

January 2019

Trust in water

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

## Company monitoring framework assessment

This document outlines the results of our 2018 company monitoring framework assessment of Bristol 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, we also 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 the company monitoring framework is also considering 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 decided to promote Bristol Water to 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.

The company has demonstrated that it has acted upon feedback that we provided, and has made significant improvements from the previous year. It has exceeded our expectations for the risk and compliance statement and met our expectations in all but three of the other specific assessments areas (financial flows, financial monitoring framework and charges engagement).

The company has met the requirements for being promoted to the targeted assurance category. It has not shown evidence of behaviour that leads to a reduction in the trust and confidence stakeholders can place in it. It has had no significant problems with its assurance plan and has been in the prescribed category for at least 12 months. Companies in the prescribed assurance category in the previous year can only move up to the targeted category in one year.

In this document we have set out a brief summary of the assessments that we undertook as part of the company monitoring framework in 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 we had minor concerns regarding the transparency and consistency of the information published by the company in relation to financial monitoring. We identified a number of issues relating to an error in calculating the effective tax rate and inconsistencies in financial instruments reported in different tables of the Annual Performance Report (APR). These issues were resolved in responses from the company. We also raised a clarification query asking for details of the sale of business retail in their adjusted return on regulatory equity (RORE) and the response

was only a brief summary with a commitment that a note would be included in their republished Annual Performance Report.

Our assessment: **minor concerns**

## 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

Bristol Water's assurance statement complied with our requirements, although it was quite brief and with limited information on stakeholder engagement. A full list of percentage changes from the previous year's tariffs were used to demonstrate that there were no variances above the 5% threshold.

We had minor concerns that the company's new connection charging arrangements were quite technical, and difficult to understand in places with poor formatting making the document more difficult to understand. The document was not in plain English, and a degree of prior knowledge was required to understand it. Little explanation was given for many of the charges. For example there was an unexplained charge for "In Situ Grade C20 or C30". Instead, there was a table of charges with minimal description. There was a brief description of how the income off-set worked.

There was limited evidence of consultation with stakeholders on how the new connections charges were developed.

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 at 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, 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

Bristol 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.

Bristol Water has published performance information in its Annual Performance Report 2017/18, and in addition the interactive 'Bristol Water performance in 2017/18' gives stakeholders another way of engaging with the information. The report and interactive performance summary can both be accessed in the 'Reports & Documentation' section of the 'About' page accessed from the homepage. Previous years' performance reports can also be found in this section. It is clear that the company has considered the feedback in relation to transparency and accessibility that we gave in our previous CMF assessments. For example, it has published a mid-year performance report in line with its PR14 final price control determination notice company-specific appendix, and has considered how to make its information less regulator-focused.

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 have 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 has been included within the company monitoring framework.

## **What we found**

Overall the company met our expectations in this area. There were some examples of best practice, exceeding expectations in terms of Board involvement and customer engagement, but this is tempered by inconsistent presentation of some data, for example leakage.

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

Overall Bristol Water has met expectations for the long-term viability statement included in the Annual Performance Report, through clear sign-posting to the Annual Report and Financial Statements.

The directors have provided a statement that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the ten year period ending 31 March 2028, clearly setting out the approach to the assessment and the basis for the period reviewed.

The company has clearly set out the risk management process and principal risks facing the company, describing each risk and the potential impacts on the company and its obligations, the link to the company's strategy, the movement in the current risk exposure, as well as mitigation and management actions taken. The company has clearly set out the scenarios tested and the links to the principal risks, the outcome of the testing on long-term viability and the mitigating actions available, including a shareholder commitment to maintaining a credit rating above a minimum investment grade. However, the company could have provided further detail regarding the combined impact of multiple scenarios and how the scenario combinations have been developed as set out in the Information Notice.

The company has set out the assurance undertaken on the assessment of long-term viability within the statement by signposting the internal audit report completed by the Audit Committee. They have stated a third party assurer has been used to assess the long-term viability statement as part of their normal audit duties with signposting to the external audit report.

Our assessment: **meets expectations**

## 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

We had minor concerns around the accuracy of the data and how the company interpreted our guidance, which meant that we had to send more than one query to the company in some areas. The company's submission has been assured by its external auditors.

Our assessment: **minor concerns**

## 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 their annual reporting to ensure that they are consistent.

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<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 sign off of the statement demonstrates clear endorsement from the entire Board.

The company exceeded our expectations because the Board's statement is supported by a letter from the company's independent technical auditor which summarises the review it carried out on how the company assesses compliance with its obligations. This is valuable in increasing the confidence of stakeholders in the statements being provided by the Board.

Our assessment: **exceeds 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 assurance plan published by the company met our expectations. Throughout the plan there is strong evidence of stakeholder engagement. The company has provided an extensive list of sixteen targeted assurance activities identified in their recent Statement of Risks, strengths and weaknesses exercise and the company provides adequate explanation as to how they will control these risks. Assurance activities are detailed in a further annex. The role of the technical auditor has been

greatly expanded since the last plan and this is adequately discussed. However the description of the role of the financial auditor is more of a general summary of audit rather than specifically looking at those issues relevant to Bristol Water.

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

The company met our expectations in this area. All cost assessment tables were complete with no missing data. The changes required to historical data were resubmitted promptly with sufficient explanation, and only a further two queries were raised for 2017-18 data. The company provided clear and proportionate commentary to support its data tables. The company's accounting separation methodology was available and has been externally assured.

Our assessment: **meets expectations**

## 1.10 Casework

### What we were looking for

This assessment relates to the information that companies provide to us when we 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 one case during the assessment period - a self-lay appeal. We provided an assessment for this case in last year's assessment and requested no further information in this assessment period. As such, we have provided no assessment.

We continue to monitor Bristol Water's commitments under the Competition Act 1998. In terms of Bristol Water's compliance reporting, we consider it met our expectations with all compliance reports being submitted on time and being clear and comprehensive.

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 assurance categorisation. The relevant parts of the initial assessment tests are confidence and assurance tests 5 which covers data consistency (considered here), and test 6 which covers data quality (covered later). 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

We found no material issues overall with the consistency of performance and financial data reported in the company's business plan tables with previous data submissions. We identified minor inconsistencies between the data submitted in the company's Annual Performance Report and its business plan tables relating to cost assessment but we did not consider that these materially affected our assessment.

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 within our assessment of the data tables in the policy areas of financial modelling and risk and return, but these issues were not considered to have had an impact on the overall confidence in 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 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

We found no issues that we considered relevant to our assessment of the company in relation to wider assurance and information this year.

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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