



30 June 2022

Report

APR22 Assurance Report - final

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Bristol Water**

making the **difference**

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Rev	Status	Originator	Approved	Date
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Background

Ofwat requires companies to publish an Annual Performance Report (APR) by 15 July 2022, as set out in 'IN 22/01 *Expectations for monopoly company annual performance reporting 2021-22*' published 21 March 2022. The APRs are an important element of Ofwat's framework for encouraging companies to be transparent about their performance and for collecting information it requires to perform its duties. APRs also allow stakeholders to hold companies to account when they do not deliver against their commitments. It is therefore important that customers and stakeholders can have trust and confidence in the information contained in companies' APRs.

This report outlines the assurance we have undertaken and summarises our findings in relation to your APR 2021-22 (APR22) Performance Commitment (PC) reporting and the accompanying asset, activity, and cost data tables we have reviewed.

Scope

You asked us to review the 2021-22 performance figures you propose to report against your Performance Commitments (PCs) and Outcome Delivery Incentive (ODI) calculations in section 3 of APR22, plus agreed 2021-22 asset, activity, and cost information you propose to report in sections 4, 5, 6, 9 and 11 of the APR22 data tables.

You also asked us to undertake assurance audits of your Guaranteed Standards Scheme (GSS) payments, Water Resource Management Plan (WRMP) annual update and specific datasets managed and controlled by your shared billing company Pelican that support the reporting of some of your PCs and regulatory data.

To fulfil the scope, we agreed we would:

- undertake data assurance audits focussing on the broad question 'Is this information or data that is ready to be published and that can be trusted and relied upon by external stakeholders?';
- test your teams' understanding of any changes to regulatory guidance; and
- test that data is competently sourced, processed, reported, and fit for purpose.

For PCs audits, this would include reviewing the data your teams proposed to report in both the main PC performance tables and the supporting information tables.

Approach

For the PC and other APR figures we assured, we agreed we would:

- check whether your teams had been through your internal assurance processes;
- check, where applicable, whether any material actions from 2020-21 audits had been addressed;
- check consistency of the proposed data with the applicable definition/guidance, taking account of Ofwat query responses and additional expectations where appropriate and known about at the time of audit;
- sample data back to source inputs where available;
- test teams' understanding of performance; and
- review the appropriateness of the confidence grades teams had assigned to the proposed PC figure/data item to be submitted.

Where your teams had drafted commentary to support their data, we reviewed this for consistency with information discussed in the audit and our understanding of regulatory expectations.

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After each data audit, we provided your teams with detailed feedback that explained our assessment of the risk associated with the audited figures for 2021-22 and set out any actions. We assigned risk-based grades to each PC or data item(s) reviewed (see table 1 below for a summary explanation of the grades).

Table 1 Summary explanation of data audit grades

Data grade	Summary
A	Low risk – no weaknesses or deviations from methodology in production of data and confidence grade is appropriate
B	Low to medium risk - no material weaknesses or deviations in production of data and confidence grade is appropriate
C	Medium to high risk – one of: material weakness or unjustified deviations (or number of minor ones with material effect) or confidence grade is not appropriate
D	High risk – more than one of: material weakness or deviation (or number of minor ones with material effect) or confidence grade is not appropriate

We note that:

- to support Pennon’s group reporting to the City in May 2022, the PC audits and some of the other APR table audits took place earlier in the year-end cycle compared to last year;
- our assurance approach focuses on the level of risk associated with a proposed approach;
- our work is risk and sample based and part of the broader assurance processes you have in place to support your Board in making assurance statements in relation to the whole APR;
- all our audits have been undertaken remotely using Microsoft Teams.

Findings

Overall

Assurance of Performance Commitments – there are no outstanding material issue with the 29 PC performance figures we reviewed – indicated by 3 A and 26 B data grades. This means we consider there is a low or low-to-medium level of risk associated with reporting the PC performance figures that you propose to submit in your APR. We also identified no material issues with your ODI payment calculations for the PCs where you are expecting out or under performance payments for your 2021-22 performance.

Assurance of other APR returns and supporting data – for the agreed 2021-22 asset, activity, and cost information in sections 4, 5, 6, 9 and 11 of the APR22 data tables, GSS payments, WRMP annual update, and Pelican data, we have assessed the majority of your proposed data as having no material issues. Out of the 20 APR22 data tables we reviewed, there remain five data tables at this stage of our assurance where we consider there to be higher reporting risk (ie: we assigned data grades of C) for specific data items within them.

Appendix A sets out the data grades for each of the PCs and agreed APR items – and the additional GSS, WRMP and Pelican data items.

Below, we summarise the main observations from our assurance.

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Higher risk areas

At the conclusion of our assurance, there are three areas where we consider medium-to-high risks remain with the proposed data (i.e. where we have assigned C grades). We summarise the main issues in table 2 below and have provided detailed feedback directly to your teams. We note your teams have worked constructively with us to successfully address medium-to-high risk issues identified with other data items during the course of the year-end audit process.

Table 2 Summary of higher risk areas by audit area

Audit Area	Summary of main issue(s)
4C.7-8 Totex variance due to timing of expenditure/efficiency	<p>The team's proposed approach of reporting developer income offset as a contribution to totex variance due to efficiency rather than timing is materially not consistent with the guidance for this table. It is doing this because reporting it as due to timing would drive significant volatility in the company's RoRE figures and it considers the timing line is meant to capture issues such as programme delays, not pandemic linked delays in income offset payments.</p> <p>We understand the company's logic and that it proposes to be transparent about its approach in its commentary (including setting out figures for the more compliant position). We consider a more compliant, lower risk approach would be to report as per the table guidelines and set out the alternative approach in commentary. You understand the balance of the issues and are content with your approach.</p>
5A.23, 6A.6, 31 & 6B.28 Average Pumping Head	<p>Following a query response from Ofwat, the team's averaging approach for calculating APH is not aligned with Ofwat's expectations, with potentially material effect for some price control units. We recommend you outline this in your commentary and, as discussed, explore the issue further at industry working groups as: this is an area where regulatory policy and guidance is still actively evolving; and initial sensitivity analysis based on three large sites suggests the issue is less likely to be material for the line that contributes the majority of the company's APH.</p> <p>Such an approach appears pragmatic, though the potential for a material impact on the smaller price control units means we consider there remains a medium-to-high reporting risk in this area.</p>
6D.12 & 14 Supply demand benefit of new and renewed business meters	<p>Consistent with last year the team has been unable to populate these lines as it has not been able to find any information to support a reasonable estimate of the supply demand benefits from metering business customers (or upgrading their meters). We note other companies are also likely to be unable to find robust information to populate these lines. We understand you will explain your position in your submission commentary.</p>

General observations

In addition to the areas above, we set out below general observations and points arising from our assurance.

- For 2021-22, your overall APR reporting deadlines have been compressed to support Bristol Water's inputs into Pennon's reporting of group performance to the City in May 2022. As such, your teams

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have been required to produce their PC figures – and other supporting data in the APR – earlier in the year-end cycle than previously.

We observed this led to some of the first line assurance being undertaken in parallel to, rather than prior to, our third line assurance. It follows there has been a higher incidence this year of teams updating proposed figures during and shortly after audits. These were generally trivial but in some cases material movements occurred (eg: for drought risk your performance figure improved by around 20%, and for leakage a 0.1MI/d improvement post the original audit means you are now earning an outperformance payment of £16k).

Assuming reporting will be to the same timescales next year, there is scope for teams to further mitigate reporting risk through the application of additional, or re-structured, first line assurance that reflects the revised timescales.

- For some audits, the compressed audit schedule also meant we left actions with teams to confirm final numbers after cross-checking with other data items that contributed to or influenced the figures being reviewed. This was because, for example, other teams may have been completing post-audit actions that had the potential to change their figures, or because the compressed schedule left less time for teams to check data interdependencies between lines.
- For some PCs where we observed issues or scope for process improvement in last year's data audits, teams have made good progress in strengthening reporting. For PC21 Raw water quality of sources, for example, the team had made improvements to the collation and checking of its model input data. And for PC13 D-Mex, the team has recently taken steps to automate more of the process, though reporting will need close monitoring as the automation is further bedded in.
- For a limited number of data items, we have continued to observe issues with reporting and first line assurance processes. For example: for 4Q.1-14 developer activity and 4R.17-18 new connected properties, we consider straightforward checks may have mitigated some of the issues identified; and for 6C.21 lead communication pipe replacements there continues to be scope for stronger evidence to support reporting of this low volume activity.
- We also observed some data items continue to use assumptions that have the potential to be reviewed and/or refreshed. For PCs where this is the case (eg: PC18 leakage, where long-standing assumptions are driving some of the remaining sub-component amber assessments on alignment to the common PC definition) the PR24 process might afford a window to review and update assumptions. For other data items, you may be able to more easily consider changes in this period. For greenhouse gas reporting for example, whilst your figures rely on a number of long-standing assumptions, this is an actively evolving area of reporting where Ofwat is trying to drive improvement ahead of PR24.
- And consistent with last year, for several asset and activity lines in the APR, you continue to use the number of residential meters installed as a proxy for the numbers of metered residential customers (eg: properties, connections, new connections, etc). This assumption is not strictly compliant with the applicable line definitions, but your teams consider it is unlikely to be material as very few residential properties have more than one meter.

We also continue to observe limitations in meter type datasets where teams use more assumptions and apply lower confidence grades (eg: 6D.1-5 basic/smart metering expenditure and 4R.19 & 24 basic/smart metered properties). Whilst teams have continued to refine assumptions used since APR21, we consider direct reporting of activity and expenditure would be more robust.

- Teams' initial commentaries on performance were often clear and appeared to cover our understanding of regulatory expectations. Where we advised additions or changes to commentary for your APR submission, this was generally to:

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- further clarify reporting approach(es) (eg: PC04 unplanned outage where your approach is more granular than the guidance sets out; PC29 customer complaints where you have discussed changes to the measure with Ofwat); or
 - ensure significant out and under performance, or performance improvement since APR21, is fully and clearly explained (eg: PC02 interruptions to supply and PC08 properties at risk of low pressure).
- For some data items, whilst we did not identify material issues this year, we have identified risks that might emerge in future years. On greenhouse gas reporting for example, although outside the scope of this year's audit, we understand you are still considering how you will be able to robustly report against embedded emissions requirements that will become mandatory for APR23 reporting. And for PC26 Abstraction Incentive Mechanism (AIM), an Environment Agency driven change to the datum level of the borehole may complicate reporting in circumstances where this small adjustment is the difference between AIM being on or off for a given report year.
- And for a limited number of data items, we observed the potential for changes to prior year data (eg: for 6B.1-2, 21, 25 you have now removed assets that have been non-operational this year and in prior years; and for PC17 voids you are now excluding standpipes, which were included in your previous reporting). We note you do not consider the potential changes sufficiently material to justify re-stating.
- For some data items, we could not always access source data when sampling in the audit. For a number of the expenditure related lines in the APR, for example, teams explained they had populated lines with information finance provided and could demonstrate an audit trail only back to the output files from your finance team. We note your financial information is subject to separate audit procedures though. And for some standalone PCs contractors provide inputs (eg: Ovarro outputs provide some of your leakage component data).
- We note some queries were open at the time of our audits for some items, or were raised after our audit of them. Where this is the case, we have not re-visited items unless you have specifically requested us to do so.
- In relation to ODI payments:
 - We identified no material issues during our sampling of your ODI payment calculations. During our assurance of the calculations, we also checked that the final PC performance figures you had used to populate APR tables 3A and 3H matched those we assured, and you explained any variance e.g., post audit updates.
 - We note you are taking a management decision to forego ~£8.2k of outperformance payment associated with your voids PC to reflect the element of outperformance you estimate is due to data improvement. The estimate is based on a limited sample size and you understand there is a risk this limited sample size might lead to an over or underestimate of the ODI payment to forego.
 - We also note PC21 Raw water quality of sources has an outperformance payment this year, but a confidence grade of B4. Ideally, PCs with financial incentives would have stronger confidence grades but we acknowledge in this case the team is unlikely to be able to materially improve the accuracy of the external model, and therefore the reported PC performance, this regulatory period.
- For the additional Pelican, WRMP, and GSS data we observed the following, which includes observations consistent with those above about leaving teams with some final cross checks post-audit.
 - Our assurance of Pelican's PC and GSS contributory datasets identified non-material issues that require your teams to update figures used to report PC12 C-MeX, PC29 Total customer complaints and PC27 Priority Services Register. We also observed scope to agree additional checking

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procedures where processes are still developing and implement formal handover processes for year-end PC figures.

- During our audit of your 2021-22 WRMP annual review data table, we identified some non-material issues your team will address before submission (eg: confirming the latest outage figures have been used as these changed after the audit of PC04 unplanned outage).
- During our sampling of your 2021-22 Guaranteed Standards Scheme (GSS) payments, as we did last year we observed non-material scope to continue improving the auditability of the payments information by, for example, recording checks made and providing a breakdown of domestic and commercial payments by category.

Conclusions

For the majority of PC and other APR data items we have reviewed there are only non-material actions to support your teams' continuous improvement. There are currently five areas we reviewed where we consider a higher level of reporting risk remains for data items – your team understands these risks and considers the approaches in these areas appropriate.

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Appendix A. Summary of assurance grades

As we set out in the report above, our assurance approach focuses on the level of risk associated with your PC performance figures and wider asset, activity, and cost information. The result of our approach is a grade of A, B, C or D for each item and detailed feedback to explain our assessment. In assessing each data item we used a standard scoring framework to produce results that are comparable across the items we reviewed. Table A.1 below summarises this framework.

Table A.1 Meaning of assurance grades for the data stage of our assurance

Data grade	Summary
A	Low risk – no weaknesses or deviations from methodology in production of data and confidence grade is appropriate
B	Low to medium risk - no material weaknesses or deviations in production of data and confidence grade is appropriate
C	Medium to high risk – one of: material weakness or unjustified deviations (or number of minor ones with material effect) or confidence grade is not appropriate
D	High risk – more than one of: material weakness or deviation (or number of minor ones with material effect) or confidence grade is not appropriate

The assessments resulting from our assurance are set out in the tables below. Table A.2 sets out our final data grades for each PC as well as your 2021-22 performance figures. For the items within our scope, Table A.3 sets out the final data grades we assigned to the 2021-22 asset, activity, and cost information you propose to report in sections 4, 5, 6, 9 and 11 of the APR22 data tables, and to your GSS payments, annual WRMP update and Pelican data.

Table A.2 Summary of assurance stage grades for each performance commitment

PC Code	Description	Data grade	2021-22 performance
PR19BRL_PC01	Compliance Risk Index (CRI)	B	4.19
PR19BRL_PC02	Water Supply Interruptions	B	00:02:31
PR19BRL_PC03	Mains Repairs	B	106.4
PR19BRL_PC04	Unplanned outage	B	1.74 unplanned 1.30 planned
PR19BRL_PC05	Risk of severe restrictions in a drought	B	32.93
PR19BRL_PC06	Customer contacts about water quality – appearance	B	1.11

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PR19BRL_PC07	Customer contacts about water quality – taste and smell	B	0.28
PR19BRL_PC08	Properties at risk of receiving low pressure	B	11
PR19BRL_PC09	Turbidity	B	0
PR19BRL_PC10	Unplanned Maintenance - non-infrastructure	B	3,026
PR19BRL_PC12	C-MeX (Customer Measure of Experience)	A	82.86
PR19BRL_PC13	D-MeX (Developer Services Measure of Experience)	B	85.26
PR19BRL_PC14	Percentage of customers in water poverty	B	1
PR19BRL_PC15	Value for money	B	77
PR19BRL_PC16	Percentage of satisfied vulnerable customers	B	89
PR19BRL_PC17	Void properties	B	1.80
PR19BRL_PC18	Leakage	B	-11.5
PR19BRL_PC19	Per Capita Consumption	B	3.5
PR19BRL_PC20	Meter Penetration	A	62.41
PR19BRL_PC21	Raw water quality of sources	B	239
PR19BRL_PC22	Biodiversity Index	B	17,678
PR19BRL_PC23	Waste disposal compliance	B	98
PR19BRL_PC24	Water Industry National Environment Programme Compliance	B	100
PR19BRL_PC25	Local community satisfaction	B	92.6
PR19BRL_PC26	Abstraction Incentive Mechanism	A	N/A (AIM not triggered)

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PR19BRL_PC27	Priority Services Register	B	4.1 (reach) 91.1 (Attempted contacts) 53.2 (Actual contacts)
PR19BRL_PC28	Glastonbury Street network resilience	B	0
PR19BRL_PC29	Total customer complaints (household)	B	38.6
PR19BRL_NEP01	Delivery of water industry national environment programme requirements	B	met
ODI calculations	Outcome Delivery Incentive payment calculations	B	-

Table A.3 Summary of data stage grades for 2021-22 APR, GSS, WRMP and Pelican data

APR table and line references	Description	Data grade
4A		
All lines	Water bulk supply information for the 12 months ended 31 March 2022	B
4B		
All lines	Analysis of debt	A
4C		
All lines	Impact of price control performance to date on RCV	C
4D		
All lines	Totex analysis for the 12 months ended 31 March 2022 - water resources and water network+	B
4F		
All lines	Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2022	B

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4J		
All lines	Base expenditure analysis for the 12 months ended 31 March 2022 - water resources and water network+	B
4L		
All lines	Enhancement expenditure for the 12 months ended 31st March 2022 - water resources and water network+	B
4N		
All lines	Developer services expenditure for the 12 months ended 31st March 2022 - water network+	B
4P		
All lines	Expenditure on non-price control diversions for the 12 months ended 31 March 2022	B
4Q		
All lines	Developer services - New connections, properties and mains	B
4R		
1-10, 12-16, 19-20, 22-27	Customer and property numbers	B
11, 21	Residential voids year average and year end	B
17-18	New connected residential and business properties	B
28, 30-32	Resident and household populations	B
5A		
1-8	Distribution input – volume by source type	B
9-21	Water resources, sources and assets	B

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22	Length of raw water abstraction mains and conveyors	B
23	Average pumping head – raw water abstraction	C
24	Energy consumption – raw water abstraction	B
25-28	Raw water abstraction imports and exports	A
29	Water resources capacity (measured using water resources yield)	B
5B		
All lines	Water resources operating cost analysis for the 12 months ended 31st March 2022	B
6A		
1-4	Reservoirs and transport stations	B
5, 12	Lengths of raw water transport mains	B
6, 31	Average pumping head – raw water transport & water treatment	C
7, 32	Energy consumption – raw water transport & water treatment	B
8-11	Raw water transport imports and exports	A
13-19	Surface and ground water works by treatment complexity	A
13-19, 28	Surface and ground water works: complexity by volumes and DI size band and water treated at more than one type of works	B
20-27	Water treatment – works size	B
29	Number of treatment works requiring remedial action because of raw water deterioration	A
30	Zonal population receiving water treated with orthophosphate	A
33-36	Water treatment imports and exports	B

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6B		
1-3, 20-26	Treated water distribution assets and capacity	B
4	Distribution Input	B
5-11	Water balance	B
12-19	Distribution input - proportion by source type	B
27	Energy consumption – treated water distribution	B
28	Average pumping head – treated water distribution	C
29-32	Treated water distribution imports and exports	B
6C		
1-20	Mains lengths, ages, diameters & communication pipe materials & company area	B
21	Lead communication pipes replaced for water quality	B
22	Compliance Risk Index (CRI)	B
23	Event Risk Index (ERI)	B
6D		
1-10	Metering expenditure and activity	B
11, 13	Residential meter installation and renewals – supply demand benefit	B
12, 14	Business meter installation and renewals – supply demand benefit	C
15	Meter penetration	B
16	Total leakage activity	B

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17	Leakage improvements delivering benefits in 2020-25	B
18-19	PCC measured and unmeasured customers	B
6F		
All lines	WRMP annual reporting on delivery - non-leakage activities	B
9A		
All lines	Innovation competition	B
11A		
All lines	Operational greenhouse gas emissions voluntary data reporting	B
Additional data		
GSS	Guaranteed Standards Scheme payments	B
WRMP	Water Resources Management Plan annual update	B
Pelican	Guaranteed Standards Scheme payments	B
Pelican	Priority Services Register	B
Pelican	Billing complaints	B