

# Statement of risks, strengths and weaknesses and final assurance plan for 2017/18

February 2018

SEVERN  
TRENT

## 1.1 About this document

*Severn Trent Water is one of the largest of the ten regulated water and sewerage companies in England and Wales and a FTSE100 company. 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.*

We are now into our third year of our PR14 business plan, in which we set out our plans to deliver outstanding customer experience, the best value service and provide environmental leadership in the industry. We also set out our core company values and goals, one of which is to become the most trusted water company by 2020. This document sets out how we will ensure that we provide robust regulatory data that our customers and stakeholders trust – in line with our assurance approach and governance as a Plc.

Every year we publish a wide range of information about our services and our performance, through our formal regulatory reports and utilising our improved engagement channels with our stakeholders and customers. 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.

After publishing our draft assurance plan in November 2017 for consultation, we are now finalising our assurance plan for the current financial year (2017/18) incorporating the feedback we received from our stakeholders.

## 1.2 Background

As part of our goal to become the most trusted water company, we have previously engaged with our customers to assess their levels of trust in us and the areas that matter to them. In particular, our customer ODIs have remained an area of high importance for customers, particularly due to the direct impact these have on customers' bills, and as such this has been reflected in our previous assurance plans.

This year, as we build our plans for the next price review (PR19) we realise the importance of demonstrating high levels of engagement with all of our customers to ensure that we are reflecting their needs, while also ensuring that we produce a plan that reflects their needs and is of a high quality with robust assurance undertaken. In recognition of this, alongside our customer ODIs, PR19 will be a high priority for us this year, while we continue to build on the established levels of assurance we implemented in the previous years.

## 1.3 Ofwat's company monitoring framework (CMF)

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<sup>1</sup>. We were disappointed to be moved to 'targeted' assurance this year after achieving 'self-assured' the year prior. The requirements for 'targeted' companies are the same as 'self-assured' – companies must put in place assurance processes that give stakeholders the confidence that the information they publish is accurate and reliable. In addition however, 'targeted' companies are required to:

- Carry out an exercise with stakeholders to identify areas of risks requiring additional assurance
- Publish a statement of risks, strengths and weaknesses on this in the autumn of each year in advance of submitting information.

Even though as a 'self-assured' company last year we were not required to publish a statement of risks, strengths and weaknesses, we believe it was best practice for us continue doing to demonstrate transparency

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<sup>1</sup> <https://www.ofwat.gov.uk/regulated-companies/company-obligations/information-and-assurance/>

and engage with our key stakeholders as part of the consultation process. We see this document as part of our standard suite of assurance publications and will continue to publish this information alongside our draft and final assurance plans.

This year, our aim is to address the issues highlighted by Ofwat in their CMF assessment and improve the trust and confidence of our stakeholders, which will enable us to return to the 'self-assured' category. This aligns with our ambition to obtain 'exceptional' or 'fast-tracked' status for our PR19 plan.

## **1.4 Scope of the document**

This document is in two parts.

The first is our statement of risks, strengths and weaknesses. It has been developed using the feedback 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 final assurance plan for 2017/18. This sets out how we plan to respond to those risks.

Our Annual Performance Report and an assurance summary setting out our progress against our performance commitments will be published later in the year.

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

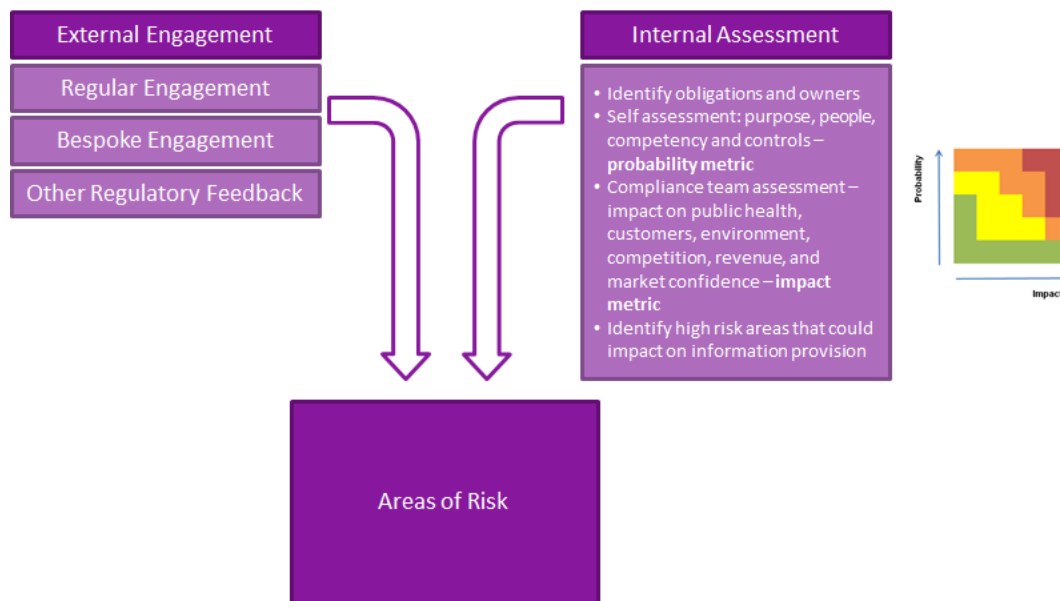
*In this section we summarise how we carried out our risk assessments, and the target areas we identified. Our final assurance plan in section 3 sets out how we propose to assure these risks.*

### 2.1.1 Approach

Figure 1 below illustrates how we have developed this statement using two inputs: external engagement and an internal assessment. The following section (2.2) explains this approach and the outcome in more detail.

We have not limited these assessments to 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 Performance Report](#).



### 2.1.2 Statement of risks

The risks we identify in this statement principally reflect:

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

They are:

### *Performance reporting – performance commitments and customer ODIs.*

Every single one of our performance commitments, regardless of whether a financial incentive is attached, could impact our customers' and stakeholders' perceptions of us. As we are now in the third year of customer ODIs our performance impact on customers' bills is real as some of our measures are eligible for us to claim in year rewards or penalties. 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 prior years, our final assurance plan (section 3) 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.

### *Price Review (PR19)*

This year PR19 becomes a business critical activity as it determines our business plan for the next AMP period (2020-2025). We aim to submit a plan that is either 'exceptional' or 'fast tracked' and recognise the importance to stakeholders and customers that our plan is both high-quality and meets their needs.

Our Internal Audit and Compliance teams have worked together to design a risk-based PR19 Assurance Framework. We engaged PwC to develop a 'bottom up' risk assessment to highlight what levels of assurance were required for which areas in line with our established three lines of defence model. All component parts of our PR19 plan will have an internal first and second line assurance review (as defined on page 13-14). As part of the 'bottom up' risk assessment undertaken by our internal assurance community, areas that were assessed as being of high materiality or risk will undergo a third line review, either by Internal Audit, external assurers or by other independent parties such as the Water Forum / CCWater depending on the measure e.g. customer vulnerability measures will be independently challenged by the Water Forum as opposed to the PR19 data tables, which will be examined by a technical auditor.

Our PR19 Assurance Framework will culminate in our Board signing an assurance statement, which will accompany our PR19 submission. The assurance framework has been reviewed and approved by our Audit Committee.

### *Water Resource Management Plan*

Every five years water companies have a statutory obligation to produce and publish a Water Resources Management Plan (WRMP). The WRMP should demonstrate that we have long term plans in place to accommodate the impacts of population growth, drought, environmental obligations and climate change uncertainty. For the WRMP19 there will also be a new, strategic challenge in the form of demonstrating that our plan does not put at risk the Water Framework Directive status of the water bodies in our region. It is also important that our plan demonstrates we will deliver the best value for our customers and that we have undertaken robust engagement to understand customer needs and priorities. Ofwat have set out the approach they expect companies to follow in completing the submission and have outlined specific requirements for assurance, including a signed Board assurance statement and evidence from assurance reviews

### *Delivery of Water Quality Improvements*

We recognise that our customers continue to regard the provision of safe clean drinking water as one of the most important services we provide as a water and waste water company. As our 'cleanest water' programme enters its third year we regularly track progress against our planned activity for delivering improvements. We

are starting to see the benefits of this programme in our customer ODI performance, for example a reduced number of coliform detections at our sites. We recognise however, that we still have further to go particularly around other water quality ODIs such as water quality complaints and drinking water compliance where we are unfortunately at risk of failing to achieve the targets we set out in PR14 for both these ODI measures. To enable improvement in these areas, we are embarking on the upper quartile water programme, which in addition to our 'cleanest water' programme aims for us to become one of the best in class companies when compared to our peers in the industry.

#### *New Connections Charging*

This year will see significant regulatory change in the way in which we set out our charges for new connections. For the first time, Ofwat have set the requirement to publish a comprehensive new connections charging scheme similar to our company scheme of charges. We hope to make this scheme as transparent as possible and reduce the number of queries we receive regarding connection charges. Due to the similar nature of this new charging scheme to the company tariff scheme of charges, we believe it is appropriate to perform a similar level of assurance activity to our company tariffs i.e. in addition to our internal controls and processes, independent third line assurance has been undertaken by an external auditor.

#### *Market Information (bioresources and water resources)*

Ofwat is promoting new markets in the water industry such as water resources and bioresources (also known as sludge). This will allow companies to provide and trade services between each other at a fair and competitive price. To help these markets grow successfully, it is important that customers and potential market participants can trust our costs are accurate in these areas for activities such as demand management, treatment, transport and other 'search costs'. We will support these new market areas and ensure our data is accurate and has had a third line review before publication.

## 2.2 Our approach in more detail

*In this section we explain in more detail how we identified the target areas set out in section 2.1.*

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.

### 2.2.1 Engaging our customers and stakeholders

We passionately believe in engaging 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 and the WRMP stakeholder forums);
- ongoing investor engagement, and annual announcements of interim and preliminary results; and
- ongoing customer research, including instant feedback mechanisms and a quarterly tracker survey.

This engagement helps to inform 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, the CBI, the CEO of Sandwell MBC and four independent members with expertise in areas such as customer research and engagement; corporate and social responsibility, climate change and engineering investment. The forum has met three times this year and will continue to have input into our 2020-25 (PR19) 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 and we have planned meetings for PR19 where they will provide independent challenge on parts of our submission with a particular focus on customer priority topics like vulnerability and affordability. We expect the Water Forum to challenge us to demonstrate that we have undertaken effective customer research that puts customers and their needs at the heart of our PR19 plan.

## 2.2.2 Engagement for this statement

We recognise the importance of engagement for our current year reporting and for developing our PR19 plan. To help us to build our understanding of customers' needs we have developed an engagement approach that considers our customers today and in the coming years.

As we produce information that is used by a diverse range of stakeholders in a number of ways, we have considered our engagement in the context of 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 continue to provide CCWater with quarterly updates on our performance and consult with them where appropriate on customer publications (for example, our company Code of Practice).

Prior to publication of our draft plan, we initially shared our key risk areas (highlighted in section in 2.1.2) where we want to focus our assurance plans with our Water Forum including CCWater and there were no initial objections to the proposals. Following the formal publication of our draft assurance plans in November 2017, we shared the complete document with our Water Forum and we subsequently received a response from CCWater who confirmed they agreed with the areas we had highlighted for focus in our plans. In particular they were 'pleased that you continue to give focus to PCs / ODIs as part of your assurance process. It is imperative that customers are assured that the data relating to performance is sound, subject to strong internal governance and external 'third party' assurance.' The other recommendations made by CCWater including expanding details of the composition of the Water forum and clarifying some of our risk areas have been incorporated into this version of the document.

Additionally, in the lead up to our publication of the draft WRMP, we have held a series of pre-consultation workshops with representation from over 50 different organisations including the EA, Natural England, the RSPB, local councils, wildlife trusts and rivers trusts to engage with them and understand their feedback. The strong messages coming out of these workshops were:

- Level of customer understanding is the biggest issue when tackling water efficiency, customers need to be educated on the company's drivers and engagement needs to be tailored to different communities
- Increase levels of partnership working
- The need to be more ambitious with leakage target
- Current catchment management schemes are focussed on water quality, could they be expanded to include attenuation/slow flow etc.
- Need more innovative, catchment based solutions to demonstrate environmental leadership

In response to these findings, changes we have made in our final plan include:

- We have increased our focus on leakage reduction and water efficiency.
- Our WRMP is not a least cost plan; we are aiming for step changes in our approach to water efficiency to ensure that our plan is the best long term solution to maintaining the supply demand balance.
- Our stakeholders have influenced the prioritisation hierarchy of our supply and demand solutions.

Throughout the workshops held so far our stakeholders have shown their support for our WRMP, giving us reassurance that we are working in the right direction. The WRMP section of our website is updated regularly with summaries, feedback, and relevant documents from our workshops<sup>2</sup>.

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<sup>2</sup> <https://www.severntrent.com/about-us/future-plans/water-resource-management/final-wrmp-documents/>



Last year, we were extremely pleased that Ofwat's assessment of our ability to deliver and report on performance named us as one of three companies in the 'self-assurance' category. However, subsequent to the publication of our draft assurance plan, Ofwat informed us that for this year we have been assessed as requiring 'targeted' assurance.

While we were disappointed with this outcome, the main area of concern noted by Ofwat was 'compliance with principles of board leadership, transparency and governance'. In particular, Ofwat commented that it *'could not identify a description of its group structure either as part of its annual reporting or on its website. It is important that companies set out the structure of the group clearly and unambiguously for all stakeholders to provide transparency.'* As a result, we are committed to providing an easy to follow company structure in our annual publications and on our website as part of our annual regulatory reporting at the financial year end.

We believe that the rest of our assurance plan remains valid and meets the 'targeted' assurance requirements set out by Ofwat. The ultimate aim of this plan is to help us improve the levels of trust and confidence our customers and stakeholders have in us, which will enable us to achieve our aim of re-attaining 'self-assured' status in Ofwat's next assessment.

## Group 2: customers

*Customers have good levels of trust in STW but our published information is not at the top of their priorities*

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.

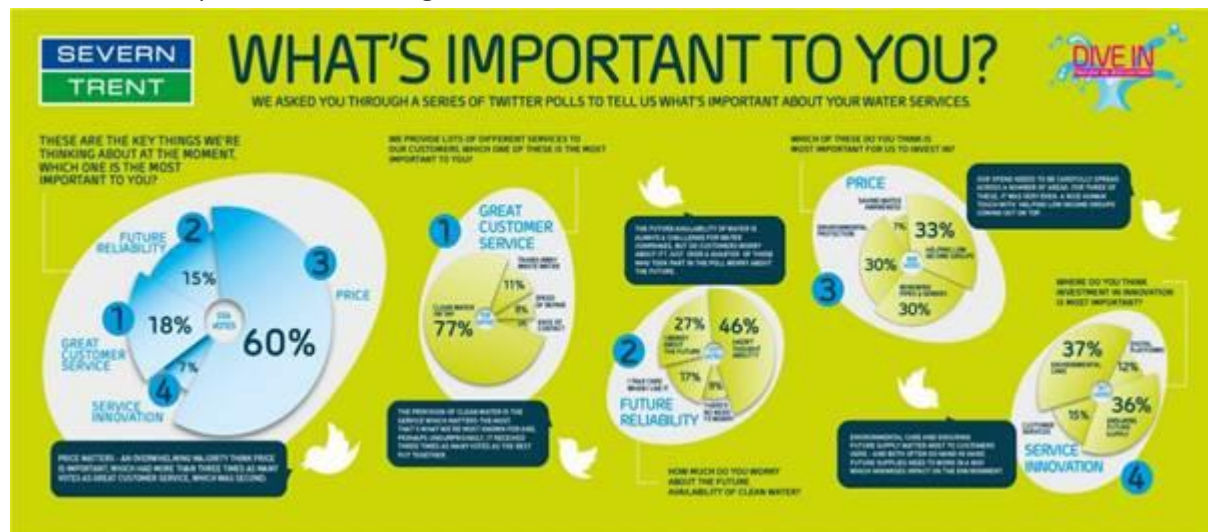
This year we analysed how many people access our Annual Performance Report using our web analytics software. Despite promotion of the annual performance report on our social media platforms, the report showed that since publication of our 2016-17 report only 422 unique visitors since July had visited our regulatory information page (which includes links to our Annual Performance Report). This demonstrated to us that customers generally do not have a keen interest in our annual reporting. Our customer insight team had proposed to survey customers who had read the report but due to the low number of 'hits', any survey performed was likely to be inconclusive. We have received feedback from CCWater and customers that our website can sometimes be difficult to navigate in respect of finding our regulatory publications. Our communications team will continue to look at the best way of engaging customers with our regulatory reporting and improving the layout of our website in future as part of its wider communication strategy.

As part of our engagement for PR19, we have started by deepening our understanding of customer's needs. We've gone back to basics by trying to better understand our customers, what's important to them in their lives, and what their needs are both in general and in relation to the services their water company could, or should, provide. We have considered customers with a diverse range of interests, backgrounds and experiences, e.g. future customers, those in vulnerable circumstances (from both a financial and health & wellbeing perspective) and different faiths and cultures. We have ensured that we use the right research techniques for each topic, using more deliberative research as well as in home depths to truly delve into customer priorities, in a way which is sensitive to their circumstances. Some of the initial feedback we have gained from this research is that many view and appreciate Severn Trent as a 'silent partner' who they can trust when they 'turn on the taps and the water is there'. This appears as a consistent message across the groups. There also appears to be a desire to understand more about what we do, and the role that education might play in promoting the efficient use of our services. Ultimately, we are planning to use co-creation

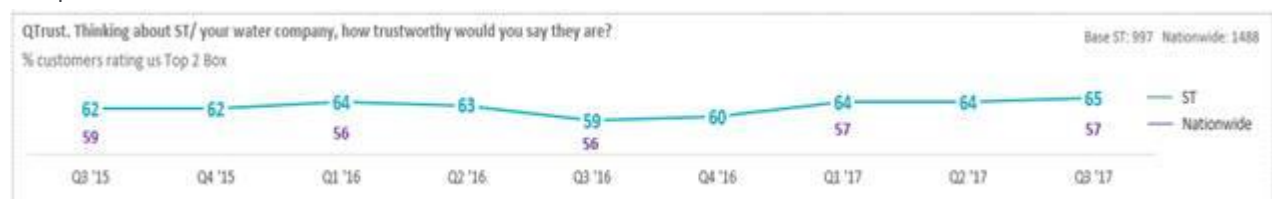
workshops to enable customers to directly feed in to our PR19 plans, as well as quantitative research on the main trade off areas of our plan and the aspect of service that customers want us to commit to.

In addition, in preparation for Ofwat’s proposed CMEX measure, which will replace SIM as the main measure of customers’ satisfaction, we are running pilot surveys in advance. We hope to gain insight into the views of customers who historically have not contact with us. All of the above outputs from these activities will feed into our PR19 business plan.

Our digital team have been conducting surveys on twitter to understand what our customers’ top priorities are. Using the #divein we ran a series of twitter polls, asking customers to indicate what was most important to them. ‘Price’ by a considerable margin was the most critical factor for customers.



We have also continued our quarterly customer tracker, which is conducted by an independent market research company (Future Thinking). The survey comprises of 1,000 STW customers online every quarter and asks customers about them about a number of factors including levels of trust, customer experience, best value service, environment and communications. In particular, the tracker has shown that over the last year (pictured below), levels of trust in STW have continued to be above the nationwide average for other water companies.



Finally, following Ofwat’s feedback in our 2016 CMF assessment that our initial response to a particular strategic case was not adequate, we created the Gilson Committee to specifically target long standing and high priority customer complaints. The Gilson Committee has senior management representation and has the ability to call on any part of the business to investigate complaints ensuring that we listen to our top customer concerns and resolve them promptly.

We will continue to engage our stakeholders through the year in the development of our plans.

### 2.2.3 Our internal assessment

This year we utilised the framework established in 2015/16 to identify potential risks to complying with our statutory and regulatory obligations (relating to our regulated water business), which we internally call

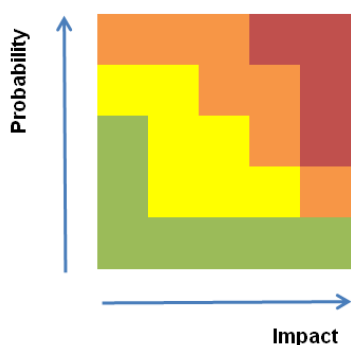
‘Licence to Operate’. This sits alongside the controls, governance and scrutiny we have in place as a FTSE100 company.

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 (e.g. 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 3) 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.

**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* – in recognition of the potential impact our performance commitments have on our customers, the environment and market confidence, our customer ODIs have featured in our assurance plans for the last two years. Customer ODIs remain a high priority for our stakeholders and customers for the reasons noted:
  - 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, at half year we have targeted specific performance commitments for greater assurance, by commissioning independent third line assurance to be carried out during the first half of 2017/18 to review our methodologies, documented processes, and their application. In areas where third line is not undertaken at the half year point, we have ensured that any improvement activity identified in prior years has been implemented and robust assurance processes have been developed by 1st and 2nd line assurance teams.

We report the outcome of this half-year assessment internally to our Audit Committee and as a part of our half-year results announcement in November. We discuss the outcome 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 2017/18 and at the financial year end.

- *Water Resource Management Plan (WRMP)* – As noted above, this year we will be publishing our WRMP, which is critical to demonstrating how we will effectively manage our water resources over the next five years. In particular, our risk assessment noted areas for improvement in our provision of information around water flows and works during drought orders. We have also received a large amount of feedback from expert stakeholders at our WRMP stakeholder forums, highlighting the importance of producing a high quality WRMP that has engaged with both industry and environmental groups.
- *Delivery of drinking water quality improvements* – we recognise that while we have made good progress to delivering improvements in water quality, our performance in this area is still not where we want it to be as evidenced by measures such as number of complaints about drinking water quality where we have missed our customer ODI commitments. Our ‘cleanest water’ and ‘upper quartile water’ programmes are working to ensure we meet and indeed go beyond our performance commitments in this area. We also know from our customer research that water quality is regarded as one of our customers’ top priorities.

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

## 3.1 Final assurance plan: our approach

*This section sets out our final assurance plan for 2017/18. 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 2017/18.*

We have welcomed stakeholders' views as to whether our initial draft plan published in November 2017 adequately addressed areas of risk identified by our own internal assessment, and external stakeholder engagement. The document was shared with our Water Forum and we have incorporated the response we received from CCWater into our final plans.

We have a well-established assurance and performance reporting framework. Our proposed assurance plan for this financial year, 2017/18, continues the processes we have implemented in last year's assurance plan for reporting our performance commitments in our Annual Performance Report.

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 and CCWater.
- *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.

### 3.1.1 Robust assurance

We have an established approach to internal controls and related assurance. We operate the 'three lines of defence model' shown in Table 1 below, 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   | Business operations:   | Responsible for the reporting of performance.  | <ul style="list-style-type: none"> <li>Provision of source information and reporting</li> <li>Monitoring and improving performance where required</li> <li>Defining and documenting methodologies and processes</li> </ul>  |
| 1b   | Embedded first line:   | 1 <sup>st</sup> line of defence for ensuring high quality and robust submissions             | <ul style="list-style-type: none"> <li>In-depth quality checks and reviews</li> <li>Assist with production of required documentation</li> </ul>   |
| 2    | Independent second line:   | 2 <sup>nd</sup> line of defence ensuring that 1 <sup>st</sup> line has undertaken its duties | <ul style="list-style-type: none"> <li>Ensure adequate 1<sup>st</sup> line undertaken</li> <li>Quality checks and reviews of systems and controls</li> <li>Coordination of assurance activities between 1<sup>st</sup> and 3<sup>rd</sup></li> </ul>  |
| 3    | Independent challenge:<br>Internal Audit, external assurance providers, Customer Challenge Groups (Water Forum, CCWater) | Provide independent challenge of levels of 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> <li>Provide challenge on expert areas(i.e. Water Forum on vulnerability, affordability and customer needs)</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 culminates in our year-end financial and performance reporting.

Section 3.2 sets out where we propose to employ third line assurance this year (2017/18), and in the light of the risks identified in section 1.

### 3.1.2 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. 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 separation of responsibilities is mirrored in our governance arrangements.

### 3.1.3 Effective governance

As a publicly listed company we have committed to comply with reporting requirements under the UK Corporate Governance Code, and the UKLA Listings Rules, Disclosure Guidance and Transparency Rules. We continue to adhere to the principles 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 risk management systems, and the effectiveness of internal and external auditors.
- The Board's Disclosure Committee oversees the company's reporting obligations under the Companies Act 2006, the UK Corporate Governance Code and the UKLA Listing, Rules, Disclosure Guidance and Transparency Rules.
- The Water Forum including CCWater provides independent external challenge of both our performance against our commitments and the information we provide on it.

### 3.1.4 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 an Annual Performance Report against our regulatory performance commitments for the latter.

This year we will continue to hold ourselves publicly to account with the publication of a new Annual Performance Report which will incorporate Ofwat's additional reporting requirements for Cost Assessment. We also publish a summary version of our Annual Performance Report following feedback from our customers that they prefer to read a summary than the full report.

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<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)

## 3.2 Final assurance plan: in detail

Section 3.1 sets out our overall approach to assurance. In this section we set out our final assurance plan for 2017/18. 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 2 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 including access prices</b> | We have established processes to ensure that our charges scheme is consistent with charging principles and our revenue caps. With the opening of the non-household retail market last year, we publish non-primary charges in line with our primary charges scheme.   | <ul style="list-style-type: none"> <li>External third line assurance of tariffs model and application.</li> <li>External third line review for ‘margin squeeze’ and methodology of charging inputs and principles.</li> <li>Third line assurance undertaken by Internal Audit of data inputs.</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>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>Annual report to CCWater</b>               | On a 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>                                 |



|   |   |   |
|---|---|---|
| <b>Operational Performance Standards (OPS) and Market Performance Standards (MPS)</b> | On a quarterly basis, we are required to submit a number of key performance indicators to the market operator, MOSL who then publishes the information on their website. This information is used by retailers, Ofwat and MOSL to ensure that wholesalers are delivering a competitive and fair service to all customers in the market. Next year, failure to meet MPS SLAs will also result in a financial penalty for the company.  | <ul style="list-style-type: none"> <li>• Third line review by Internal Audit of outputs</li> </ul>  |
| <b>Performance commitments and customer 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. Risk-based targeted 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> |

**Table 3: Third line assurance processes for 2017-18 driven by statement of risks, strengths and weaknesses**

| Area  | Reason for inclusion   | Overview of activity  |
|---|--|---|
| <b>PR19</b>                                   | <p>This year PR19 becomes a business critical activity as it determines our business plan for the next AMP period (2020-2025). We aim to submit a plan that is classified by Ofwat as 'exceptional' or 'fast tracked'. Delivery of this requires robust assurance plans given the scope of data, research and engagement requirements set out in the draft Ofwat methodology.</p> <p>Prior to the main PR19 submission next year, there are a number of earlier submissions that require the same robust assurance approach.</p> | <ul style="list-style-type: none"> <li>• Comprehensive PR19 Assurance framework designed by Compliance and PwC. This has been approved by our Audit Committee.</li> <li>• All areas will be subject to a minimum of second line assurance including reviews of data, methodology and processes.</li> <li>• Higher risk or high materiality areas will be subject to additional third line assurance (via a mixture of external assurers, expert groups such as the Water Forum and Internal Audit)</li> </ul> |
| <b>Water resources management plan (WRMP)</b> | <p>This document sets out how we plan to meet our customers' need for clean water both now and in the future, taking into account the changing impacts of climate change and population growth. Ofwat have set out the approach they expect companies to follow in completing the submission and have outlined specific requirements for assurance, including a signed Board assurance statement.</p>  | <ul style="list-style-type: none"> <li>• External third line assurance of data, methodologies and the presentation of information</li> <li>• Independent challenge from external stakeholders - Natural Resources Wales, Environment Agency</li> </ul>  |

|  |   |  |
|--|---|--|
| <b>Delivery of water quality improvements</b>                | As demonstrated by our research, this area remains a high priority for customers and external stakeholders such as the DWI. Our risk assessment has also assessed some obligations relating to water quality as high risk in terms of accountability and processes.   | <ul style="list-style-type: none"> <li>• Regular programme monitoring through embedded Water Quality Steering Group</li> <li>• Reporting of risks and issues through both 'cleanest water' and 'upper quartile' programmes</li> <li>• Annual reporting of water quality measures to DWI subject to third line assurance for any ODIs with second line assurance for all other measures.</li> </ul> |
| <b>New connections charging</b>                              | New regulatory requirement to publish a charging scheme for new connections. Process will be aligned to our Charges Scheme process, which is already subject to third line assurance.   | <ul style="list-style-type: none"> <li>• External third line assurance of charging model, data inputs and application of charging principles.</li> </ul>   |
| <b>Market Information (Bioresources and Water Resources)</b> | To help these markets grow successfully, it is important that customers and potential market participants can trust our costs are accurate in these areas for activities such as demand management, treatment, transport and other 'search costs'. We will support these new market areas and ensure our data is accurate and has had a third line review before publication. | <ul style="list-style-type: none"> <li>• External third line assurance of data, methodologies and the presentation of information</li> </ul>   |

## 4.1 Any questions?

If you have any questions about our assurance plans, you can contact us at:

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