakeholders trust and confidence in companies' approach to compliance and risk management. The statement is intended to facilitate a company-led approach to compliance.

What we found

The company has provided a clear statement that it 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. The statement has been appropriately signed to demonstrate endorsement by the whole 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 framework and their approach to it.
- Evidence of stakeholder engagement undertaken to develop the plan.
- Clear scope, and rationale for targeting specific areas.
- 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 published final assurance plan introduces the company monitoring framework and sets out the context for the document. There is evidence of engagement with stakeholders, listing feedback received. The final plan is clear on scope which appears sufficient. It includes a detailed summary of the company's approach to assurance that is very technical and could have been presented in a simpler format. All areas of reporting are listed out, we consider it would have been more helpful to readers to distinguish which of these are high risk areas and included a cross-reference to the risks, strengths and weaknesses exercise previously carried out. Whilst the plan covers 2016-17 reporting rather than the expected 2015-16, this is

not considered a serious concern as an assurance plan is a live document which this company has had to refresh during the year.

A lengthy methodology from the company's technical assurers has been included in the plan. We considered that this was not sufficiently accessible for a general audience. A summary of the work they will carry out could have been more helpful. There is limited information on the role of the financial auditors.

Our assessment: **minor concerns**

1.9 Targeted reviews

What we were looking for

In this assessment we looked at:

- companies' tax reconciliation notes published in the annual performance report to see if they acted on our tax targeted review recommendations; and
- improvements companies have made to 2015-16 reporting in response to our sludge and water resources targeted review.

These are two areas we have recently highlighted for companies to focus on, and we want to see evidence that they are taking steps to improve their assurance.

What we found

The published tax reconciliation note identified some large variances, but the narrative provided did not aid understanding of how these differences had arisen.

The published cost allocation methodology statement clearly set out the changes made for 2015-16 reporting as a result of the CEPA recommendations made following our targeted review into sludge and water resources.

Our assessment: **minor concerns**

1.10 Data assurance summary

What we were looking for

We checked that companies have:

- published a data assurance summary for 2015-16 activities;
- covered the targeted areas from the company's assurance plan; and
- provided an overview of the company's assurance methods and processes, the audit exercises carried out and their findings.

This assessment is designed to ensure that companies provide accessible assurance to stakeholders, to build trust and confidence in their data publications.

What we found

The company published a brief summary of the data assurance carried out for the annual performance report. As a company in the prescribed assurance category the coverage should align with the assurance plan, whereas the data assurance summary focused only on the non-financial tables in the annual performance report.

The data assurance summary is written as a self-standing document and is prominent on the company's website. However, as it is written in a technical style, it assumes the reader is knowledgeable and well informed about assurance practices and the water sector context, which is not always the case.

Our assessment: **minor concerns**

1.11 Casework

What we were looking for

In this assessment we looked at companies' responses to cases from 1 April 2015 onwards. We considered the company's response 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 trust and confidence in companies' information provision, and complemented the other assessments that focused on information published by companies.

What we found

We have opened two cases concerning Bristol Water since April 2015. They are determinations under section 45 and 51B of the Water Industry Act 1991 (the Act). In the determination under section 45 of the Act, Bristol Water provided clear information and a further breakdown where requested to help with our enquiries in a timely manner. The document was well structured and answered the questions to our request for information clearly. In the determination under section 51B of the Act, Bristol Water has responded to three requests for information generally responding fully and clearly although some clarification has been required. Bristol Water also responded reasonably timely, although for the first two requests for information Bristol Water responded a couple of days after the deadline. We have also had a determination under section 42 of the Act open against Bristol Water since November 2008. In this determination, we had to seek clarification on some areas, and different responses were provided at different times. Given the quantity of information being sought and the complex nature (length of the dispute) we felt this to be a minor shortcoming.

Further to the above, we have also taken account of Bristol Water's activity in a case under the Competition Act 1998 which we closed in March 2015 but have been receiving quarterly reports concerning the commitments that form part of the case since then. In this case Bristol Water has not been fully complying with its commitments such as not receiving Board approval regarding its submissions to us before sending the submission to us.

Our assessment: **minor concerns**