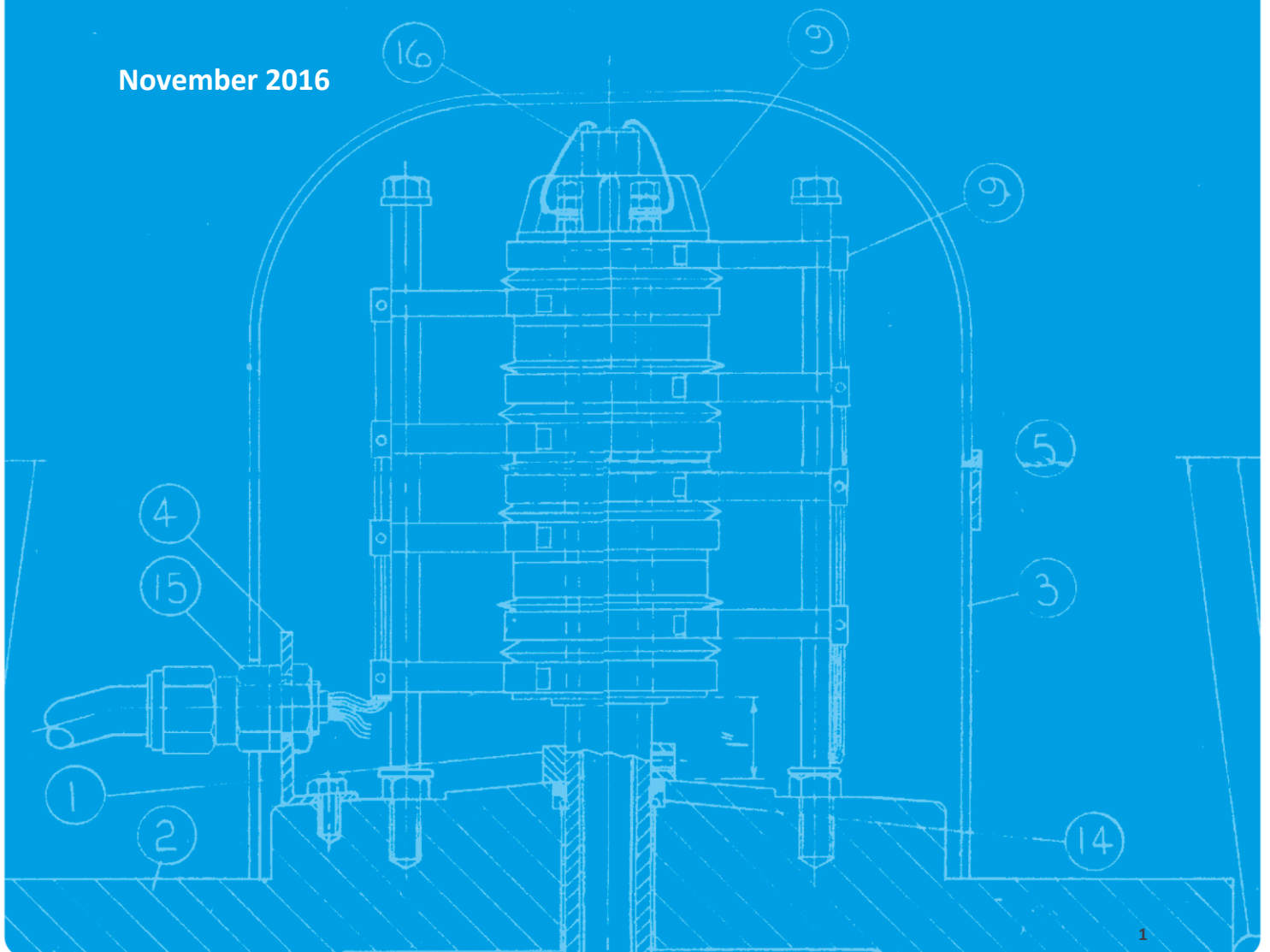


# Statement of risks, strengths and weaknesses and draft assurance plans for 2016/17

*For consultation*

November 2016



## About this document

*Severn Trent Water is one of the largest of the ten regulated water and sewerage companies in England and Wales. We strive to provide high-quality services to more than 4.3 million households and businesses in the Midlands and mid-Wales. Our customers pay the lowest average bills in the UK.*

By 2020, we want to be the most trusted water company: delivering an outstanding customer experience, the best value service and environmental leadership.

Every year we publish a wide range of information about our services and our performance. This information is used in a variety of ways; not least it may shape the choices our customers and stakeholders make. We therefore want to make sure that it can be relied on.

We are now reviewing our assurance processes to make sure that they remain appropriate for the current financial year (2016/17).

### Background

In last year's plan we recognised the importance of assuring our 45 performance commitments as set out in our [business plan for 2015-20](#) as 33 have financial rewards and penalties attached to them as customer Outcome Delivery Incentives (ODIs), which may impact our customers' bills. We are one of just three companies able to apply some of these customer ODIs during the 2015-20 period (i.e. before our plan is completed).

In recognition of this, we set out detailed proposals for assurance in our business plan with the aim of ensuring that our customers and stakeholders can trust the data and information that we provide on our performance. This plan continues to build on the established levels of assurance we implemented in the last financial year.

It also considers how we can ensure our customers and stakeholders can have confidence in the information we publish more widely. We have also looked at the way we present this information to our customers, in particular how we display the impact of our customer ODI performance on customers' bills.

### Ofwat's company monitoring framework

Ofwat's company monitoring framework (published in June 2015) set out its expectations for how it will oversee information that we, and the 17 other largest water companies, provide to our customers. Under this framework, Ofwat assessed Severn Trent and 14 other companies as requiring 'targeted' assurance. This means we need to work with our customers and stakeholders to target issues, and consult on our draft assurance plans to make sure they are sufficient to address them. At this time, our plans assume that Ofwat's assessment is that Severn Trent will remain in the 'targeted' assurance category.

Our ultimate aim is to move into the 'self-assured' category and therefore demonstrating that we are proactive in addressing any areas of concern that our customers and stakeholders have about our data.

This document is in two parts.

The first is our statement of risks, strengths and weaknesses. It has been developed using feedback we have received from our customers and stakeholders about the information we provide. It also takes into account our own assessment of risks to our ability to provide information that they trust.

The second part of this document is our draft assurance plan for 2016/17. It sets out how we plan to respond to those risks. It is for consultation, so we would welcome your views on it. Further details of how to respond are on page 16.

Later this year we will publish a final assurance plan, and once this plan has been implemented, an annual performance report setting out our progress against our performance commitments.

# 1.1 Our statement of risks, strengths and weaknesses: summary

*In this section we summarise how we carried out our risk assessments, and the target areas we identified. Our draft assurance plan in section 2 sets out how we propose to respond to these risks.*

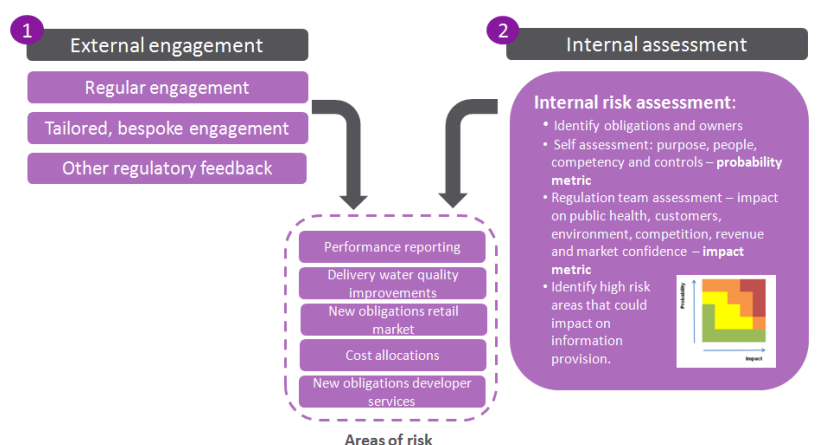
## Approach

Figure 1 below illustrates how we have developed this statement using two inputs: external engagement and an internal assessment. The following section (1.2) explains this approach and the outcome in more detail.

We have not limited these assessments to just our end of year performance reporting, but rather considered the information we provide to customers and stakeholders, and our regulatory and statutory obligations, more broadly.

Any critical risks identified in our assurance plan feed into our company-wide assessment of risks inherent in our business activities and mitigation measures, which we include in our [Annual Report and Accounts](#).

**Figure 1: Approach to developing this risk assessment**



## Statement of risks

The risks we identify in this statement principally reflect:

- Reporting requirements and statutory obligations; and
- Changes in our external environment or our customers and stakeholders expectations.

They are:

*Performance reporting – performance commitments and customer ODIs.*

We are now one year into the approach set out in our 2015-20 business plan. The introduction of customer ODIs last year means that our performance has the potential to directly impact customers' bills. And every single one of our performance commitments, regardless of whether a financial incentive is attached, could impact our customers' and stakeholders' perceptions of us, and shape the choices they make. Given the importance that we, and they, attach to performance commitments, we continue to utilise our rigorous assurance plan as set

out in last year's statement. As in the prior year, our draft assurance plan (section 2) provides for all performance commitments to undergo targeted external assurance at both the half and full year (in addition to our ongoing internal quality checks, controls and improvement plans). Our half year review allows us to identify performance commitments where further assurance 'deep dives' may be required in the run up to full-year reporting. We have seen the benefits of this approach as the mid-year review enables us to spot any potential risks and challenge our performance data rigorously prior to publication, ultimately giving our customers and ourselves confidence in any subsequent reward or penalty we receive as a result.

### *Delivery of drinking water quality improvements*

In our 2015 annual report and accounts we set out that drinking water quality would be a key area of focus for performance improvements over the coming year. As a part of this we have implemented the 'cleanest water' programme and engaged with the DWI to ensure we meet our commitments. We recognise that this continues to be an area that we need to provide customers and stakeholders with confidence about the progress we are making.

### *New obligations for the retail market*

The Water Act 2014 introduces a new framework of retail competition for non-household customers. There are two areas in particular where we intend to provide assurance:

- Market readiness - As an incumbent in the market, we need to provide assurance that we will be ready for market opening on 1 April 2017. Post market opening, we are planning assurance that allows us to have confidence in any performance data published to our non-household customers.
- 
- Financial and Operational Reporting - With the creation of Water Plus (a joint venture between ourselves and United Utilities) in June 2016, we have separated our retail business completely in terms of geographical location, people, processes and systems. We have applied to the Secretary of State to exit from the non-household retail market in April 2017. Until then, we still have a statutory obligation to report our annual performance and to ensure this is correctly reflected between us and Water Plus.

### *Cost allocations (and segmental reporting)*

The introduction of separate price controls for water, waste, household retail and non-household retail will place further customer (retailer) scrutiny on how we allocate our costs between wholesale and retail activities, augmenting the importance of cost allocation. This is an area that we will continue to focus assurance activities on, including external assurance conducted by an independent third party, to provide market participants with confidence in our charges.

### *Developer services*

The Water Act 2014 introduced new obligations in relation to the services we offer to developers. We have also begun to voluntarily report our performance along with other water companies, so that customers can compare the standard of service they receive from us in context with the rest of England and Wales. Given these new requirements, and in the light of forthcoming statutory changes, this will be an area of focus for our future assurance plans.

## 1.2 Our approach in more detail

*In this section we explain in more detail how we identified the target areas set out in section 1.1.*

Our statement of risks, strengths and weaknesses has been developed using two assessments:

- *An external assessment.* We asked our customers and stakeholders how easy is our data to understand.
- *An internal assessment.* We carried out a self-assessment to identify risks to our ability to comply with our statutory and regulatory obligations. We considered if these risks would impact our ability to produce information that our stakeholders can trust.

We describe each in turn. The second section of this document sets out the assurance plans we propose to put in place to mitigate these risks.

### Engaging our customers and stakeholders

We continue to recognise the need to engage with our customers to understand the issues that matter to them in the information we produce and address any concerns that they may have.

As in prior years, we have continued to utilise our established channels of engagement:

- regular meetings with our regulators and statutory customer representative (CCWater);
- regular meetings and events with broader stakeholders (for example, partnership working on flooding issues);
- ongoing investor engagement, and annual announcements of interim and preliminary results; and
- on-going customer research, including instant feedback mechanisms and a quarterly tracker survey.

This engagement helps to inform, and plays a part in, our assurance approach. For example, we may work with the Environment Agency to ensure consistency in our categorisation of pollution incidents or CCWater may challenge our customer focussed documents.

As we developed our business plan for 2015-20, we established an independently chaired, multi-stakeholder group – the Water Forum – to challenge how our customers’ priorities were reflected in our company strategy. It includes representation from the Environment Agency, CCWater, Natural England, National Farmers Union (NFU), East Midlands Councils and the CBI. The forum has met three times this year and will continue to have input into our 2020-25 plans going forward.

The Water Forum now has a continuing role to challenge whether we are delivering our commitments to our customers, and how we communicate that performance. It was involved in the development of our assurance proposals in our business plan.

In addition, to develop this statement we carried out further research to ensure there are no underlying concerns that we are unaware of.

### Specific engagement for this statement

Last year, we conducted a wide ranging survey with customers and our key stakeholders (such as the EA, CCWater and the CBI) to establish the levels of trust they have in the information that we produce. This year we wanted to expand on this question further by understanding how our customers prefer our information to be presented to them. In particular we wanted to examine how well they understood the link between our

customer ODI performance and the impact on bills to ensure our reward/penalty mechanism is transparent to all our customers.

As we produce information that is used by a diverse range of stakeholders in a number of ways, we used a tailored approach to engagement that considered two broad groups.

## Group 1: water expert stakeholders

*Stakeholders with both a high level of interest and reliance on the information we produce.*

We regularly meet with our regulators and have a common understanding of the information they need from us to effectively perform their statutory remits.

We held three meetings of our Water Forum and also contacted CCWater, the Environment Agency and Natural England to discuss if there were any specific issues they wished to be included in this statement. From this CCWater reminded us that we should ensure our published reports should have clarity on the purpose of information provided, especially where the intended audience is customers. Our other stakeholders did not identify any fundamental concerns with our current assurance processes and information provision.

We have also considered other feedback from our regulators.

We regularly engage with the Drinking Water Inspectorate (DWI) as part of the normal course of our business. The DWI has also given a detailed view of our performance in its 'Drinking Water 2015'<sup>1</sup> report. We have identified water quality as a continuing area of focus for improvement and have implemented a specific improvement programme 'cleanest water'. We recognise the need to provide assurance to our stakeholders of progress being made.

Last year, Ofwat's assessment<sup>2</sup> of our ability to deliver and report on performance (based on our 2015-20 business plan) placed us as one of 15 companies who were classified as requiring 'targeted' assurance. Initially, two of the risks from Ofwat's assessment were classified with an amber confidence rating:

- *cost allocations* – during 2016-17, we engaged a third party external assurance company to review our cost allocation submissions in July and August. A number of improvements have been suggested and we will continue to work with our third party assurer to ensure these improvements are implemented. Additionally we have made a number of governance changes to ensure high level visibility of the cost allocation exercise and how the data is fed into our annual reporting.
- *compliance with obligations* - during 2016-17 we have continued to work with both Ofwat and affected customers to resolve the strategic case relating to the provision of sewerage services to 23 properties in Derbyshire. We anticipate that this case will be closed by Ofwat in the near future.

We are currently awaiting confirmation from Ofwat if we will remain in 'targeted' assurance for this reporting period.

## Group 2: customers

*Customers may not always have a strong interest in, but are reliant on the information we produce.*

Our customers rely on us producing accurate information – particularly with the introduction of customer ODIs where the information we produce can have a direct impact on their bills. They may not, however, always be aware of it nor have a strong interest in it.

---

<sup>1</sup> See: <http://www.dwi.gov.uk/about/annual-report/2015/central-eastern.pdf>

<sup>2</sup> <http://www.ofwat.gov.uk/regulating-companies/company-obligations/information-and-assurance/>

This year we commissioned an independent third party to conduct four customer focus groups across our geographical region to understand how customers preferred information to be presented to them. Specifically, we wanted to give customers the chance to express their views on how we displayed the impact of our reward/penalty mechanism.

The customer focus groups held were:

- 2 groups in Leicestershire
- 2 groups in Sutton Coldfield (Birmingham)

Additionally, the Birmingham groups were attended by a member of CCWater.

Prior to the session, customers were asked to spend no more than 30 minutes reading through our annual performance report for customers. During the focus group, we made a printed copy of two other water company's performance report available for customers to look through to prompt discussion on the different approaches taken to displaying performance information. A series of questions designed by our research partner, in conjunction with ourselves, were asked to help prompt discussion on the topic.

Following the sessions, customers indicated that our current approach is fit for purpose however, there were some areas for improvement and key themes:

- The need to create a more engaging and cognitively less demanding narrative by:
  - Thinking about how we use diagrams, icons and colour coding.
  - Contextualising our performance by providing performance over time and their financial implications.
  - Stripping out jargon and irrelevant information to customers' perspective. For example customers were not as interested in non-financial ODIs as they had no impact on bills.
- Customers appreciated our honesty around areas where we failed to meet our stated targets. From their perspective, this engendered trust as we were seen as not "hiding anything". However, customers were also keen to see that we had an action plan for addressing poor performance. We will continue our transparent approach while also being clear on how we will improve in future.
- Exploring ways of signposting when and where the information was available. While some customers suggested we could have bill inserts, we know from other research that customers generally do not appreciate this method as there is a perception that inserts are 'junk mail' and are immediately binned as a result. Other customers suggested, we could explore ways of further using social media to highlight performance to customers.

Additionally we are proactively creating links between the new 'Discover Water' website and our own website to better explain our performance. The new 'Discover Water' dashboard is being created by Water UK to highlight and compare Water company performance

## Our internal assessment

This year we utilised the framework established in the prior year to identify potential risks to complying with our statutory and regulatory obligations (relating to our regulated water business).

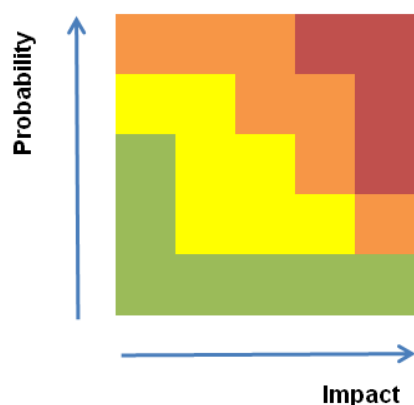


Our framework seeks to ensure there is clear ownership and accountability for each of our duties and obligations from director level, to accountable strategic leaders (senior management) and responsible managers. The framework includes existing obligations, and new statutory obligations yet to be commenced.

Each year, strategic leaders accountable for the delivery of obligations are asked to perform a 'self-assessment' against four key parameters – purpose, people, competency and controls. This assessment allows us to form a **probability metric** – to identify areas of compliance risk.

We use an **impact metric** based on the impact of a risk materialising to: public health and safety; the environment; customer service; competition; revenue and market confidence (eg reputational impact). This helps us to prioritise areas for improvement during the course of the year. Where risks are identified, our 'second line of defence' (explained in section 2) oversight teams work with the teams accountable for delivery to make process improvements. At the end of the financial year, strategic leaders carry out a further assessment. This process helps to inform our Board's annual risk and compliance statement. The process is reviewed by our independent Internal Audit team and the outcome is cross-checked against the risks that are identified by our enterprise risk management (ERM) process and which is reported in our Annual Report and Accounts.

**Figure 2: illustrative risk matrix**



Our aim is to target areas where we can make process improvements. However, the framework can also help to indicate where there could be risks to the quality of information we provide to our customers and stakeholders.

This year, from our internal assessment we identified three high priority risks relevant for this statement:

- *Performance reporting* – similar to last year, this area remains a high priority (in recognition of the potential impact our performance commitments have on our customers, the environment and market confidence. We explain further below.
- Ongoing requirements for the *non-household retail market and other competition provisions* – this risk reflects that new statutory and regulatory obligations have been introduced to ensure all companies are ready to participate in the retail market in April 2017. We recognise the importance of retail competition to non-household customers and therefore the importance for us to be ready for market opening in April 2017 in line with our new and changed obligations.
- New statutory provisions relating to *developer services and new voluntary reporting requirements* – similarly, this risks reflects that new statutory and regulatory obligations are to be

introduced that require new processes and systems to be developed, and in the light of the potential impact on customers, the development of competition and market confidence.

Our draft assurance plans (in the second part of this document) set out how we will mitigate these risks.

## **Performance commitments and ODIs**

We made 45 performance commitments in our business plan for 2015-20. Of these, 33 have financial rewards and penalties attached to them as ODIs.

We made a decision as we developed our business plan in 2013/14, in discussion with the Water Forum that all performance commitments should be a priority area for a high degree of assurance. This was because:

- our performance commitments reflect the areas of service that our customers have told us are most important to them – we have an obligation to accurately report if we are meeting our commitments;
- our investors can make decisions as to whether to invest in our company based on the performance data we provide – we have a fiduciary duty to accurately report how we are performing; and
- we are just one of three companies that are able to apply some of the financial ODIs during the 2015-20 period (before our full plan is completed) – if we are to make decisions that impact our customers' bills, we must have confidence that it is on the basis of high quality information.

In recognition of these risks, rather than undertake a risk assessment to target specific performance commitments for greater assurance, we have instead commissioned independent third line assurance to be carried out during the first half of 2016/17 to review our methodologies, documented processes, and their application.

We have reported the outcome of this half-year assessment both internally to our Audit Committee and will be discussed with the Water Forum in preparation for year end. It will be used to target the further third line assurance – 'deep dives' - we employ during the second half of 2016/17 and at the financial year end.

Our draft assurance plan sets out how we propose this will be undertaken.

## 2.1 Draft assurance plan: our approach

*This section sets out our draft assurance plan for 2016/17. The first part provides an overview of our approach to assurance. The second part focuses on the key areas identified in our risk statement as well as where we already have established third-line assurance processes that we propose to continue in 2016/17.*

We welcome stakeholders' views as to whether it adequately addresses areas of risk identified by our own internal assessment, and external stakeholder engagement. Details of how to respond are set out on page 16.

We have a well-established assurance and performance reporting framework. Our proposed assurance plan for this financial year, 2016/17, continues the processes we have implemented in last year's assurance plan for reporting our performance commitments in our Annual Report and Accounts.

Our framework is underpinned by four key principles:

- *Robust assurance* – we operate a three-lines of defence model, targeted at areas of greatest risk.
- *Ownership and accountability* – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- *Effective governance* – provided by our Board, Audit Committee, Disclosure Committee and with additional challenge provided by the Water Forum.
- *Transparency and public accountability* – we publicly report on our performance, and hold ourselves to account where we do not meet our commitments.

In this section we provide an overview of each principle.

### Robust assurance

We have an established approach to internal controls and related assurance. We operate the 'three lines of defence model' which distinguishes between first line processes and controls, second line oversight and third line independent assurance.

**Table 1: Three lines of defence model**

Line	Functions	Purpose	Typical activities
1a	<i>Business operations:</i> Wholesale operations, Customer teams	Responsible for the delivery of service and performance.	<ul style="list-style-type: none"> <li>• Provision of source information</li> </ul>
1b	<i>Embedded first line:</i> Wholesale planning and performance, Retail planning and performance.	Responsible for the reporting of performance	<ul style="list-style-type: none"> <li>• Reporting of performance information</li> <li>• Defining and documenting methodologies and processes</li> <li>• Quality checks and reviews</li> </ul>
2	<i>Oversight functions:</i> Chief Engineers Office, Finance, Regulation, General Counsel	Define policy and provide assurance.	<ul style="list-style-type: none"> <li>• Development of assurance framework</li> <li>• Quality checks and reviews of systems and controls</li> </ul>
3	<i>Independent assurance:</i>	Provide independent challenge of levels of	<ul style="list-style-type: none"> <li>• Review methodologies and processes</li> </ul>

Internal Audit, external assurance providers	assurance provided by first and second line	<ul style="list-style-type: none"> <li>• Review application of methodologies and processes and ultimate integrity of the data</li> <li>• Review completeness and appropriateness of assurance framework (Internal Audit)</li> </ul>
--	---	---

Assurance is a year round activity for us and first and second line activities are undertaken throughout the year giving us visibility of potential risk areas. For areas identified as higher risk, or where we have specific reporting obligations (e.g. financial accounts), we employ external third line assurance at relevant points during the year, much of which is brought together and culminates in our year-end financial and performance reporting.

Section 2.2 sets out where we propose to employ third line assurance this year (2016/17), and in the light of the risks identified in section 1.

## Ownership and accountability

Strong personal and collective ownership is critical for ensuring the accuracy of information we produce, driving improvements and holding ourselves to account. Regular internal performance reporting to our Executive Committee (weekly and monthly) and Board (at every meeting), and half-yearly performance reporting to the Water Forum reinforces this culture of ownership and accountability. Every year we refresh our compliance framework to ensure that individual accountabilities are assigned to our regulatory and statutory obligations. And we operate a rigorous process of sign-off for our performance data – sign-off by the data owner, the responsible senior manager and finally the accountable director in addition to our Board governance arrangements (see below).

Our three lines of defence assurance model ensures that there is clear separation of accountabilities between those responsible for delivery of a performance commitment or a regulatory/statutory obligation and those responsible for ensuring the integrity of that data. This delineation is mirrored in our governance arrangements.

## Effective governance

As a publicly listed company we have committed to comply with reporting requirements under the UK Corporate Governance Code, the Transparency Directive and UKLA Listings Rules. We continue to adhere to the principals set out in Ofwat's 'updated assessment of monopoly water companies' governance arrangements'<sup>3</sup> published in June 2015.

Our assurance plans provide for governance of our performance commitments and other external reporting with a clear delineation of accountabilities.

- The Board's role is to meet its obligations to the company's stakeholders. It reviews performance in the light of the company's strategic objectives and business plan commitments – ensuring that any necessary corrective action is taken.
- The Board's Audit Committee assists the Board in discharging its responsibilities for the integrity of the company's financial statements, the assessment and effectiveness of internal controls and the effectiveness of internal and external auditors.

<sup>3</sup> [http://www.ofwat.gov.uk/wp-content/uploads/2015/11/pap\\_pos20150615boardleadership.pdf](http://www.ofwat.gov.uk/wp-content/uploads/2015/11/pap_pos20150615boardleadership.pdf)

- The Board's Disclosure Committee oversees the company's reporting obligations under the Companies Act 2006, the UK Corporate Governance Code and the UKLA Listings, Disclosure and Transparency Rules.
- The Water Forum provides independent external challenge of both our performance against our commitments and the information we provide on it.

## Transparency and public accountability

Since 2008 we have had a Continuous Disclosure and Communications policy. This sets out our commitment to earn the trust of our customers and stakeholders by being open in our communications and performance reporting.

Our communications are based on transparency, integrity, accessibility and timeliness. Each year we publish Annual Report and Accounts for Severn Trent Plc and Severn Trent Water Ltd and have historically published an annual performance report against our regulatory performance commitments for the latter.

This year we will continue to hold ourselves publically to account with the publication of a new annual performance report (which will incorporate Ofwat's reporting requirements).

## 2.2 Draft assurance plan: in detail

*Section 2.1 sets out our overall approach to assurance. In this section we set out our proposed assurance plan for 2016/17. It does not detail every assurance activity that we carry out during the year, particularly using first and second line defence, but rather focuses on the key areas of risk identified in section 1 as well as where we have established third-line assurance processes (for example, audit of statutory accounts) that we propose to continue.*

Some of the activities are already underway but we welcome views as to whether such activities should be continued/will be sufficient in future years.

**Table 2: Established assurance processes**

Area	Reason for inclusion	Overview of activity
<b>Charges scheme</b>	We have established processes to ensure that our charges scheme are consistent with charging principles and our revenue caps.	<ul style="list-style-type: none"> <li>• External third line assurance of tariffs model and application.</li> <li>• External third line assurance of data inputs and application of charging principles.</li> <li>• External third line review for 'margin squeeze'.</li> </ul>
<b>Statutory and regulatory accounts</b>	The continuation of established processes to audit our accounts in line with statutory and regulatory requirements.	<ul style="list-style-type: none"> <li>• External third line audit of accounts in line with agreed procedures.</li> </ul>
<b>Access prices</b>	This is an established process. Changes in the regulatory framework mean that published access prices, unless for common carriage, are now only indicative.	<ul style="list-style-type: none"> <li>• External third line review of inputs</li> </ul>
<b>Annual report to CCWater</b>	On quarterly and annual basis, we submit operational performance data to CCWater for a number of measures including customer complaints, sewer flooding, pressure and supply interruptions. The majority of this data is directly from our performance commitments (PCs) reporting. For example, the written complaint data submitted to CCWater forms a part of the Service Incentive Mechanism (SIM) and is subject to internal and external year end assurance. For measures that are not a part of our performance commitments, we provide appropriate second line assurance.	<ul style="list-style-type: none"> <li>• Where data is derived from performance commitments e.g. SIM, it is subject to the same assurance as noted below.</li> <li>• Where data is not derived from performance commitments, second line assurance is undertaken.</li> </ul>

**Table 3: Third line assurance processes for 2016-17 driven by statement of risks, strengths and weaknesses**

Area	Reason for inclusion	Overview of activity
<b>Performance commitments and ODIs</b>	In our own assessment, and in our stakeholders' view, all performance commitments are a priority area given the immaturity/complexity of some performance commitments and the potential impact on customers, environment and market confidence. Assurance will be undertaken at both half and full year (to identify any issues well in advance of final end of year reporting). Further 'deep dives' may be applied to areas of greater risk identified at half-year review and during the year.	<ul style="list-style-type: none"> <li>• External third line review of methodology</li> <li>• External third line face to face review of methodology application</li> <li>• External review of reported performance figures</li> <li>• Additional deep dives into key customer priorities and emerging areas of process risk from half-year review</li> </ul>
<b>Annual performance report</b>	This report is the principal way that we will document our annual performance and hold ourselves publicly to account. The report will include inputs from other areas covered by this assurance plan (e.g. financial accounts) and require some forecasts of performance. It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders.	<ul style="list-style-type: none"> <li>• External third line assurance of data, performance forecasts (and methodologies) and the presentation of information</li> <li>• Water Forum review of the presentation and dissemination of information</li> </ul>
<b>Cost allocation and segmental reporting</b>	Although Ofwat were satisfied with the additional information on cost allocation we provided in response to a query on our business plan, and subsequent regulatory accounts submissions, with the introduction of greater competition, we want to ensure retailers and our customers can continue to have confidence about the costs that are reflected in their charges between water, waste, household and non-household	<ul style="list-style-type: none"> <li>• External third line review of methodologies and application of regulatory accounting guidelines 2 and 5.</li> </ul>
<b>Preparations for non-household competition and market assurance (Water Act 2014)</b>	Failure to demonstrate readiness and compliance with a level playing field could have a significant impact on customers, market confidence and competition. Three letters of assurance are required from companies in order to demonstrate sufficient readiness to enter the retail market (we have submitted two of these already). Furthermore there are market requirements to provide performance data post April 2017, which we need to ensure that non-household customers will have sufficient confidence in.	<ul style="list-style-type: none"> <li>• External third line assurance of programme plan, resources, and management of delivery risks.</li> <li>• External third line assurance of data and underlying activity.</li> </ul>
<b>Drinking water quality performance</b>	We continue to recognise this as an ongoing area that requires a greater focus and provide stakeholder assurances that operational and performance improvements are being made.	<ul style="list-style-type: none"> <li>• Continued implementation of the 'cleanest water' improvement programme.</li> <li>• Internal audit third line assurance of programme plan, resources, and management of delivery risks</li> </ul>
<b>Voluntary reporting on developer services</b>	We are currently providing data on a voluntary basis but recognise our statutory duties are changing (following the Water Act 2014). As such this will be an area of focus for our assurance plans.	<ul style="list-style-type: none"> <li>• Second line review of reporting processes and methodology</li> </ul>

---

<b>Strategic casework</b>	<p>Ofwat currently has one strategic case about Severn Trent open regarding sewerage provision in Derbyshire. Its inclusion in this plan reflects our commitment to find a satisfactory resolution for all parties. Following work to resolve this issue in 2016, we are due to issue our final response to this case in November 16 and believe Ofwat will close the case shortly.</p>	<ul style="list-style-type: none"> <li>• Internal Audit third line assurance of the processes in place ahead of final submission</li> <li>• Escalated senior manager to case manage reaching a resolution (second line). Regular reporting to executive on action being taken.</li> </ul>
---------------------------	---	---

---



## How to respond

We welcome customer and stakeholder comments on section 2 of this document – our draft assurance plans. In particular, we would welcome views on whether our propose plan sufficiently addresses the areas of risk identified in section 1, if there are any gaps, or alternatively if our approach is disproportionate to the risks identified.

**We welcome your responses by 19 January 2017.**

We will publish our final assurance plans in February 2017.

Responses can be sent to: [future.consultation@severntrent.co.uk](mailto:future.consultation@severntrent.co.uk)

Or by post to:

Strategy and Regulation  
Severn Trent Water Ltd  
PO Box 5309  
Coventry  
CV3 9FH

In some instances we may want to make the responses we receive publicly available. Please let us know if you would like your response to be kept confidential.