

Statement of Risks, Strengths and Weaknesses and Final Assurance Plan 2018/19

Severn Trent

February 2019

WONDERFUL ON TAP



1. About this document

At Severn Trent we're responsible for providing water and waste water services to over 4.4 million customers in the Midlands area. We strive to achieve the highest quality standards in everything we do. Whether it's the quality of our drinking water or the regulatory performance information we publish on our website, we want to make sure that our customers can trust us to deliver what matters to them most.

The quality of the regulatory information we publish is important because it helps to give our customers and other stakeholders' confidence that we're being open and honest. Not only about where we're delivering on our commitments to them, but also where we're not.

To help to secure this confidence, we use assurance to thoroughly test information we publish in a manner that is independent and verifiable. Our Board oversees this process through our established governance and assurance framework.

What is assurance?

We perform 'assurance' to check that the information we provide is robust, accurate and complete. Examples of assurance may include checking that a spreadsheet has no formula errors, that a customer call has been recorded accurately on our systems or consulting with our customer challenge group on our plans for vulnerable customers. You can read more about the levels of assurance we apply on page 7.

Ofwat's Company Monitoring Framework

On an annual basis, Ofwat assesses the level of trust that it has in the data we produced and assesses against three categories:

- **Self-assured** - indicating a high level of trust. Companies who are self-assured have greater levels of freedom to dictate their own assurance plans for the reporting year.
- **Targeted** – indicating a sufficient level of trust, however Ofwat dictates some areas that must receive assurance. Targeted companies must also publish an annual statement of risks, strengths and weaknesses and an accompanying assurance plan.
- **Prescribed** – indicating that Ofwat has concerns with the information provided and dictates what information should be assured by the company as well as the requirement to publish an annual statement of risks, strengths and weaknesses and an accompanying assurance plan.

This process is known as the Company Monitoring Framework (CMF). Under the CMF, we publish assurance and compliance documents throughout the year as shown in Fig. 1 below. By doing this, we make sure that our regulatory publications can be trusted by our customers and our stakeholders.

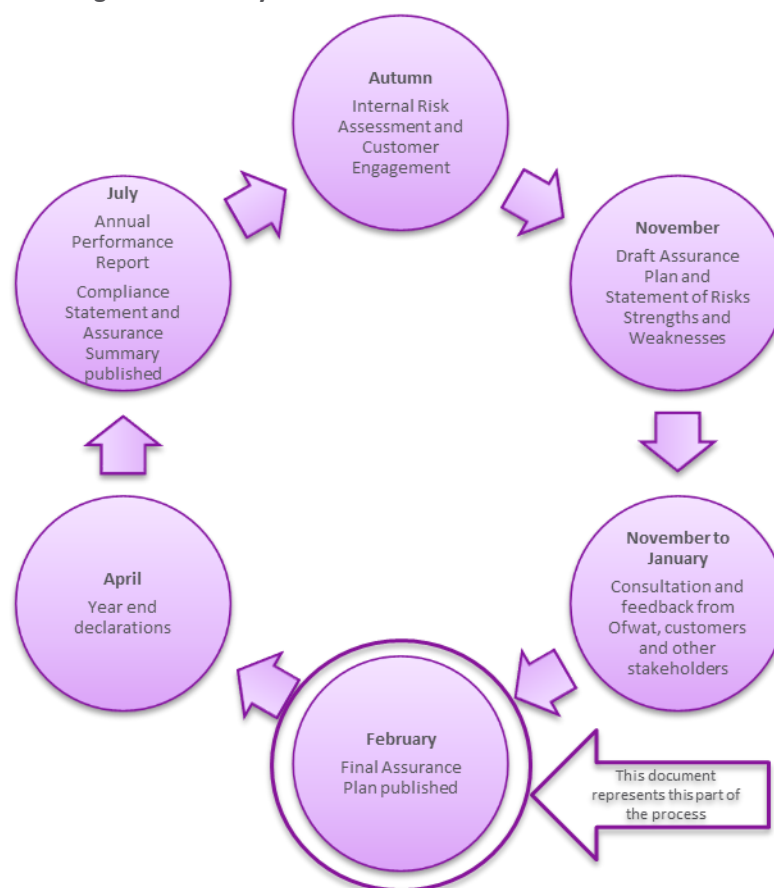
What is the Company Monitoring Framework?

Ofwat's company monitoring framework (published in June 2015) set out its expectations for how it will oversee information that we, and the 16 other largest water companies, provide to our customers. Our aim is to be in the top category of 'self-assured'. For more information please visit Ofwat's website (www.ofwat.gov.uk)

Understanding your views

In November 2018, we published our [statement of risks, strengths and weaknesses and our draft assurance plan](#) for consultation. In addition to publishing this document on our website, we proactively contacted our key stakeholders to let them know we wanted to hear their views. As a result, we've considered the feedback received and wider industry trends to produce this document – our final assurance plan. This plan covers the 2018/19 regulatory reporting year and considers requirements for 2019/20 onwards.

Fig 1. The Company Monitoring Framework cycle



This document contains the following information:

- A glossary to ensure you can understand any abbreviations used in this document.
- Information on our governance and assurance framework, which covers our Board arrangements and the different levels of assurance we apply.
- An overview of our internal compliance assessment framework – Licence to Operate, which helps us determine our greatest areas of risk.
- Details of the customer and stakeholder engagement we undertook to produce our initial draft assurance plan and the feedback we received from our November consultation.
- Our areas of risk and final assurance plan, which incorporates both our internal assessment and external engagement

Changes this year

In July 2018, we realigned the boundaries of the two regulated water companies within the Severn Trent Plc group – Severn Trent Water and Dee Valley Water – to better match the boundaries between England and Wales. Severn Trent Water now serves customers in England, while our new company - Hafren Dyfrdwy, serves customers in Wales. This realignment has necessitated a change in how we report performance data and how we operate to ensure we fairly protect the interests of customers of both companies. The focus of our assurance reflects this.

Alongside this, we submitted two innovative and customer focused business plans for both companies that set out what we intend to do for our customers in the next five year period (2020-25) and beyond. To ensure we can deliver our promised commitments, our Price Review 2019 (PR19) assurance framework was built on our established assurance processes to flag up areas of risk or non-compliance.

2. Glossary

To help to explain all the terms in this document, we've included the table below.

Term	Definition
AIM	Abstraction Incentive Mechanism - AIM encourages water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites when water is scarce.
AMP	Asset Management Period – this refers to Ofwat's 5 year planning period. For example, we are currently in AMP6. AMP7 will start in 2020.
APR	Annual Performance Report – includes information about whether we've achieved our performance commitments in a given year, and our financial performance – based on the accounting conventions in Ofwat's regulatory accounting guidelines.
ARA	Annual Report and Accounts – includes our annual financial statements based on International Financial Reporting Standards
Assurance	A process that challenges the validity of our data and methodology.
CCWater	Consumer Council for Water – the statutory consumer representative body for the water industry.
Compliance	Our team in Severn Trent that monitors compliance with our statutory and regulatory duties in our appointed business.
ERM	Enterprise Risk Management – our system of identifying and managing risks within Severn Trent Plc.
HD	Hafren Dyfrdwy Cyfyngedig – the regulated water company within Severn Trent Plc whose area of appointment covers North East and mid-Wales.
Internal Audit	Reporting directly to the Severn Trent Plc Audit Committee, the Internal Audit team provides independent assessment of the effectiveness of our processes, controls and risk mitigation strategies.
K Factor	K Factor is the price limit that companies can increase or decrease prices charged to customers. This is reviewed and determined by Ofwat.
MOSL	The market operator for England's competitive non-household market.
NAV	New appointments and variations - Companies which provide a water and/or sewerage service to customers in an area which was previously provided by an incumbent provider. Hafren Dyfrdwy is a NAV as it provides water and waste services in an area previously supplied by Dee Valley Water and Severn Trent.
ODI	Outcome Delivery Incentives are individual performance measures, which have a financial reward or penalty attached to them. They are a sub component of our performance commitments (below).
Ofwat	The Water Services Regulation Authority – the statutory economic regulator for the water industry.
PC	Performance Commitment – the level of performance we've committed to deliver either annually or during the five-year period covered by business plans.
PR19	Price Review 2019 - Every five years we publish our proposals for the next five year period. Ofwat reviews this and decides whether our plans are suitable in a determination process.
RACI	Responsible, Accountable, Consulted, Informed – a RACI details who is responsible for managing a duty or obligation, who is accountable and who should be consulted or informed of any changes
RORE	Return on Regulated Equity – the percentage amount that we are allowed to give back to our investors, which is agreed as part of Ofwat's price limits.
SLA	Service Level Agreements – we have timescales and minimum levels of performance in place both internally and with our contractors
ST	Severn Trent Water Limited – the regulated water company within Severn Trent Plc whose area of appointment covers the Midlands, and the subject of this document.
ST Plc	Severn Trent Plc – the parent company and ultimate controller of Severn Trent Water and Hafren Dyfrdwy.

Third Party Auditor/Assurer	An independent audit company or organisation that performs audit or assurance services.
Water Forum	Our Customer Challenge Group (CCG), which includes independent experts, CCWater, our regulators including the Environment Agency, Natural England and other regional stakeholders.

3. Our governance and assurance framework

Over the last decade we've worked to continuously improve our assurance approach, but it all starts with the right behaviours and values.

Starting with the right behaviours

Assurance alone isn't infallible, and we believe ensuring balanced reporting that our customers and stakeholders can have confidence in, starts with the values of our company, our people and our behaviours.

Our code of conduct, '[Doing the right thing – the Severn Trent way](#)', is embedded throughout the organisation as a way of working that ensures every employee is accountable for upholding our values.

Every day our people have to make choices about what they do and how they do it. Most of the time it is clear what the right thing to do is, whether it is about doing what's safe, doing the right thing for customers, doing what is right ethically and indeed what is right legally.

But sometimes it's not so clear, so Doing the Right Thing - the Severn Trent way, details the five values we work by, to help guide our people through those grey areas when there are no hard rules in place:

1. We put our customers first.
2. We are passionate about what we do.
3. We act with integrity.
4. We protect our environment.
5. We're inspired to create an awesome company.

These values apply to how we report information just as much as any other area of what we do.

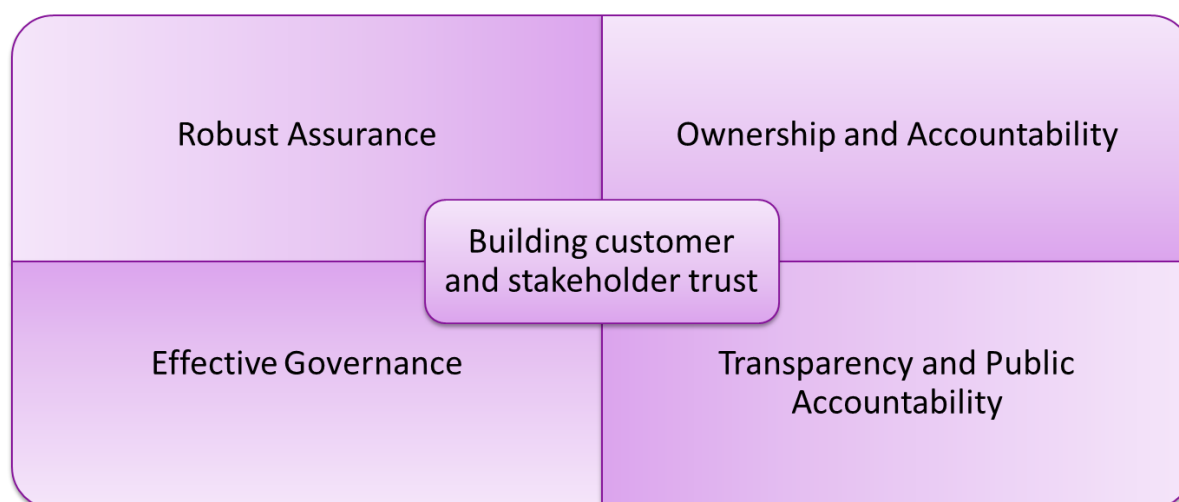
A continuously evolving assurance approach

The assurance processes we use come from best practice identified across many organisations and industries ensuring that managers, senior managers and directors are responsible for delivering high quality data through robust processes and methodologies.

Our established framework is underpinned by four main principles (as shown in Fig 2 below) which, while providing consistency and clarity for our people, allow the flexibility for our assurance processes to build and evolve with our company and the environment we operate in. For example:

- A risk based approach to assurance i.e. targeting areas of greatest importance with three lines of assurance at the areas that matter most or are high risk. This approach ensures that our assurance programme maintains value for money while also giving confidence to our customers and stakeholders that the information they value is trustworthy.
- Implementing a bi-annual assurance process for our PCs to ensure that any potential areas of non-compliance are noted at the mid-year point. This gives us the opportunity to rectify the issues before year end. In particular, we perform detailed reviews of our PCs that have financial incentives associated with them to give our customers assurance that we are appropriately rewarded or penalised for our performance.

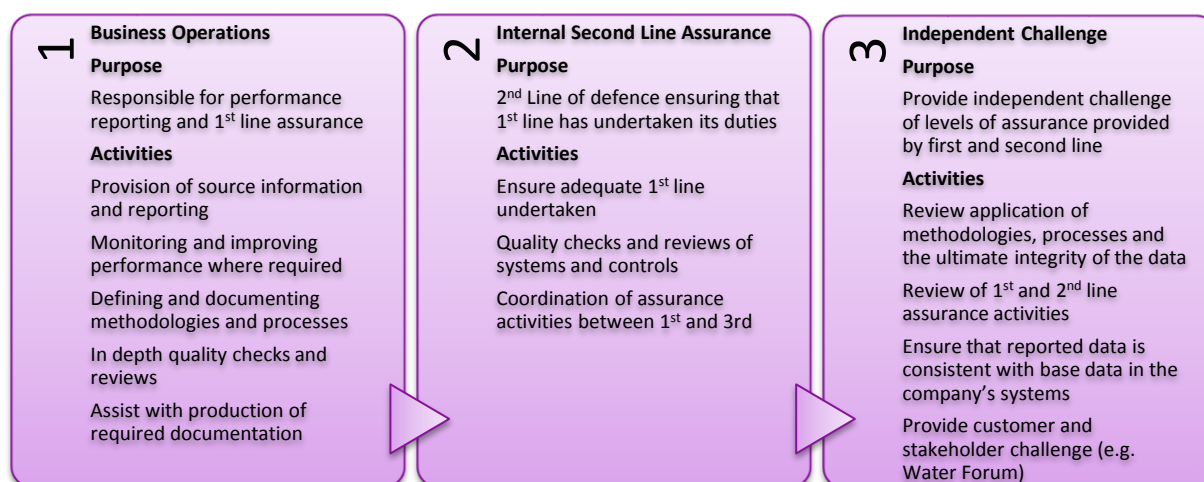
Fig 2: Our assurance principles



3.1 Robust assurance

To ensure we're applying an effective programme of assurance, while balancing value for money, we operate a three lines of assurance model. We target this model using a risk-based approach so areas that we know are of prime importance to customers or may have a significant financial value or operational impact receive the full three lines of assurance while other areas may be targeted with first or second line only. This approach ensures our spending on assurance is proportionate and aligns to what our customers' value most. Fig 3 below details the three lines and the typical activities that each level is responsible for.

Fig 3: Our Levels of Assurance



First line activities are embedded within the teams that are responsible for reporting the performance so that staff with the right expertise are conducting in depth quality checks at the time the data is produced.

Second line activities are then conducted by a separate team that does not report into the same senior manager as the first line to ensure a level of independent checking is conducted. For elements of our APR, second line functions are embedded within the same directorate as the performance reporting. This ensures that we maintain a strong level of expertise and understanding of the source data.

Third line activities are conducted by a number of different providers depending on the specialisation required. Generally the expertise can be divided into the following categories:

- **Engineering/technical** - where assurance requires an expert engineering / water industry technical background.
- **Regulatory** - where challenge is required around the methodology used and assumptions against our regulatory requirements.
- **Data integrity and consistency** – understanding the flow of data from source through to our final publications ensuring no data transposition errors are made.
- **Financial** - used for areas requiring specific financial expertise, such as pensions.
- **Model integrity** - where a complex financial model is used and requires specialist external expertise to test and challenge

We use a combination of assurance providers for third line activity. The majority of our assurance is provided by the following:

- **Jacobs** – typically review non-financial operational performance processes and data. Also responsible for cost allocation activities and financial reporting processes
- **Deloitte** – our financial data auditor
- **Internal Audit** – used for ad-hoc activity and data audits

3.2 Ownership and accountability

We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided through our 'licence to operate' process, which every year assigns ownership of all of our statutory and legal obligations in our appointed business to managers, senior managers and directors. These managers are responsible for ensuring compliance with our duties and raising potential risks or issues of non-compliance. Any areas that are noted as non-compliant are disclosed by the Board as departures in its annual compliance statement following review, scrutiny and remedial action by our senior leadership team and our Disclosure and Audit Committees.

Section 4 includes more information on our licence to operate process.

3.3 Effective governance

As the principal operating subsidiary of a FTSE100 company we have a strong history of well-established governance and internal controls to fully meet our statutory requirements under the Companies Act 2006, the UK Corporate Governance Code, the UKLA Listing Rules, Disclosure Guidance and Transparency Rules, and the Company's annual and continuing regulatory reporting. Additional challenge is provided by the Water Forum who challenge us to evidence how the voice of the customer has been considered in our decision making processes.

Fig 4 below shows how our assurance framework interacts with our governance arrangements to ensure that all levels of the business has oversight of our assurance processes.


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graph TD; Board[Severn Trent Plc Board] <-->|Report| AC[Audit Committee]; Board <-->|Delegated authority| AC; AC <-->|Report| DC[Disclosure Committee]; AC <-->|Delegated authority| DC; DC <-->|Report| TLA[Third Line of assurance – External or Internal Audit]; DC <-->|Delegated authority| TLA; TLA <-->|Report| SLA[Second line of assurance Internal independent team]; TLA <-->|Delegated authority| SLA; SLA <-->|Report| FLA[First line of assurance Business unit management]; SLA <-->|Delegated authority| FLA; FLA <-->|Report| Oversight[Oversight]; FLA <-->|Delegated authority| Oversight; STEC[Severn Trent Executive Committee (STEC)] <-->|Delegated authority| Board; STEC <-->|Delegated authority| AC; STEC <-->|Delegated authority| DC; STEC <-->|Delegated authority| TLA; STEC <-->|Delegated authority| SLA; STEC <-->|Delegated authority| FLA; STEC <-->|Delegated authority| Oversight; TLA <-->|Inform and improve| SLA; TLA <-->|Inform and improve| FLA; TLA <-->|Inform and improve| Oversight; SLA <-->|Inform and improve| FLA; SLA <-->|Inform and improve| Oversight; FLA <-->|Inform and improve| Oversight; TLA <-->|Inform and prioritise| SLA; TLA <-->|Inform and prioritise| FLA; TLA <-->|Inform and prioritise| Oversight; SLA <-->|Inform and prioritise| FLA; SLA <-->|Inform and prioritise| Oversight; FLA <-->|Inform and prioritise| Oversight;
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As a public service we want to be transparent about how we l

4. Our internal assessment – licence to operate

As well as ensuring we account for our customers' views, we use the wealth of expertise within the business to assess all of our statutory and regulatory obligations relating to provision of water and wastewater. We call this assessment 'licence to operate' and it has been operating in Severn Trent for four years.

4.1 The process

Over the past three years we have continuously reviewed the process to improve it by using new tools such as SharePoint to track the assessments and approvals from all levels of management. We monitor over 350 obligations. Licence to operate is a two stage process that operates through the mid and year-end of the annual regulatory cycle.

4.1.1 Mid-year risk assessment

In September we ask our responsible managers to complete a risk assessment of their regulatory and statutory obligations. This involves assessing the following five categories as either low, medium low, medium high or high risk, which we use to indicate likelihood:

- **Purpose** – Does the responsible manager understand the purpose of the duty and what their obligations are?
- **Process** – Has the responsible manager ensured that there is an adequate process in place to comply with our obligation and is this documented?
- **RACI** – Is it clear which employees are responsible for which part of the process?
- **Competency** – Are there enough employees suitably trained and is there a clear skill matrix defined?
- **Controls** – Are there measures in place to monitor performance and is regular quality checking undertaken?

Once this assessment has been completed, centrally the Compliance team assess the impact of non-compliance in this area using six factors:

- **Customer service impact** – What would be the impact on customers of non-compliance?
- **Competition compliance** – Does the duty or obligation interact with competition law?
- **Impact on the environment** – could we damage the environment if we didn't comply with this obligation?
- **Health and Safety** – could someone be hurt as a result of non-compliance?
- **Market confidence** – would investors lose confidence in the business?
- **Financial impact** – could non-compliance result in financial fines?

By combining the likelihood assessment with the impact assessment we are able to understand the areas of compliance risk that require either management action or our assurance plan needs to target. This allows us the opportunity to put action plans in place prior to our year-end reporting of performance. For further verification, we also review these risks against our ERM register to ensure there has been a consistent assessment of risk across the two processes.

4.1.2 Year-end declarations

Prior to publication of our annual regulatory reporting we ask our responsible managers to declare whether they have been compliant or non-compliant with their obligations. If they have been non-compliant, we ask them to complete a 'departures' form, which details what issue has occurred during the reporting year and what action will be taken to prevent it in future.

All departures are then reviewed by the accountable senior manager and director who will assess the level of materiality. Some departures, while representing an instance of non-compliance with process may not be material or for example it may be within the stated confidence of the measure. All departure assessments are tracked on the departures form to ensure that we maintain a visible audit trail of all areas of potential non-compliance.

Departures that are assessed to have a material impact are included in our annual Compliance Statement, which is published in July alongside our regulatory reporting. This document is reviewed and scrutinised by Disclosure Committee and Audit Committee before it is endorsed by our Board prior to publication ensuring that all levels of the business are made aware of any significant risks or issues.

4.2 Changes in 2018/19

This year we added new obligations to our 'licence to operate' process to respond to changes in our operating model within Severn Trent Water and our statutory obligations:

- **Regulatory Accounting Guidelines 5.07 (RAG5)** – we asked all senior managers to risk assess whether they had adequate procedures in place to comply with RAG5 e.g. ensuring accurate cost allocation processes between price controls and between Severn Trent and other businesses in the Severn Trent Plc group including Hafren Dyfrdwy and that they were compliant with arm's length trading principles. We also setup a RAG5 steering committee to oversee compliance with our obligations
- **General Data Protection Regulation (GDPR)** – as GDPR came into force in May 2018 all of our colleagues have undertaken GDPR e-learning training to ensure all colleagues are aware of our procedures in case of a data breach and how to prevent one from occurring. Again we asked our senior managers who are assigned internally as 'data owners' to risk assess their compliance with GDPR legislation.

4.3 2018/19 risk assessment outcome

In this year's assessment, the following areas were noted as either high or medium high risk in order of importance:

- **Performance commitments** - in recognition of the potential impact our performance commitments have on our customers, the environment and market confidence, our customer ODIs continue to feature in our assurance plans as part of the Annual Performance Report. Customer ODIs remain a high priority for our stakeholders and customers 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 incentives 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.
- **Water Quality obligations** – Due to existing processes that are in place, we believe we are compliant with our obligations under the Water Quality (Water Supply) Regulations and the Water Industry Act. All of our managers are competency checked and trained whether they are new or existing in role as part of a three year programme, however due to staff changes in the teams that carry out these duties we want to ensure that all of our managers have an up to date understanding of what their

responsibilities are. Our Regulatory Performance team are conducting an internal review to ensure an appropriate RACI is in place.

- **Obligations in the non-household retail market** – While we are continuing to evolve our business procedures to ensure we can deal with all market transactions in a timely manner, we recognise that some of our processes in the relatively new retail market are comparatively immature to other processes. We closely monitor our Market Performance Standards and Operational Performance Standards to ensure we continue on an improving trajectory.

Where appropriate, action plans have been put in place to address these areas and reduce the level of risk associated.

Our internal compliance team also provides further oversight of our assurance plan to ensure that we include areas that may not necessarily score high on our internal risk assessment in the present, but that we know are subject to or could be, subject to regulatory change or emphasis.

- **Boundary realignment** – Following the creation of Hafren Dyfrdwy on 1st July 2018, our regulatory reporting has now been split according to the new licence lines. We have asked all lines of assurance (including third line) to consider how the boundary realignment has impacted regulatory reporting and whether performance has been allocated to the correct entity.
- **Cost allocation** – Cost allocation activities within our finance team are part of our established third line assurance annual processes however the following factors have meant that we wanted to place additional emphasis on this area for 2018/19:
 - Boundary realignment and the creation of Hafren Dyfrdwy meaning that we wanted to ensure costs are allocated correctly between our businesses.
 - Ofwat's licence simplification consultation that embedded RAG 5.07 into our licence as of January 2019.
- **Drought Plan** - The Water Act (2003) made it a statutory requirement for water companies to produce and maintain a Drought Plan. We update these plans every five years. Our Drought Plan sets out how we will manage our resources and supply system in dry years, to maintain our service to our customers. We published a draft drought plan in 2018 but following Beast from the East we will seek to incorporate learnings from this event in our final publication in Spring 2019.
- **Governance of regulatory and statutory duties** – As noted above, we want to ensure we can demonstrate we have good governance arrangements in place in order for us meet our regulatory and statutory obligations. During PR19, Jacobs reviewed our governance arrangements and our processes for meeting these obligations to ensure these were appropriate.
- **K factor and ODI Model**– Ofwat noted in its '[in period ODI draft determination](#)' that it had found a small number of errors and inconsistencies in the spreadsheets we provided, which were used to calculate our reward / penalty for performance on our ODIs. We acknowledged that these errors had been missed by our two lines of assurance. We will conduct an internal review and consider what additional assurance is required for this year.
- **New connections charging** – In 2017/18 Ofwat implemented a new set of charging rules relating to how we set charges for our Developer Services customers. As a result we implemented new set of charging rules and the team setup three lines of assurance to check we were compliant with Ofwat's charging principles. This year we have worked hard to increase the robustness of first and second line assurance activities in areas recommended by our third line assurer last year.
- **PR19 future reporting**– As part of our PR19 business plan we proposed a suite of performance commitments for the next five year period (2020-2025), a number of which require new reporting processes to be developed. As such, we want to ensure we can report our data accurately before the next AMP starts. Last year we asked our regulatory technical auditor to review our plans in advance to check that we had suitable action plans in place to address any areas where we would potentially be

unable to report the new measures. This year we're using the same process that we use for our performance commitment data in 'shadow' i.e. half year and full year audits to ensure we get a snapshot of risk areas prior to year-end.

- **Water Resource Management Plan** – Our draft Water Resource Management Plan was published in January 2018 and was open to consultation with all our customers and other stakeholders. This year we will be publishing the final plan that requires a signed Board assurance statement to be published alongside it. Given the complexity and strategic importance of managing our water resources, we wanted to make sure that our final publication was subject to third line review.

We used these areas as part of our customer engagement described in section 5 and published them as part of our November consultation document to understand whether our customers and stakeholders believed were targeting the right areas. How we address these areas with assurance is covered in section 6.

5. Customer and stakeholder engagement

To understand which areas matter most to our customers and stakeholders, we use our regular engagement methods and also bespoke research specifically designed to inform this plan. We also put this plan out for consultation in November.

5.1 Customer engagement

Prior to publishing our draft assurance plan in November we undertook customer focus groups to understand what areas mattered most of them by using the results from our internal assessment described in section 4 above.

5.1.1 Tap chat

Tap chat is an instant feedback and survey tool that we introduced as part of our business plan research and continue to use for our business as usual engagement activities. It is an inclusive online community panel where members are proactively invited to shape the future of Severn Trent's water services. Members participate in discussions, surveys and fun activities, all to enable us to learn about what matters most to them. We asked our research partner to help us understand to what extent customers trust Severn Trent, the extent to which knowledge of Severn Trent's Assurance Plans and Annual Report affect trust perceptions and explore customers' views on renationalisation.

In summary, the overall themes were that:

- Almost one third of customers remember seeing/hearing something about Severn Trent in the news in the last year. A mix of positive and negative stories was recalled. Views on renationalisation are polarised. Some customers think that because water is a basic need, the industry should be in the hands of the nation; others, especially those who remember the industry pre-privatisation, feel that it would be worse for the industry and customers alike.
- Unprompted, trust in Severn Trent is already at a good level. Learning about Ofwat leaves some customers feeling reassured. Other customers, regardless of whether they knew about Ofwat or not, don't feel any different.
- Customers say the most important area for the Assurance Plan to include is the charges scheme, as this has the most direct impact on customers. After learning about various potential components of our assurance plan, charges remained the most important area to include in the plan.
- There is an increase in trust perceptions after seeing the components we planned to include in our plan.

5.1.2 Focus groups (Chester)

We wanted to talk to our customers face to face in the areas that were primarily affected by our company boundary changes in July 2018. We also wanted to hear their opinions on key topics like renationalisation and executive pay.

In summary the feedback we received was:

- That the participants had a good awareness of who Severn Trent were and of the switch from Dee Valley to Severn Trent. All participants had received a letter from us in advance of receiving their bill informing them of the changes.
- Some participants felt that they hadn't known Severn Trent 'long enough' to be able to evaluate their trust of us but suggested that we should focus on being as good as Dee Valley and maintaining performance.
- The majority of customers assume Severn Trent are making the right decisions and performing well, although most customers simply don't give the subject much thought on a day to day basis. They

assume they are providing a good quality service to customers anyway, mainly because it is their job to be doing so.

- During the session, we asked participants to rank in order the elements of our proposed assurance plan in terms of importance to them. The results were similar to our tap chat research, where the focus group indicated that charges and our performance commitments were largely considered the most important elements in our assurance plan.
- The topic of renationalisation tended to divide the group with some seeing benefits in renationalising the water industry such as sharing out the water resource, perception of greater control and that everybody would be paying the same rate. However, once customers were prompted with some pros and cons of renationalisation they are less passionate about renationalising the water industry. This is mainly due to lower prices for the average bill payer, fewer supply interruptions and the amount spent on funding and infrastructure.

5.2 Stakeholder engagement

As well as listening to our customers, we wanted to take on board feedback from other stakeholders.

5.2.1 Ofwat – 2017 CMF Assessment

We were disappointed to be overall assessed as ‘targeted’ in Ofwat’s 2017 CMF assessment having been previously assessed as ‘self-assured’ the year before. However, we have worked hard over the last year to address the concerns noted and have tried to go beyond the requirements identified by Ofwat. Last year Ofwat identified three main areas of concern:

1. Our company group structure. To aid transparency we have added our group structure onto our website and plan to include a copy of this in our annual regulatory publications. We have also consulted with our customers on key topics such as renationalisation and executive pay to gain their views on how we can further engender trust.
2. Long term viability statement. We reviewed this in line with the detailed guidelines Ofwat issued and included our revised (longer-term) statement in our Annual Report and Accounts this year to take us through to 2025.
3. RORE. We reviewed our approach which was included in our year-end annual reporting. We have also included a more detailed half-year review of RORE in our assurance plans.

In seeking to continue to demonstrate best practice to support the legitimacy of the sector and to exceed Ofwat’s expectations in this regard we’ve also made improvement to other areas, for example:

- Transparency on wider assurance. We made our water forum minutes available on [our website](#).
- Leadership and governance. In our year-end reporting and PR19 plan we provided clarity on how our governance arrangements meet customer and stakeholder needs and demonstrate how our Board discharges the regulated company obligations. To provide additional assurance, we also asked Jacobs to independently review our governance arrangements and processes. They conducted face to face interviews with members of our Compliance, ERM risk and General Counsel teams and concluded we ‘have appropriate systems and processes in place’.
- Charges engagement. We updated our charges information by stating the types of customers that might see bill increases of greater than 5% and the range of increases; our website includes answers to the questions our customers regularly have about our charges and their bill. We have also provided additional information to our colleagues who answer customer calls and webchat should any customer have a query on their bill.
- Ease of finding information. We have update our website to ensure linked information can be found conveniently, for example:

- Charges. Our charges and the related assurance statement can be found at on both our domestic and business website areas to meet the needs of all our customers and stakeholders and in our library.
- Document Library. We have created a categorised library with both current and historical documents as well as links back to the content pages for the most recent documents.
- [AIM sites](#). This year, we provided greater detail in our APR on our AIM sites.

5.2.2 Ofwat – 2018 CMF Assessment

In their most recent assessment, Ofwat have continued to assess us as requiring ‘targeted’ assurance as two areas (Outcomes and Cost Assessment) were noted as having ‘minor concerns’ for the following reasons:

1. Data Quality. Ofwat noted that our cost assessment table 4L was missing one line of data and that a number of queries had to be raised against our cost assessment tables that on occasion meant data had to be restated.
2. Data Commentary and Explanation of Variance. Another common theme was that sometimes we failed to adequately explain variances in our data or provided no commentary resulting in Ofwat requesting clarification from us through the formal query process i.e. we did not explain the adjustment to the water supply interruptions underperformance payment in its 'Annual Performance Report 2017-18' and 'Annual Performance Report 2017-18 - a summary for our customers' published in July 2018.

To address both issues, we are planning a deep dive of the APR and PR19 queries we received in 2018 to understand where our assurance processes failed to spot potential errors before submission and where we should be providing additional commentary. Our goal remains to achieve ‘self-assured’ status.

5.2.3 Water Forum

Our Customer Challenge Group (CCG) also known as the Water Forum will be continuing to represent the voice of our customers following extensive engagement during the development of our business plan. Prior to publication of our draft assurance plan, we gave a brief overview of the areas of risk we were likely to include in this document to gain their insight into whether they agreed with our initial proposals. The Water Forum had no comment on the risk areas we had proposed.

Following this document’s publication, we contacted our Water Forum again for their views. Their comments and our response are below:

- **We should expand the scope of our licence to operate process** – when licence to operate was implemented, we made a decision to only cover the most material regulatory and statutory obligations using the risk based approach as described in section 4 above. Given the amount of regulatory and legislative change that has occurred, the next AMP gives us an opportunity to review what is currently included and whether the scope should be expanded further. We will also look at potential technical solutions to ensure that the risk assessment process does not become overly burdensome.
- **We should include Beast from the East in plan** – During the extremely challenging weather in March 2018, we acknowledged that we could improve our operational resilience to such events and communication processes with both customers and other water companies. Following Ofwat’s review of the incident known as ‘[Beast from the East](#)’, we published our [action plan for improvement](#) on our website. This plan was externally assured by Jacobs to ensure it was high quality and that it was deliverable. Going forward Internal Audit will be tracking completion of the actions noted in the plan.
- **Assurance and environmental challenges** – We will consider how assurance can enhance our environmental resilience wider and how our assurance processes can spot potential issues before they occur.

5.2.3 Other stakeholders

Following publication of the consultation, we sent out notices to over 100 stakeholders such as the Federation of Small Businesses, CCWater England, National Trust, local environmental groups and local councils to ask them for their views. This year we received 7 responses in total, which is the best response we have achieved since we began publishing our draft assurance plans. The themes of the responses we received and our response to these are below:

- **Ensuring wider customer engagement** - We are committed to engaging with our customers throughout the AMP using a range of survey types through our existing tools; Pipe Up (Qualtrics SMS Surveys), Qualtrics Research Campaign Surveys (SMS and Email based), Qualaroo (website surveys), TapChat and our quarterly customer tracker. We will also continue to use customer focus groups and other bespoke survey methods on ad-hoc basis to consult on specific issues where required. Our future goal is survey through the customer's channel of choice to help us achieve the best response rate from a broad range of people.
- **New connections charging rules** - One respondent expressed that they would be concerned if the new charging rules were a constraint on delivery of necessary infrastructure. We believe the new charging rules help developers by giving them clear and transparent view of what a new connection will cost them either through self-lay or via ourselves. As part of the charging rules we are required to demonstrate that we have engaged with our developer customers of different types to brief them on any changes we plan for the new charging year. This is reviewed as part of our assurance processes.
- **Asset risks** – One respondent noted that we had not included a number of asset risks such as aging infrastructure or a lack of skilled staff going forward. While this plan is more concerned with risks to published information (as per the scope of Ofwat's Company Monitoring Framework), we have contacted the respondent in question to address their specific concerns.
- **Other** - Three other participants thanked us for the opportunity to respond but while they had no specific concerns regarding this plan, they wanted to be kept informed of future consultations and publications such as the final WRMP, which we have feedback to our Strategy and Regulation team.

6. Areas of risks and our final assurance plan for 2018/19 and beyond

Following both our external and internal engagement we believe the following areas should be categorised as either high or medium high risk and therefore should be subject to a greater level of assurance, which is detailed in the table below. The table below also considers whether these activities will continue beyond this year.

Risk Area	Why?	What assurance will we be doing?	New in 2018/19?	Planned for 2019/2020?
Annual Performance Report (APR) including our Performance Commitments	<p>This report is the principal way that we will document our annual performance and hold ourselves publicly to account. The report is divided into the following sections:</p> <p>Section 1: Regulatory financial reporting Section 2: Price review & other segmental reporting Section 3: Performance Summary Section 4: Additional regulatory information</p> <p>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.</p> <p>In addition some of our performance commitments have a financial reward or penalty associated so customer bills will be directly affected by our performance.</p>	<ul style="list-style-type: none"> On an annual basis all performance data is subject to third line assurance. In addition, using a risk based approach, some of our measures are also subject to half year assurance to get early sight of any potential risk areas, which we can address prior to year-end. For sections 1 and 2 of the APR, the data and methodology is subject to three lines of assurance with our financial auditor, Deloitte performing third line assurance. For section 3 of the APR, the data and methodology subject to three lines of assurance with our regulatory technical auditor, Jacobs performing third line assurance. For section 4 of the APR, the data and methodology subject to three lines of assurance with our regulatory technical auditor, Jacobs, Deloitte or Internal Audit performing third line assurance as appropriate. Our operational data and reporting methodology are subject to three lines of assurance with our regulatory technical auditor Jacobs performing third line assurance. Financial data is subject to three lines of assurance with third line performed by Deloitte or Internal Audit. Water Forum review of the information prior to publication. 	Established process used in every year of AMP6	Yes. Established processes will continue in 2019/20 and AMP7, which will be refined to take account of evolving regulatory requirements.

Annual Report and Accounts (ARA)	We have a statutory obligation to ensure that our financial accounts are robust, accurate and complete.	<ul style="list-style-type: none"> Methodology and data subject to three lines of assurance with our financial auditor, Deloitte performing third line assurance. Methodology and data of our RORE calculations subject to three lines of assurance with our regulatory technical auditor, Jacobs performing third line assurance. 	<p>Established process used in every year of AMP6</p> <p>New in 2018/19 – we have asked Jacobs to performed a more detailed review of our RORE calculations to ensure alignment with the NAV determination</p>	Yes. Established processes will continue in 2019/20 and AMP7, which will be refined to take account of evolving regulatory requirements.
Annual Report to CCWater	CCWater are the statutory customer representative body for our industry and a member of the Water Forum. We want to ensure the information we provide on a quarterly and annual basis is accurate. The majority of this data is directly from our performance commitments reporting.	<ul style="list-style-type: none"> Where information is derived from performance commitment data, assurance is as noted above. Where information is not derived from performance commitment data, second line assurance is performed. 	Established process for every year of AMP6.	Yes. Established processes will continue in 2019/20 and AMP7, which will be refined to take account of evolving regulatory requirements.
‘Beast from the East’ – Freeze Thaw Action Plan	In March 2018 we experienced challenging weather conditions across our network. We acknowledged that our response could have been better and following Ofwat’s formal letter, we put together a formal action plan for improvement.	<ul style="list-style-type: none"> Jacobs provided third line assurance on our action plan published in September 2018. Internal Audit will review and confirm that all required actions have been completed. 	New in 2018/19.	Yes. Assurance process will continue until all actions have been resolved on action plan.
Boundary realignment	Following the creation of Hafren Dyfrdwy on 1 st July 2018, our regulatory reporting has now been split according to the new licence lines. We have asked all lines of assurance to consider how the	<ul style="list-style-type: none"> All lines of assurance will review whether data and performance has been allocated to the correct entity. 	Process established in 2017/18 following	Yes though assurance activity will be the

	boundary realignment has impacted regulatory reporting and whether performance has been allocated to the correct entity.		creation of Hafren Dyfrdwy on July 1 st 2018. As a result, this year is split between Q1 – old licence boundary areas and Q2 onwards – new licence boundary areas.	responsibility for 1 st and 2 nd line as we further embed into Severn Trent's systems and assurance framework. All business areas responsible for reporting will be expected to ensure that their performance data has been allocated to the correct area.
Charges including access prices and non-primary	<p>We want to make sure that what we charge our customers is correct. We have established assurance processes to ensure we are within our revenue cap and compliant with Ofwat's charging rules. The charges process is split into two parts:</p> <p>Draft – Since the non-household retail market opened, we have been required to publish draft wholesale charges in October to give retailers early sight of charges for the next financial year. Access prices are also reviewed at this stage.</p> <p>Final – In January, companies are required to publish all of their proposed charges for the next financial year i.e. non-household and household, retail and wholesale and non-primary charges.</p>	<p>For both draft and final charges, we use the same assurance processes although depending on the level of change between the draft and final publications, the final review may be more light touch:</p> <ul style="list-style-type: none"> • Methodology subject to three lines of assurance with our regulatory technical auditor, Jacobs performing third line assurance. • Model assurance undertaken by specialists, Numeritas. • An assurance statement signed by our Board demonstrating Board oversight and scrutiny. • Engagement with customers and CCWater to ensure bill impacts are understood (particular where these are greater than 5%). 	Established process used in every year of AMP6.	Yes. Established processes will continue in AMP7.

Cost allocation activities	Following the creation of Hafren Dyfrdwy we wanted to ensure that across the business we allocate costs correctly so that Severn Trent customers in England only pay for the services they receive, and vice versa for customers of Hafren Dyfrdwy in Wales.	<ul style="list-style-type: none"> Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance. 	New in 2018/19. While we have always performed assurance on cost allocation activities as part of our regulatory accounts, we have placed additional emphasis on this activity for this report year.	Yes. Increased emphasis will continue in 2019/20 and AMP7.
Drought Plan	The Water Act (2003) made it a statutory requirement for water companies to produce and maintain a Drought Plan. We update these plans every five years. Our Drought Plan sets out how we will manage our resources and supply system in dry years, to maintain our service to our customers.	<ul style="list-style-type: none"> For draft submission, data and methodology subject to two lines of assurance with Director and Disclosure Committee signoff. For Statement of Response and Final submission, data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance. 	New in 2018/19. Requirement to publish every 5 years.	No. Requirement to publish every 5 years.
Governance of regulatory and statutory duties	As noted above, we want to ensure we can demonstrate we have good governance arrangements in place in order for us meet our regulatory and statutory obligations. During PR19, Jacobs reviewed our governance arrangements and our processes for meeting these obligations to ensure these were appropriate.	<ul style="list-style-type: none"> Third line review of our governance arrangements and processes for ensuring we meet our regulatory and statutory obligations Monitoring of obligations undertaken through licence to operate and ERM. 	New in 2018/19.	We will review our approach in readiness for AMP7.
K factor and ODI Model	We provide a set of data spreadsheets to Ofwat on an annual basis so that it can calculate our in year ODI reward / penalty. Following Ofwat's review, we acknowledged that a small number of errors were made in our submission and had been missed by our second line assurance process.	<ul style="list-style-type: none"> We will conduct an internal review and consider what additional assurance is required this year. 	New in 2018/19.	Dependent on outcome of internal review.

Market information (bioresources and water resources)	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"> Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance. 	Process established in 2017/18.	Yes. Established processes will continue in 2019/20 and AMP7, which will be refined to take account of evolving regulatory requirements.
Market Performance Standards (MPS) and Operational Performance Standards (OPS)	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. This year, failure to meet MPS SLAs will also result in a financial penalty.	<ul style="list-style-type: none"> OPS data and procedures subject to three lines of assurance with Internal Audit performing third line assurance. MOSL obtains MPS reporting directly from its own systems therefore no assurance is required other than data entry into CMOS is correct, which is 1st line activity. Performance reviewed on a quarterly basis at Disclosure Committee. 	Process established in 2017/18.	Yes. Established processes will continue in 2019/20 and AMP7, which will be refined to take account of evolving regulatory requirements.
New connections charging	The new connections charging rules were updated significantly last year and we wanted to ensure the process aligns to our company wide Charges Scheme process, which is already subject to third line assurance.	<ul style="list-style-type: none"> Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance. An assurance statement signed by our Board demonstrating Board oversight and scrutiny. Engagement with developer services customers. 	Improvements to process established in 2017/18.	Yes. Established processes will continue in AMP7.

PR19 – Future reporting and Initial Assessment of Plan (IAP)	<p>We want to ensure that in advance of the next reporting period (2020-25) we have adequate processes in place to be report our new measures especially for our performance commitments that have a financial reward associated with them.</p> <p>Additionally, following Ofwat’s IAP assessment where we were awarded ‘fast track’ status, we were required to respond to number of queries and amend associated data tables.</p>	<ul style="list-style-type: none"> • Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance. • Following the IAP assessment, we used a risk based approach in the timescales that allowed. <ul style="list-style-type: none"> ○ App 1, 1a, 1b, 26 were reviewed by Jacobs ○ App17, WS1, WS1a, Wr3, Wn3, WWS1, WWS1a, WWn5 were reviewed by Internal Audit. ○ Other PR19 queries subject to either 1st or 2nd line assurance with senior management approval. ○ 2nd line assurance conducted to ensure all IAP actions were effectively completed. 	<p>New for 2018/19. While we undertook assurance on our shadow measure reporting as part of our PR19 assurance, we have formally incorporated this into the same assurance processes that our Performance Commitments undergo (i.e. half year and year-end third line assurance)</p>	<p>Yes. With greater emphasis from 2020 onwards as the performance commitments formally go live.</p>
Water quality obligations	<p>Our internal risk assessment noted this as potentially medium high risk due to recent staff changes within the teams involved. We believe we are compliant with our obligations due to existing processes but we want to refresh our managers on their obligations.</p>	<ul style="list-style-type: none"> • Where data is provided to the DWI or is part of our Performance Commitments, data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance. Other areas subject to second line assurance. • Reporting of risks and issues through both ‘cleanest water’ and ‘upper quartile’ programmes • Action plan to be reviewed by accountable senior manager and through licence to operate process. 	<p>Established process used in every year of AMP6.</p>	<p>Yes. Established processes will continue in 2019/20 and AMP7, which will be refined to take account of evolving regulatory requirements.</p>

**Water Resource
Management
Plan**

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. The EA 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.

- Data and methodology subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- An assurance statement signed by our Board demonstrating Board oversight and scrutiny.
- Independent challenge from external stakeholders – Natural England, Environment Agency

Process established in 2017/18. In the last reporting year we published our draft plans. This year, following consultation with our stakeholders we will be finalising these plans. Plus we performed external assurance on SoR

No. The WRMP will be published in 2018/19 so further assurance will not be required, however we will look to monitor our commitments in the plan.

7. Our approach to assurance from 2020 onwards

Our approach to assurance is constantly evolving and as we look to the next AMP, we want to develop our assurance processes further and innovate new methods of working to help us achieve our aim of being the most trusted water company.

7.1 Board governance and oversight

Our Board will continue to remain fully engaged in monitoring our performance and providing challenge where required through our established governance arrangements in the next AMP. In particular, performance against our new PR19 measures will be monitored by the Executive Committee and Board, and through the Disclosure Committee and Audit Committee at least during mid-year and year end points in the reporting cycle. Our assurance plans will continue to be reviewed by Disclosure Committee and Audit Committee for their input and challenge.

7.2 Our risk based approach to assurance

We will continue to use our risk based three lines of assurance approach to target the areas that matter most to our customers and to respond to changing regulatory conditions. To ensure we spot potential issues early, our future assurance plans will continue to highlight new reporting requirements or new legislation as an area of focus. For example, we expect all new PR19 performance commitments to go through both mid-year and year end audits in the first year to enable us to adequately assess areas for improvement and ensure we've the best data available to report our performance.

As part of our established processes, our new performance commitments will also be added to our licence to operate framework with accountable managers assigned to ensure strong business ownership and to capture any risk of non-compliance with the measures. Any business critical risks associated with our performance commitments will also be captured through our established Enterprise Risk Management system.

7.3 A transparent approach to historic restatement

We are committed to continuously improving our data and information to support our regulatory returns and other information we publish in two ways:

- Striving to improve our current reporting methods – we review our internal processes and look externally for improved ways of reporting especially in areas where our information gathering process may still be maturing. For example, we acknowledged in our compliance statement in 2018 that we were unable to report unplanned outages in line with the PR19 convergence measure guidance. As a result we've developed an action plan that was externally reviewed by Jacobs to ensure that by 2020 we will be able to report in line with the guidance.
- Correcting errors in a transparent manner and protecting our customers – while we believe our assurance framework minimises errors from occurring in the first place, we recognise that as we review our historic performance retrospectively we may discover examples where we didn't get things right first time. In these small number of instances, we are committed to issuing clear and public corrections in the regulatory publications affected.

7.4 Commitment to independent assurance

Trusted independent assurance is a critical part of providing confidence so we have already engaged our technical and regulatory assurance specialist, Jacobs to work with us from now until 2025. We received and reviewed comprehensive bids from a number of external assurers through an OJEU tender process - an advertised tender with a scoring mechanism designed in advance of receiving full bids. As a result of this

process, we've selected Jacobs as our technical auditor for the next seven years. They offered the strongest package of assurance while also demonstrating value for money. During the last few years, Jacobs have provided a number of independent reports and presented their findings to our Disclosure Committee, Audit Committee and Board while developing a cooperative relationship with data providers and owners across the wider business. Jacobs have built a strong historic knowledge of our systems and processes, which will enable them to continue to act as a 'critical eye' and challenge us in areas of potential risk or non-compliance over the coming years.

7.5 Transparency and challenge

From an external stakeholder perspective, we will continue to share our operational performance with CCWater on a quarterly basis and consult with external stakeholders on our assurance plans to ensure we receive appropriate levels of customer challenge and scrutiny. Our communications and customer research teams will also continue to look at the best ways of sharing our regulatory reporting information in a transparent way that is accessible and engaging to our customers.

As a public service we want to be transparent about how we balance the needs of our customers, our strategic plans as a business and a fair return for our investors. We believe we are prudent in how we manage financial risk and even-handed in the way we share the returns from our outperformance with customers and shareholders; we will continue to pay our taxes in full and on time; pay dividends and executive salaries that are reasonable and sustainable and linked to the delivery of outcomes to customers; and avoid complex offshore financial vehicles.

Detailed historic financial information is published within the annual report and accounts of Severn Trent Water, which is shared with customers and stakeholders through the Severn Trent Water website where we will continue to disclose this information throughout the next period to 2025. Our regulatory financial reporting is subject to external assurance by our third line financial auditors, Deloitte, as detailed in our annual assurance statement.

Severn Trent Water is part of the Severn Trent Plc group, which also publishes its own annual report and accounts. We publish a history of our dividend payments for Severn Trent plc going back to 1990 and our dividend policy on our website to ensure clarity about how our investors are rewarded based on our performance through the group's activities. This information will continue to be subject to third line assurance prior to publication. Going forward from 2020, we are introducing our new community dividend, which aims to share our success with our customers. We're also committed to adopting greater transparency about how we deliver for all our stakeholders but adopting for core principles:

- Dividends will be fair and balanced
- Dividends will be transparent
- Dividends should promote continued outperformance
- Dividends will allow us to maintain financial resilience in the long term

We recognise that these elements are growing areas of interest to our customers given the ongoing national debate around executive pay and nationalisation. While the information we've published in our annual report and accounts is very detailed, we recognise that it may not be accessible to all segments of our customer base. So we will provide a summary of this information in our customer annual performance report and going forward, we'll consider how best to display this information while complying with current and future statutory and regulatory reporting requirements including the expectations of Ofwat's "Putting the Sector back in balance" proposals:

- On dividend policy, the steps we are taking are explained above.

- On the performance related element of executive pay, we are committed to being a role model for private companies that deliver public services underpinned by fairness, transparency and alignment running through our entire bonus scheme from top to bottom of the company.
- On benefit sharing, our Board has reiterated its commitment to implementing the default gearing outperformance benefit sharing mechanism. We note Ofwat's concerns about the risk of companies and their investors retaining all the benefits of high gearing arrangements. In our business plan we explained that if we geared to a high level (70%) – although we have no plans to do so - we would share financing benefits from this structure with customers.
- On financial resilience, we have included the required steps in our Business Plan, which our Board is committed to fulfil.

WONDERFUL ON TAP

