

November 2017

Trust in water

# Company monitoring framework

2017 assessment

Individual company report – Bristol Water

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## Company monitoring framework assessment

This document outlines the results of our 2017 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 the CMF, we are looking for evidence that companies are meeting the high standards of assurance that stakeholders expect. As well as checking that companies are providing clear, transparent and accurate data, we also look at the way companies present their information which should be accessible to customers and other stakeholders. We also look at how transparent companies are in how they explain any performance issues, company structures, and decision-making processes. We consider that all these elements contribute to the trust and confidence that customers and other stakeholders place in them.

Further information on this year's assessment is available in our [Company monitoring framework 2017 assessment](#) publication. The framework itself is available in our '[Company monitoring framework final position](#)', which we updated July 2017.

### Summary of our assessment

We have seen evidence of improvement from last year in this year's assessment of Bristol Water.

Considering the issues in the round, we have retained Bristol Water in the prescribed category.

We have looked across how well the company has met or exceeded our expectations in all of our assessments, including whether they have demonstrated that they have met expectations by a clear margin, demonstrated leading edge behaviour, and whether there were any behaviours that we considered led to a reduction in trust and confidence. Taking all of this into account, while the company met our expectations in most areas, we found evidence of behaviour that we considered leads to a reduction in trust and confidence.

Based on all of the relevant evidence, **we have decided to retain Bristol Water's assurance status as "prescribed"**.

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In this document we have set out a brief summary of the assessments that we undertook as part of our Company Monitoring Framework in 2017.

## **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**

Overall Bristol Water demonstrated that it had followed our guidance, and the quality of data and the transparency of the published information met our expectations. We identified a number of errors in relation to the Company's retail costs and profit margins for 2015-16. These were identified and already taken into account for the previous year's CMF assessment. We noted that the company has now corrected these and included that data in their 2016-17 reporting.

Our assessment: **meets expectations**

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## 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 the charges they set under these rules in Charges Schemes, Charges Schedule and Charging Arrangements respectively. They must publish these documents in February each year, which is at least two clear months before they take effect.

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 on the following:

- 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.

### What we found

Bristol Water's Board Assurance Statement noted that the company had consulted CCWater in a timely and effective manner on its charges.

The company explained that it had reached an agreement with CCWater on how much its customers should contribute to support a new social tariff for customers receiving pensions' credit, but it did not say how much this contribution was.

The company did not expect any of its bills to increase by more than 5%. As a further improvement, the company could have supported this statement with, for example, a table showing the level of bill increases for a representative set of customers.

Our assessment: **Meets expectations**

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## 1.3 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

#### Reliable, timely and appropriate information

Overall, Bristol Water has provided accurate, reliable information in table 3B (sub-measures) and table 3D (service incentive mechanism). Bristol Water is not covered by the Abstraction Incentive Mechanism (AIM) and therefore did not provide information in table 3C.

We have concerns about the accuracy and reliability of some of the information provided in table 3A (outcome performance), and in the 'Annual Performance Report 2017' available on the [Performance](#) page of the Bristol Water website. We found instances of inaccurate information, and we consider that, in the case of these particular instances of inaccuracy, this reduced stakeholders' trust and confidence. This includes instances of the company reporting that actual performance is within the outperformance payment deadband, when outperformance payments do not apply.

During the reporting year Bristol Water updated the non-household night use (NHHNU) component of its leakage performance commitment. The company has proactively engaged with us about this. It has been transparent about how it has reviewed the assumptions in its calculations, and it has explained the effect that this has had on the measurement of leakage and per capita consumption. Although the NHHNU component does not feature in the text of the company's 'PR14 final

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determination company-specific appendix', we consider that the inclusion of the updated data results in a noticeable change to the reported leakage figures, and that the company should adopt the approach set out in [Information Notice 16/07 Changes to outcomes in the 2014 price review company-specific appendices](#). In the Information Notice we set out the process that we expect a company to take if it suggests an improvement to a performance commitment during 2015-20. One feature of the process is that the company should dual report its leakage figures using its PR14 methodology and the proposed new methodology. This is to make sure that all the publicly available information on company performance against the PR14 commitments and associated outperformance payments and underperformance penalties is consistent.

### **Data assurance**

Bristol Water has published the [Annual Performance Report – Assurance Report 2017](#) produced by its independent reporter, Atkins. The publication of this easily accessible independent opinion provides transparency for customers around the company's assurance processes and activities. The independent reporter audited the performance commitments methodology and data. However we have a concern that the assessment excluded the audit of the underperformance penalties and outperformance payments in table 3A. As this is where we found data inaccuracies, we would expect the external audit to include this in future years. The publication of independent opinion on the company's calculation of its underperformance penalties and outperformance payments would increase the trust and confidence that we and other stakeholders have in this data.

### **Wider assurance**

There is sufficient but limited evidence that the company has provided the wider assurance to demonstrate it is listening to customers. For example, we note that the details of the 2016-17 performance against the performance commitment levels were presented to the company's Customer Challenge Group (CCG). However an area where there remains room for further improvement is the publication of easily accessible stakeholder feedback, such as a statement from the CCG to provide opinion on the company's progress in delivering its performance commitments.

### **Transparent and accessible information**

There is sufficient evidence that the company's reporting is transparent and accessible to customers and stakeholders. Bristol Water has published performance information on the [Performance](#) page of its website; this is accessed using the 'About us' link on the homepage. Within the 'Annual Performance Report 2017', where the company has not met its 2016-17 performance commitment levels it has provided a short explanation of the performance issue. Going forward, the company

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should consider making the performance summary commentary within the annual performance report less regulator-focused and more accessible to stakeholders.

### **PR14 final determination company-specific appendix**

There is sufficient evidence that the company is implementing its proposals for outcome delivery and reporting as set out in the 'PR14 final determination company-specific appendix'.

### **Restated 2015-16 performance commitment levels**

Accurate reporting of performance is important for trust and confidence. Company assurance processes are key to this and we want to incentivise high quality assurance. But we recognise that some information is, by its nature, uncertain and may need to be revised. Our assessment looks at assurance in the round; if serious errors were in place and undetected then our assessment reflects this.

As part of its 2017 annual performance reporting Bristol Water restated the 2015-16 performance level for three of its performance commitments:

- F1: leakage – the company's review of its leakage calculation assumptions identified that the assumption for one component, non-household night use (NHHNU) was last updated in 2007. It carried out an updated assessment of this figure in 2017 and this has resulted in a revised performance level for 2015-16.
- J3: value for money – the company's 'Annual Performance Report 2017' says "A review of our reporting methodology during the year as part of our assurance process has identified that the value reported for this measure in 2015/16 was incorrect, in that it had been calculated as the mean average score of responses to the survey rather than through the definition set out in the PR14 Final Determination, which was consistent with the basis on which the targets were set. We also note that the target for this measure was set by inclusion of all respondents to our survey, rather than just operational contacts as indicated in the FD, and have adjusted our reporting methodology in line with this approach. Correction of this method results in a reduction in the 2015/16 performance from 78% as previously reported to 70%, slightly below the performance commitment for that year."

The restated performance figure means that the 2015-16 performance commitment level has now not been met. The performance commitment has a reputational incentive and therefore the restated value has no financial impact.

- K1: ease of contact – the company's Annual Performance Report 2017 says "A review of our reporting methodology during the year as part of our assurance process has identified that the value reported for this measure in 2015/16 was
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incorrect, in that it had been calculated as the mean average score of responses to the survey rather than through the definition set out in the PR14 Final Determination, which was consistent with the basis on which the targets were set. Correction of the methodology results in a change to our reported figure for 2015/16 to 95%, rather than 93% as previously reported."

The new restated figure is higher than was reported in 2016 but it still remains under the 2015-16 PCL. The performance commitment has a reputational incentive and therefore the restated value has no financial impact.

We have explained our expectations (and assessed the company's approach) in relation to the F1 (leakage) performance commitment within 'reliable, timely and appropriate information'.

For the J3 (value for money) and K1 (ease of contact) performance commitments, we found that the company had provided sufficient explanation for the restated 2015-16 performance level. The impact is visible to customers and we consider that the size and impact of the restatements were not significant enough to affect trust and confidence in the overall view of performance, nor individual commitments, or our previous view of company assurance. We would have concerns if we felt that errors appeared systemic, but this does not appear to be the case.

We consider that outcomes is an important assessment to ensure that stakeholders can understand what the company is doing to deliver its performance commitments. In view of the number of instances where we have concerns this year, we found that this was significant enough to raise a serious concern in this assessment area.

Our assessment: **serious concerns**

## **1.4 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;
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- 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 as part of the company's annual reporting has demonstrated how it is meeting our board leadership transparency and governance principles.

Our assessment: **meets expectations**

## 1.5 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.<sup>1</sup>

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<sup>1</sup> Our findings here, and throughout our CMF 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.

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## 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 sign off of the statement demonstrates clear endorsement from the entire board.

Our assessment: **meets expectations**

## 1.6 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 company has taken steps to make the assurance plan less technical and more suitable for a general audience compared to last year. The scope and coverage of the plan recognises the requirements for a prescribed company. The table in appendix two covers all risk areas and assurance activities clearly. There is limited information provided on the role of financial auditors. The targeted areas identified are broad for example it refers to 'regulatory accounts' where it would be helpful to break this down to see different sections subject to different assurance activity. The document introduces the company monitoring framework and provides background and context. There is evidence of engagement with stakeholders and revised output from its risks, strengths and weaknesses exercise.

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Our assessment: **meets expectations**

## 1.7 Data assurance summary

### What we were looking for

We checked that companies have:

- published a data assurance summary for 2016-17 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 has overhauled the format and increased the content from the summary it published last year. However, the summary is written by the company's external assurer. As such it does not appear to be owned by the company and lacks a clear statement from the company about the company's responsibilities for providing and reporting robust information or detail about how the company's assurance plan for 2016-17 was developed.

While there is information about the individual assurance activities performed and their findings, the summary has a narrow scope covering two sections of the annual performance report plus the cost assessment data, water resource management plan and GSS payments. There is limited reference to the assurance on the accounting information.

As a company in the prescribed assurance category the coverage should align with the assurance plan, whereas the summary focuses only on the non-financial tables in the annual performance report.

Our assessment: **minor concerns**

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## 1.8 Casework

### What we were looking for

In this assessment we looked at companies' responses to cases from 1 April 2016 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 closed two cases concerning Bristol Water during the assessment period - a new connection determination and a requisition determination. There was no information provided by the company in relation to these cases during the assessment period so they do not form part of this assessment. A further case, a self-lay appeal, was closed in May 2017 and we continue to monitor Bristol Water's commitments under the Competition Act 1998 (CA98). We assessed that Bristol Water meets our expectations regarding its CA98 commitments compliance reporting, however, there were minor concerns regarding the information provided to us for the self-lay appeal. We found it was difficult for us to rely on the information provided to progress the case and we needed to seek additional clarification to address gaps and inconsistencies in the information provided.

Our assessment: **minor concerns**

## 1.9 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 impacted on trust and confidence in the information produced 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.

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## **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.

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