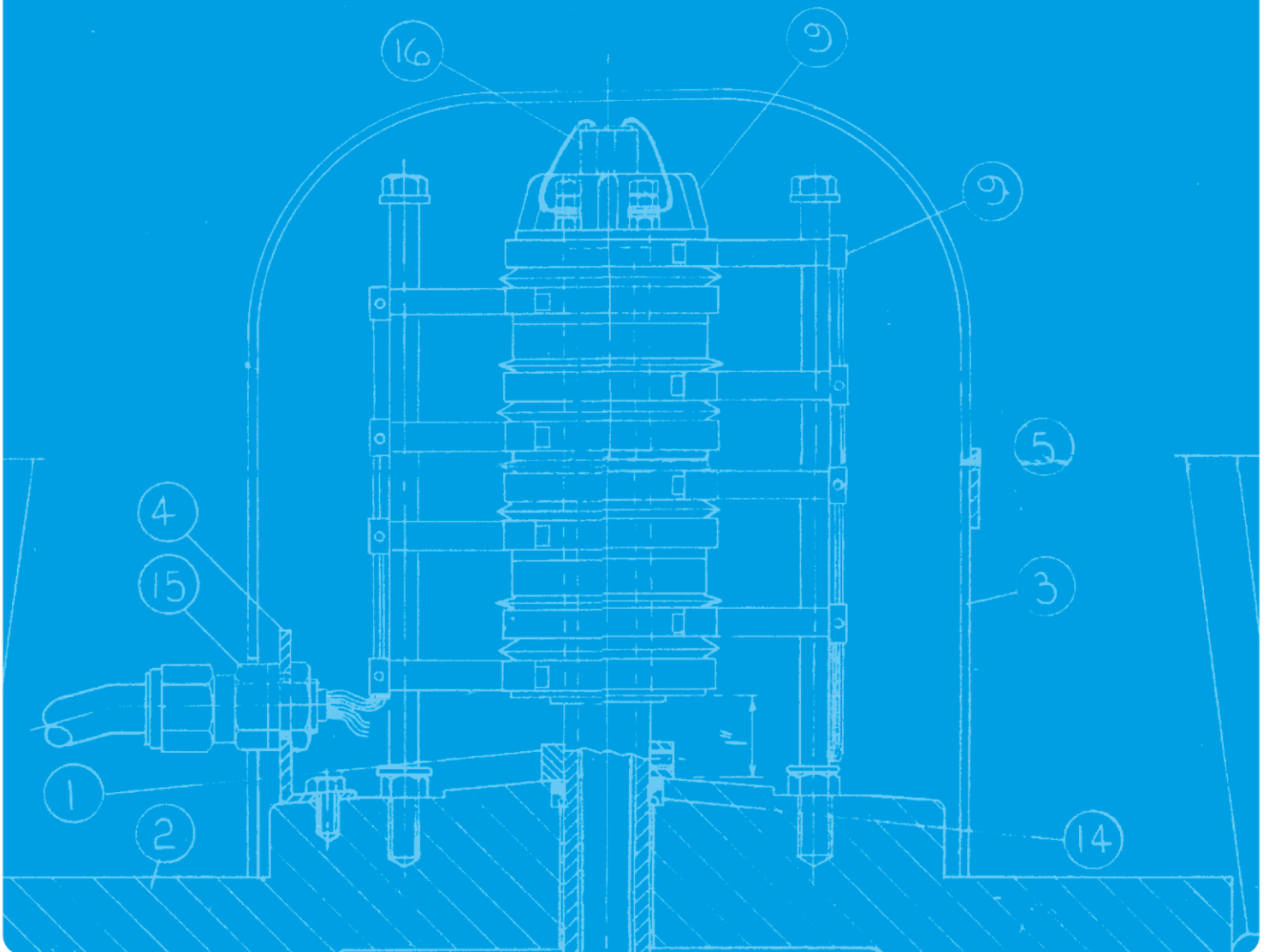


# Compliance Statement 2015/16

July 2016



## 1. Statutory and regulatory obligations

The statutory and regulatory obligations pertinent to our functions as a Water and Sewerage Undertaker are primarily set down in the Water Industry Act 1991 and our Instrument of Appointment (the Licence). The Licence also requires us to perform duties imposed under any other statutory and regulatory obligations as necessary to fully discharge our duties as a Water and Sewerage Undertaker

Our approach to achieving compliance with our statutory and regulatory obligations is based on establishing sound governance and systems of internal controls. It is important to understand that such systems cannot provide absolute guarantees. For example (as set out by the Financial Reporting Council, Internal Control, Revised Guidance for Directors on the Combined Code, October 2005):

- a) A sound system of control reduces but cannot eliminate the possibility of poor judgement in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the occurrence of unforeseeable circumstances.
- b) A sound system of internal control therefore provides reasonable, but not absolute, assurance that a company will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances which may reasonably be foreseen. A system of internal control cannot provide protection with certainty against a company failing to meet its business objectives or material errors, losses, fraud, or breaches of laws or regulations.

The Director of Strategy and Regulation – Dr Tony Ballance is accountable for the compliance framework relating to the Licence and other statutory and regulatory obligations supported by the Compliance team which reports to him. Responsibility for compliance with specific Licence conditions and obligations are assigned to individual senior managers within Severn Trent Water relevant to their areas of responsibility. This includes the development, implementation and testing of controls to ensure compliance such as policy and standards, procedures, supervision, training and management information.

Our system of internal control is reviewed annually by the Audit Committee and the Severn Trent Plc Board. Furthermore, the Internal Audit Team complete an annual cycle of formal reviews as agreed by the Audit Committee which covers the material business risks and key processes of the company. A number of these formal reviews address aspects of the overall framework for compliance with our statutory and regulatory obligations. These audit findings from these formal reviews are shared both with management and with the Audit Committee.

During the year, the Board has considered any potential departures from these obligations. Departures are set out in Annex 1.

## 2. Customer expectations

As part of the process for agreeing the business plan for the period 2015-2020 (AMP6), we have developed a set of outcomes that reflect what our customers need, want and can afford, both now and in the future. We worked with our customer challenge group (CCG), the Water Forum, to develop both the content of our plan and the mechanisms by which we will demonstrate delivery of our customers' expectations.

We have committed to delivering outcomes that reflect our customers' views and have designed and developed a suite of performance commitments and associated delivery incentives (ODIs) which describes the level of performance our customers can expect. The ODIs provide a transparent mechanism by which we can demonstrate to our customers whether the performance they have received from us is subject to a reward or

penalty. We believe the ODIs provides a strong incentives for us to innovate and become more efficient, protecting our customers against instances of under-delivery and where merited, rewarding us for outperformance in areas where customers are willing to pay more to receive more of what they want.

To facilitate the connectivity of our performance to customers' expectation we have opted to take account of any penalty or reward within the AMP period rather than at the end. We believe that these annual adjustments encourage improved performance for our customers and will increase investor confidence in the incentive regime.

We continue to work with the Water Forum and have shared detailed information on our performance both on a half and full year basis. We have consulted with the Water Forum on our year-end performance and ODI results and in particular the amount of reward we propose to recover through our customers charges for the year 2017/18.

### **3. Managing risk**

Our vision is to be 'the most trusted water company in the UK by 2020'; this desire aligns closely to Ofwat's shared vision 'where customers, the environment and wider society have trust and confidence in vital public water and wastewater services'. Consistent with the Company Monitoring Framework (CMF) we have considered the risk to customer 'trust and confidence' in the context of provision of accurate data and our ability to demonstrate we are listening to their needs and delivering the services they want and can afford.

Under the CMF, Ofwat assessed Severn Trent as requiring targeted assurance. This meant that we needed to work with our customers and stakeholders to target issues and consult on our assurance plans to ensure they were sufficient to address them. In September we undertook a programme of customer and stakeholder research and used this information, along with our own assessment to produce a statement of risks, strengths and weaknesses.

Significant risks are managed in accordance with the company's Enterprise Risk Management (ERM) Process which identifies possible risks, their causes and potential impacts. This allows us to place a focus on having the right controls in place to manage those risks by considering how to minimise the likelihood of the risks occurring and how to maximise our resilience to risks.

Key risks are reported to the Audit Committee and to the ST Plc Board every six months in the form of risk maps. In addition, individual risks or specific risk topics are also discussed by the STW Board during the year. Our risk management approach including the key regulatory risks and how these relate to our business model is outlined in more detail in our Severn Trent Plc report and accounts.

### **4. Assurance of our performance reporting**

In order to maintain trust and confidence with our customers it is essential that we provide accurate information as the basis for any conversations or publications relating to performance with our customers and stakeholders. This commitment extends beyond data alone to the presentation and explanation of such data in a manner which is both relevant and fair, balanced and understandable. Having information that is easy to understand and navigate provides transparency and helps build trust and confidence.

In February, as required by the CMF, we published our final assurance plan for 2015/16 setting out the activities planned to mitigate the risks identified in the risks, strengths and weaknesses statement. Full details of the assurance carried out and the outcome of the assurance can be found in the [name of document].

Overall accountability for the preparation and production of the Annual Performance Report (which includes reporting of performance against performance commitments and associated ODIs) rests with the Chief Financial Officer. The assurance process is reviewed by the Audit Committee on behalf of the Severn Trent Plc Board.

We have a well-established approach to internal controls and related assurance. We operate a '3 Lines of Defence' model within Severn Trent which distinguishes between first line processes and controls, second line oversight and third line independent assurance. We use this model for our regulatory returns so that we have an established level of assurance that this submission has been well prepared consistent with our internal processes.

First, our operational teams have well documented processes to ensure that they produce accurate and complete data. This is based on rigorous controls and ensures that there are:

- Clearly defined accountabilities and responsibilities.
- Documented methodologies for preparation of each of the individual Ofwat KPIs.
- Training and facilitation of information providers.
- High levels of automation in data handling to reduce the potential for error.
- Extensive internal and external assurance of methodologies, processes, data, controls and conclusions.
- Sign off of data by data owners, KPI owners and Directors.

Secondly, our Compliance team is responsible for developing the assurance framework, to include oversight and challenge of the output from the operational teams.

Finally, we undertake independent assurance both from Internal Audit and from independent providers. The framework we have established for the Annual Performance Report has been reviewed by the Internal Audit Team. This reviewed whether our proposed approach would support the required reporting and test sufficiently the underlying processes and controls. Independent assurance was provided by Deloitte and Jacobs. Financial aspects of the Annual Performance Report were audited by Deloitte with Jacobs providing assurance over the performance commitments and associated ODIs.

## 5. Board statement

Having taken into consideration the above:

- We have a full understanding of and we comply with our statutory and regulatory obligations in all material respects. Departures are set out in Annex 1.
- We have taken appropriate steps to understand and meet customer expectations.
- We have sufficient processes and internal systems of control to fully meet our obligations.
- We have appropriate systems and processes in place to identify, manage and review our risks.

Signed by and on behalf of the Board:



Liv Garfield  
Chief Executive  
Severn Trent Water Ltd  
7<sup>th</sup> July 2016

## Annex 1 – Obligations – Departures from the statement

Description of duty / obligation	Purpose of duty / obligations	Disclosure
<p><b>Section 68 Water Industry Act 1991</b></p>	<p>Duties of water undertakers and licensed water suppliers with respect to water quality</p>	<p>We currently have 38 Statutory Notices and provided seven Undertakings to the Drinking Water Inspectorate. Two of the Undertakings relate to actions agreed to address emerging water quality risks or underpin the agreed AMP 6 Business Plan commitments. One undertaking relates to Regulation 26 of the Water Quality (Water Supply) Regulations 2000 (Duty to design and continuously operate an adequate treatment process for water from the source) and refers to all surface water treatment sites and high risk ground water sites. There are mitigation plans in place for all sites.</p> <p>We remain committed to delivering improved performance through our Cleanest Water Plan which continues to be supported by strong governance from the Board with priority actions agreed with DWI.</p>
<p><b>Security and Emergency Measures Directive 1998</b></p>		<p>The SEMD audit confirmed that the Company continues to make a reasonable interpretation of the requirements of the SEMD but highlighted some areas for improvement. These are being addressed by the SEMD project delivery team, roadmaps developed as revised security strategy, and through a project to strengthen our incident management plans.</p>