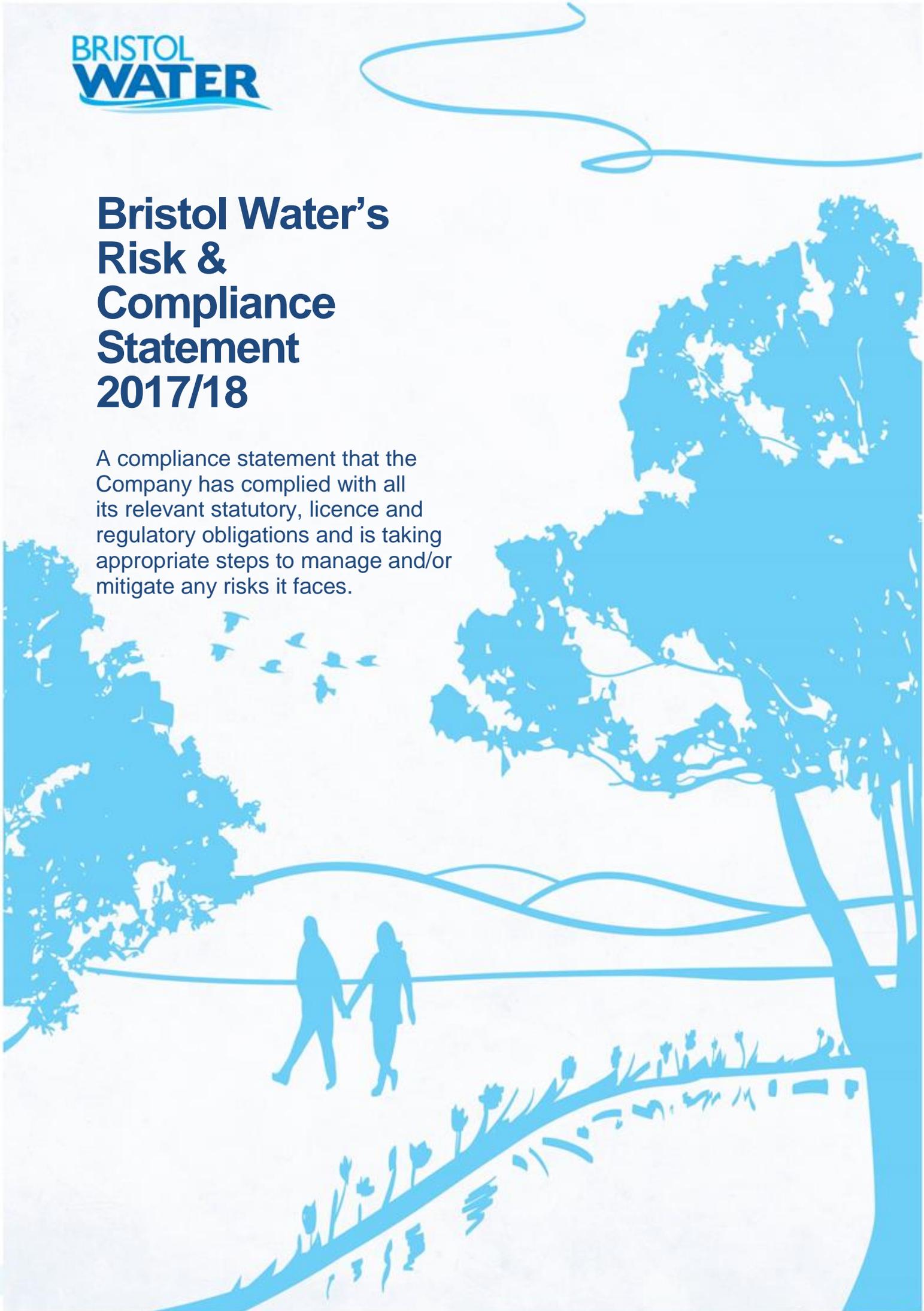


Bristol Water's Risk & Compliance Statement 2017/18

A compliance statement 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.



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1 Introduction



This document is Bristol Water's Risk & Compliance Statement, which explains that the Board of Bristol Water 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.

Most people in England and Wales cannot choose their water and wastewater supplier. It is therefore important for customers' trust and confidence in these vital public services that Bristol Water is accountable for the price and service we deliver. An important part of this is the information we publish about how we have performed.

Ofwat requires the Company to produce an annual Risk and Compliance statement which confirms that the Board:

Considers the Company has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations.

Has satisfied itself that the Company has sufficient processes and internal systems of control to fully meet its obligations. Where the Company considers it is unable to provide such a statement, it should state that this is the case and explain why it is unable to do so.

Has satisfied itself that the Company has appropriate systems and processes in place to allow it to identify, manage and review its risks. Where any material or potential material risk is identified, the statement should set out the steps the company is taking or will take to manage and/or mitigate those risks.

The Risk & Compliance Statement is therefore one of Ofwat's key regulatory tools and allows the Company to demonstrate accountability to our customers and demonstrate to the regulator that we are complying with their obligations.

Bristol Water's Board is accountable for the quality and transparency of the information we provide on our performance. This Risk and Compliance Statement is provided in accordance with Ofwat's expectations as set out in Information Notice IN15/18¹, to confirm that the Board considers that the Company has complied with all relevant statutory, licence and regulatory obligations.

This statement has been reviewed by our technical assurers, Atkins. Their view on our approach is included in appendix 1.

This Risk and Compliance Statement is designed to confirm that the Board considers that the Company has complied with all relevant statutory, licence and regulatory obligations. The Board has also approved an additional statement, which further explains our long-term ambitions (included in appendix 2). These statements allow Bristol Water to demonstrate our accountability to customers and stakeholders that we have complied with our obligations.

This document should be read in conjunction with the following documents:

- Statement of Risks, Strengths and Weaknesses of Information: this provides details of our risk and assurance framework
- Assurance Plan 2018/19: that sets out our proposed approach to assurance of the information that we will publish during 2018/19 (including that which relates to 2017/18 performance)
- Data Assurance Summary 2017/18: this document summarises our assurance activities that we have put in place to provide reliable, accurate and complete data, together with the wider assurance activities that we have undertaken or initiated to ensure that we can effectively listen to our customers and other stakeholders' views and continue to deliver the services that they want and can afford.

All of these documents can be found on our website at <http://www.bristolwater.co.uk/about-us/performance/>.

¹ IN 15/18 'Expectations for company annual performance reporting 2015-16', https://www.ofwat.gov.uk/wp-content/uploads/2015/12/prs_in1518annualperformancereport.pdf

2 Risk & Compliance Statement

2.1 Confirmations

The Board of Bristol Water:

- 1) is committed to deliver the outcomes for our customers and to meet our other obligations;
- 2) is confident of our ability to meet our customers' expectations in an efficient and effective manner.
- 3) considers that it has a full understanding of, and is meeting, its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- 4) has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- 5) has appropriate systems and processes in place to allow it to identify, manage and review its risks.

2.2 Compliance with legislation and licence conditions

The Board of Bristol Water confirms that it is compliant with the following requirements:

- a) that there are sufficient rights and assets available to enable a special administrator to run the business, in accordance with licence condition K;
- b) that trade with associates is at arm's length, as required by licence condition F6;
- c) a statement is published in the regulatory accounts explaining links between directors' pay and standards of performance, as required by section 35A of the Water Industry Act 1991;
- d) in particular, the Board of Bristol Water confirms that it has complied with Condition F.6A.1, namely:
 - that Bristol Water shall at all times act in the manner best calculated to ensure that it has adequate
 - financial resources and facilities, and
 - management resources,

to enable it to carry out the Regulated Activities (including the investment necessary to fulfil its obligations under the Appointment).

Bristol Water's Board is accountable for the quality and transparency of the information we provide on our performance. We can confirm that the company has complied with all its relevant statutory, licence and regulatory obligations in all material respects, is taking appropriate steps to manage continued deliver of obligations and that the information published in the following sources is accurate, reliable and appropriate for all our customers and stakeholders to understand:

- 1) 2017/18 Annual Performance Report (including our regulatory accounts and our 2015-2020 performance commitments)
- 2) Information of PR14 reconciliation performance, provided in feeder models for wholesale revenue, retail revenue and totex
- 3) 2018/19 Customer tariffs and charges schedule
- 4) 2017/18 Annual Report (including our statutory accounts)

- 5) 2017/18 Guaranteed Standard Scheme (GSS) payments
- 6) Data on performance on New Connections, reported via Water UK
- 7) Complaints reporting to CCWater
- 8) Water quality information provided to the Drinking Water Inspectorate
- 9) Information provided to the Environment Agency (including the annual update to our Water Resources Management Plan)
- 10) Data provided to the Discover Water website, an industry-backed dashboard designed to provide clear and trustworthy information for customers

In making this statement the Board has reviewed the outcome of the assurance processes supporting the above information and considered any areas where the Company has not met its regulatory obligations in full. Potential areas of departure from full compliance are disclosed in appendix 2.

Our Annual Performance Report provides a full explanation of our delivery against our performance commitments, including explanations for any that have not met our targets and the plans in place to recover any shortfalls in performance. We also highlight where improved data and audit processes mean that we have better information concerning performance or data reported in previous years. The Board receives regular reports on performance and challenges management to ensure that performance is continually reviewed and improved and data reporting is as accurate and as timely as possible.

Our independent technical advisor on our regulatory reporting process (Atkins) has reviewed the approach and process we follow in assessing compliance with our obligations. A copy of their Assurance Statement is provided in Appendix 1.

Signed by the Board of Bristol Water (overleaf):

| Name | Role | Signature |
|----------------|---------------------------|--|
| Keith Ludeman | Chairman |  |
| Paul Francis | Independent Non-Executive |  |
| Tim Tutton | Independent Non-Executive |  |
| Hajime Ichishi | Non-Executive |  |
| Indradoot Dhar | Non-Executive |  |
| Paul Malan | Non-Executive |  |
| Mel Karam | Chief Executive Officer |  |
| Mick Axtell | Chief Financial Officer |  |

3 Risk & Compliance Statement Explained

3.1 Background

Ofwat requires the Company to produce an annual Risk and Compliance statement which confirms that the Board:

- Considers the Company has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations;
- Has satisfied itself that the Company has sufficient processes and internal systems of control to fully meet its obligations. Where the Company considers it is unable to provide such a statement, it should state that this is the case and explain why it is unable to do so; and
- Has satisfied itself that the Company has appropriate systems and processes in place to allow it to identify, manage and review its risks. Where any material or potential material risk is identified, the statement should set out the steps the company is taking or will take to manage and/or mitigate those risks.

This is one of Ofwat's key regulatory tools and allows the Company to demonstrate accountability to our customers and demonstrate to the regulator that we are complying with their obligations. Ofwat set out their expectations for monopoly company annual performance reporting 2017-18 in [Information Notice IN18/07](#).

This document should be read in conjunction with the following documents:

- Our Annual Report and Annual Performance Report for 2017/18. The Annual Report contains a review of our performance and the principal risks and uncertainties that Bristol Water faces, and how these are monitored and mitigated.
- Statement of Risks, Strengths and Weaknesses of Information 2017/18: this provides details of our risk and assurance framework for data reporting. Our risks, strengths and weaknesses assessment considers our track record of performance on meeting our obligations, as well as the complexity of the information and wider risks such as organisational change, in order to ensure that the data we publish and the explanation of it is sufficiently assured and accurate.
- Assurance Plan 2018/19: that sets out our proposed approach to assurance of the information that we will publish during 2018/19
- Data Assurance Summary 2017/18: this document summarises our assurance activities that we have put in place to provide reliable, accurate and complete data, together with the wider assurance activities that we have undertaken or initiated to ensure that we can effectively listen to our customers and other stakeholders' views and continue to deliver the services that they want and can afford.

All these documents can be found on our website at <http://www.bristolwater.co.uk/about-us/performance/>.

3.2 Company Monitoring Framework

In June 2015, Ofwat published its '[Company monitoring framework](#)', setting out its expectations for the quality and transparency of the information published by water companies.

This framework assessed companies into one of three categories, 'self-assurance', 'targeted' and 'prescribed', with increasing levels of assurance required.

Ofwat [confirmed to Bristol Water in December 2015](#) that it was moved to the 'prescribed' assurance category, with immediate effect from that date. This statement sets out the approach to assurance that the Company has undertaken in light of that categorisation.

Ofwat published its annual update to the Company monitoring framework classification in November 2017 which maintained Bristol Water in "prescribed status". The next update to the monitoring framework is expected in January 2019, alongside Ofwat's Initial Assessment of 2019 price review (PR19) business plans.

The company monitoring framework states that all companies are required to provide:

- 1) explicit sign off on the assurance that has been provided;
 - a) full transparency on the audit procedures; and
 - b) a summary of the outcome of the assurance that has been carried out.
- 2) Companies in the targeted and prescribed categories are also required to:
 - a) carry out an exercise with stakeholders to target issues to address; and
 - b) publish a statement on this in the autumn of each year before they submit information to Ofwat.
- 3) Companies in the prescribed categories are also required to:
 - a) publish their assurance plans for all information before it is reported; and
 - b) incorporate independent external assurance as part of the assurance plans for the areas of the most significance or with the greatest risk to customers.

In November 2017 Ofwat published its third annual assessment² of water companies' final assurance practices. Ofwat maintained Bristol Water in "prescribed" status. We have taken a number of significant steps to improve both the accuracy and transparency of our reporting, so it is clear to customers and stakeholders how we are meeting our obligations and the Board at all times are acting in the best interests of customers:

- This year we have published a mid-year performance report³. This report provides an update on our progress against our performance commitments in the first half of 2017-18. It set out for customers and stakeholders how well we are meeting our targets and what actions we are taking.
- Our mid-year performance report also included a summary from Atkins as our independent third party technical assurers that the information we published was accurate, reliable and complete. We communicated our report in a range of ways, using our website and social media and we plan to expand this further during 2018.

² Company monitoring framework: 2017 assessment, <https://www.ofwat.gov.uk/publication/company-monitoring-framework-2017-assessment/>

³ Bristol Water's Mid-Year Performance Report 2017/18, <https://www.bristolwater.co.uk/wp/wp-content/uploads/2017/12/2017-18-Bristol-Water-Mid-year-Report.pdf>

All aspects of our performance are therefore clear to customers and stakeholders in a way that can be trusted.

- The Bristol Water Challenge Panel is an independent group of interested and expert stakeholders whose role is to ensure that customer voice remains at the heart of Bristol Water's decision-making. They publish a report on our performance as part of our annual report, as well as using these discussions to challenge us that our future plans reflect the views of customers as well as the interests of other stakeholders and the environment.
- In publishing our annual customer charges, we included more information on customer bills and other tariffs, such as details on the number of customers on social tariffs and how this affects other customer bills. We identified from updated usage information that we should reduce our assessed charges for customers who want to be metered but we are unable to do so. We acted quickly in light of this new information and reduced 2018/19 charges for these customers.
- Ofwat raised concerns with some inaccuracies in our Outcomes data table in the Annual Performance Report. We agreed with Ofwat's improvements to the definitions of our reporting to reduce the risk of inaccuracies. A key risk was in the reporting of leakage performance, where new information improves the level of leakage. The Board committed to calculate rewards and penalties for our leakage performance without the benefit of these technical data changes. This allows us to report the most accurate leakage figure, but customer bills will reflect our operational delivery of our ambitious target of a 12% reduction between 2015 and 2020.

3.3 Risk Assessment and Audit Plans

In November 2017 we published our updated [Statement of Risks, Strengths and Weaknesses](#) of Information. This document consults with stakeholders and customers on the risks, strengths and weaknesses of the data we assess and report on, and how we aim to ensure trust and confidence in the information we provide. The risk assessment methodology was approved by the Audit & Risk Assurance Committee (ARAC) and noted by the Bristol Water Board. Following our risk assessment, we engaged with our key stakeholders to seek their views on our proposals. We also discussed our risk strengths and weaknesses with the Bristol Water Challenge Panel (BWCP) and reflected their feedback as part of our consultation process.

We incorporated the feedback received from stakeholders into our [Draft Assurance Plan](#), which was published as a consultation document in January 2018, and we engaged with our stakeholders, including Ofwat and the BWCP, as part of our consultation process. This document set out our intended approach to assurance of our key information related to 2017/18 performance and included our updated risk assessment. The draft assurance plan reflected Ofwat's 2017 Company Monitoring Framework and the reasons Bristol Water were retained in "prescribed" status. We published our Final Assurance Plan on our website in March 2018 after incorporating the outcome of our consultation process. This document can be viewed on our [website](#).

This year we asked the Bristol Water Challenge Panel (BWCP) for comments on how we could make improvements to the plan to ensure it was more customer-friendly, before it was published for consultation. The published document reflected their guidance.

During 2017/18 we have carried out additional assurance, via:

- a) An audit by Frontier Economics on the methodology used to set our customer tariffs;

- b) A mid-year audit by Atkins of the methodologies used to report against ODIs, and mid-year performance data. A statement was published by Ofwat providing assurance that the data was accurate and the description of performance fair for our mid-year performance report;
- c) For performance commitments with a financial outcome delivery incentive (ODI), we extended the scope of our independent technical auditors, Atkins, to include the audit of our performance commitments' underperformance penalties and outperformance payments.
- d) An additional process audit of our GSS payments was also undertaken by Atkins in January 2018.

For 2017/18 reporting, we identified the following areas that were high risk for reporting and we ensured these had additional focus during the assurance processes throughout the year:

| | | | |
|---|---|--------------------|---------------------------------------|
| Leakage | Unplanned Customer Minutes Lost | Bursts | Low pressure |
| Tariffs and charges | Per Capita Consumption | GSS Payments | Population at risk from asset failure |
| Supply Interruptions | Developer Services Information | Water turbidity | Water resources market information |
| Special cost factors (also known as cost adjustment claims) | NHH market (operational performance) data | Biodiversity index | Energy efficiency |

During 2017/18 we also carried out several pieces of assurance work related to our PR19 Business Plan, due for submission on 3rd September 2018. The assurance activity carried out will be detailed in a separate Board statement accompanying that submission.

3.4 Board Approval

The Board of Bristol Water confirms that it is satisfied that the assurance approach followed as detailed above meets the requirements of 'prescribed status' as set out in the Ofwat Company Monitoring Framework.

The Board of Bristol Water has signed the Risk and Compliance statement for 2018, to confirm that the Board considers that the Company has complied with all relevant statutory, licence and regulatory obligations.



In addition we have this year for the first time, in further recognition of our need to demonstrate full transparency, asked our technical auditors to review our approach. A copy of their Assurance Statement is provided in Appendix 1.

Appendix 1 – Risk & Compliance Statement Review by Atkins

This assurance statement encapsulates observations we made during the technical audit of aspects of Bristol Water's Annual Performance Report for 2017/18. We presented our findings to the Bristol Water's Executive Team on 11 June 2018, the Bristol Water Challenge Panel on 13 June 2018 and to the full Board of Bristol Water on 5 July 2018.

This statement is part of a continuous improvement process that has involved detailed consideration of the methodologies and their applications by which Bristol Water reports on its performance at financial year end and at the mid-year point. We have been providing this service since 2015.

In a series of 35 meetings and six remote audits in May and June 2018, we carried out combined methodology and data audits. For the areas we cover and from the information we have been provided with, we conclude that the Company has a full understanding of and has sufficient processes and internal systems of control to meet its reporting obligations. We also conclude that the Company has appropriate systems and processes in place to allow it to manage its reporting risks.

As part of our independent assurance of Bristol Water's Annual Performance Report 2017/18, we have been engaged to audit the following tables and submissions to be published in Bristol Water's 2017/18 Annual Performance Report and regulatory reporting:

- Data and commentary reported as part of the Annual Performance Report (APR) to Ofwat:
 - Table 3A - Outcome performance table, including underperformance penalties and outperformance payments.
 - Table 3B - Sub-measure performance table
 - Table 3D - SIM (Service Incentive Mechanism)
 - Tables 4A, 4B, 4C, 4D, 4F and 4G
 - Table 3S – shadow reporting of leakage, customer supply interruptions, unplanned outage, PCC, mains bursts and risk of severe restrictions in a drought (included in separate report)
 - Tables 4J, 4L, 4P, 4Q and 4V (formerly Wholesale Cost Tables)
- WRMP Annual Review
- GSS payments

We were provided with a copy of the commentary the company proposed to publish to explain and clarify its reported performance information. We provided feedback on whether it was a reasonable interpretation of what we had seen during our audits.

During the assurance activities, we have had free access to the Director of Strategy and Regulation and his team and the full cooperation of the people responsible for preparing and reporting the 2017/18 APR and regulatory submissions and the supporting information.

We are pleased to provide assurance that, overall, we consider the information published by Bristol Water has been compiled using information which is accurate, reliable and complete. We have traced selected information to data sources and information systems. We consider the published metrics and commentary provide a fair and reasonable account of Bristol Water's performance in 2017/18 and progress towards achieving its 2020 targets.

An expanded assurance statement is included in our main report. While we observed a number of issues for which we provide comment within our main report, we believe these do not impact materially upon the potential to sign-off the Company submission. Each is an area we believe should be given further consideration as part of continuing improvement to performance reporting by Bristol Water.



Jonathan P Archer

Regulation Director

Reporter providing Technical Assurance Services to Bristol Water

Appendix 2 - Disclosure of departures from the statement of compliance with obligations

The Board notes the following issues have been identified. In each case appropriate action was taken to ensure there was no material or on-going risks to compliance:

1. GSS Appointments made by contractors

The mid-year process review of our GSS payment process identified that one of our third party contractors was not fully compliant with the GSS regulations and had not followed our contractual requirements. Specifically, in some instances appointments were offered only for a particular day, rather than an identified two-hour timeslot or morning/afternoon, as required by the regulations. As these appointments were deemed to be in breach of the GSS regulations, we have made the relevant payment (including late payment penalty) to each customer. This cost has been recovered from the contractor. The process has been amended to reflect our instructions so that all-day appointment slots are no longer offered.

An audit at another contractor identified one member of staff who had made two all-day appointments outside of the agreed process. This was a specific exception and the relevant GSS payments were made.

The payments related to standards of performance are an obligation under the Water Industry Act 1992 section 38 and regulation 17c of the Water Supply and Sewerage Services (Customer Service Standards) (Amendment) Regulations 2017.

2. Logging of unwanted calls

An audit of our Service Incentive Mechanism (SIM) processes identified five calls which were received within operational call handling teams, but not logged on the works management software CRM. This could result in these calls being excluded from the figures captured for reporting of unwanted calls, used within the SIM calculation. A further audit was commissioned from Atkins to review the process. This audit confirmed that the reporting process within the operational call centre was satisfactory, but that there were instances where calls forwarded to other operational departments may not have been logged as wanted or unwanted. It is not possible to fully verify the number of calls not recorded, but our view and that of our assurers is that due to the overall number of calls passed to these departments and that calls were logged as unwanted as the customer process developed, this issue is unlikely to be material enough to affect our overall SIM score. Atkins estimated that the number of calls that may have been unwanted during managed processes could have totalled 400, which would impact the SIM score by less than 0.1. Follow up enquiries did not identify any specific circumstances where this issue was likely to happen, and therefore we put in place further process improvements and checks across all of our call handling to identify any significant issues.

The procedures for dealing with complaints are an obligation under the Water Industry Act 1992 section 86A.