

A12: Securing Trust, Confidence and Assurance

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A12. Securing Trust, Confidence and Assurance

A new assurance framework for a new benchmark plan in delivering a critical public service

Our Board recognises that we have a privileged role providing a critical public service, with a duty to act in a responsible way for our customers of today and tomorrow. Given the essential role we play in our customers' lives, we've developed a comprehensive assurance and governance framework to ensure our plan is driven for our customers, provides affordable bills, supports those who are vulnerable, embeds innovation and is resilient in the long term. It's a framework that goes beyond our 2020-25 plan and delivers a transparent and dynamic approach to assurance - an approach that our Board, customers and stakeholders can have confidence in.

Our track record shows we can deliver against the outcomes customers seek and transparently report our performance with accurate data - underpinned by a robust and established assurance framework that has been further developed for the next five years and beyond.

This appendix, and supporting annexes, is a stand-alone document but builds on our 'securing trust, confidence and assurance' chapter (23) which forms part of our main plan. In this appendix we explain how our assurance framework provides confidence that we have created a high quality business plan, built on robust, accurate and complete data that our customers can trust through: building on our established and robust assurance processes, enhancing our framework for our business plan, the effectiveness of the process, demonstrating how our Board has challenged and engaged every step of the way, and how we will provide trust, confidence and assurance through to 2025 and beyond.

Read more...

In this appendix, we describe our assurance framework and the outcomes of assurance for the entire plan. We believe that this document is best read in conjunction with the following chapters and associated appendices:

- [A Company you can trust](#) – how our processes will earn our customers' trust
- [Aligning risk and reward](#) – how we will finance our business in a fair and sustainable way
- [Securing long term resilience](#) – ensuring that our plan demonstrates corporate, financial and operational resilience

1. Established and robust assurance processes

1.1 Learning from the past and building strong foundations

Over the last decade we've worked to continuously improve our assurance approach. Following mis-reporting issues in the early to mid-2000s we undertook a radical overhaul of our assurance processes, culture and values. We introduced 'Doing the right thing – the Severn Trent way', a new code of conduct that we embedded throughout the organisation as a new way of working that ensures every employee is accountable for upholding our values. The assurance processes we put in place came from best practice identified across many organisations and industries. The changes we made included:

- **Three lines of assurance.** Recognised as a best-practice approach by audit companies and institutions world-wide for providing oversight on the accuracy of data, where the third line is independent from the executive of the company. We explain further below how we deploy this model.
- **Data owners.** We identified the key data we need to capture and report to deliver accurate information to our customers and our regulators. We then ensured that each area of data had an owner assigned to it to be responsible for accurate collation and reporting.
- **Process Description Templates.** We recognised our processes weren't sufficiently clear and replicable. So we introduced Process Description Templates to document each of our processes, providing us with an auditable methodology for producing our data. This also provides us with resilience in ensuring that new people can replicate our processes effectively and reduces risk of single points of failure.
- **Regulatory oversight function.** We have a dedicated team with accountability for our annual performance report with input from the business on the information.
- **Director sign-off.** We introduced annual disclosures from all Executive Directors to our Board on our key statutory and regulatory reporting. These disclosures require our Directors to confirm they have revealed all relevant material to our auditors and confirm their position on the accuracy of the data being reported.

This linked to the Boards vision of being the most trusted Water Company by 2020 and was underpinned by the values held by our workforce.

1.2 Our recognised framework

This best-practice approach continued to evolve into our established company assurance framework, underpinned by four key principles:

- **Robust assurance** – we operate a three-lines of assurance 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, executive Disclosure Committee, and Executive Committee, and with additional challenge provided by the Water Forum.
- **Transparency and public accountability** – we publicly report on our performance, and hold ourselves to account where we do not meet our commitments.

Every year we publish our annual assurance plan and as part of this process we ask our customers and stakeholders for their views to make sure we've included the areas that are most important to them.

1.3 Our three lines of assurance

To further improve customer confidence in our performance delivery, we reviewed the way we approached internal assurance. We embedded first line activities within the directorates responsible for producing the data to ensure we had the right people with detailed knowledge of our processes performing assurance. Second line assurance oversight is provided by internal teams held within the business and reporting to a separate senior manager to maintain independence. By making this change, our independent third line assurance is able to focus on the most important areas. Our 'three lines of assurance' model has led to an increased sense of accountability throughout the year rather than being seen as 'five-year plan' or 'annual report' activity.

Our established three lines of assurance model

Line	Functions	Purpose	Typical Activities
1a	<i>Business operations:</i>	Responsible for the reporting of performance.	Provision of source information and reporting Monitoring and improving performance where required Defining and documenting methodologies and processes
1b	<i>Embedded first line:</i>	First line of assurance for ensuring high quality and robust submissions	In-depth quality checks and reviews Assist with production of required documentation
2	<i>Independent second line:</i>	Second line of assurance ensuring that first line has undertaken its duties	Ensure adequate first line checks undertaken Quality checks and reviews of systems and controls Coordination of assurance activities between first and third line
3	<i>Independent challenge:</i> Internal Audit, external assurance, Customer Challenge Groups	Provide independent challenge of levels of assurance provided by first and second line	Review application of methodologies and processes and ultimate integrity of the data Review completeness and appropriateness of assurance framework (Internal Audit) Provide challenge on expert areas(i.e. Water Forum on vulnerability, affordability and customer needs)

In 2015, Ofwat introduced the Company Monitoring Framework. We actively review Ofwat's feedback and reassess areas noted as requiring improvement. We were pleased this resulted in us gaining 'self-assured' status in Ofwat's second assessment and our 'assurance plan' recognised as being 'exceeds expectations' over the last two years. We also agree that our reporting of our corporate structure was not clear as it could be, which could damage customer trust and confidence in us and contributed to us losing our self-assured status last year. So now, to help our customers and stakeholders understand the companies which operate under the Severn Trent group umbrella, we've published a group structure on our website. This structure details the relationship between Severn Trent plc, Severn Trent Water and Hafren Dyfrdwy (formerly Dee Valley Water).

1.4 Our approach to risk and other obligations

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. In addition, we conduct an internal annual compliance assessment of our statutory and legal obligations - specifically in respect of our licenced business - through our licence to operate framework. This covers over 350 statutory and regulatory obligations and seeks to ensure there is clear ownership and accountability for each of our duties and obligations from director level, to accountable senior managers and their responsible managers. The framework includes existing obligations, and new statutory obligations yet to be commenced.

Each year, strategic leaders (senior managers) accountable for the delivery of obligations are asked to perform a 'self-assessment' against five parameters – purpose, process, people, competency and controls. This assessment allows us to form a **probability** metric – to identify areas of compliance risk. We then use an **impact** metric based on the impact of a risk materialising to: public health and safety; the environment; customer service; competition; revenue, market confidence (e.g. reputational impact) and financial impact. This helps us to prioritise areas for improvement during the course of the year. Where risks are identified, our 'second line of assurance' 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 to confirm whether there were any departures from compliance for the year. A departure is an instance where we as a company believe that we are not entirely compliant with a duty within our licensing, and are making a clear statement of our awareness of this outstanding issue, what measures are in place to become fully compliant with this licencing requirement, and a planned target date to be fully compliant. We then assess the materiality of the issue i.e. either significant, medium or minor. This process helps to inform our Board's annual risk and compliance statement.

We also operate a well-established, Enterprise Risk Management (ERM) system for identifying, assessing and managing our significant risks – including risks to our corporate objectives, core processes, key dependencies, stakeholder expectations and legal and regulatory obligations. A number of risk management systems feed our ERM process including our central repository for operational asset risks (STORM), water quality risks, and health and safety. As part of this we undertake regular horizon scanning both 'bottom-up' - led by the business unit ERM champion, and 'top-down' - by our Board and Executive Committee. Significant risks feed into our company risk profile and are reported to our Executive Committee and to our Audit Committee and Board at least every half year. In addition, specific risk topics are discussed at Board level as needed throughout the year. In terms of resilience, we want to go beyond traditional risk management, enabling us to respond to shocks, stresses and uncertainty as well as more quantifiable and understood risks. We will continue to take a holistic, systems level view of our business resilience and the environment we operate in as detailed in our securing long term resilience chapter (8) and associated appendix.

1.5 Ensuring transparency on corporation tax, director pay and our dividend policy

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 pay our taxes in full and on time; we pay dividends and executive salaries that are reasonable and sustainable and linked to the delivery of outcomes to customers; we avoid complex offshore financial vehicles. Further details of how we demonstrate we are funding these needs in a fair and robust manner can be found in our chapters on aligning risk and return (22) and securing long term resilience (8).

Detailed historic information on corporation tax, director pay and our dividend payments are 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. Details of our corporation tax payments are also included in the annual performance report as part of the financial tables, which also receives all three lines of assurance.

Severn Trent Water is part of the Severn Trent Plc group, which also publishes its own annual report and accounts. We also 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. Again, this information is subject to third line assurance prior to publication.

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 and transparent we recognise that it may not be accessible to all segments of our customer base. So we now 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.

1.6 Cost Allocation – an evolving journey

As part of our annual reporting processes, we continue to gain assurance that we are compliant with the Regulatory Accounting Guidelines 5. In addition to our licence to operate self-assessment explained above, we ask our independent assurers to check we allocate our costs correctly across our business. Since our acquisition of Dee Valley Water, and subsequent licence change to create Hafren Dyfrdwy, we have increased the scope of our assurance to include the correct allocation not only within, but also between our organisations. Our technical auditor Jacobs, reviewed our cost allocation processes ahead of our 2017/18 year-end reporting. Jacobs also reviewed our proposed processes ahead of our boundary changes to identify any potential areas for improvement at an early stage of the process.

We continue to review the areas of greatest risk for our customers and publish these in our annual risk and compliance statement along with our assurance plan. With the introduction of a greater number of price controls and new markets we will continue to review, and improve where needed, our processes and data accuracy of our cost allocations to meet current and future needs.

2. Enhancing our framework for our five year plan

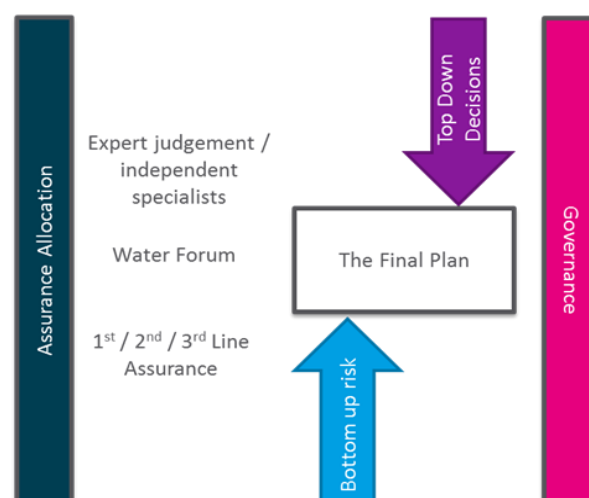
Every five years we publish our business plan, which explains what we will deliver for our customers for the next period of investment. Picking up on lessons learned from our 2015-20 plan we started preparing early for our 2020-25 business plan assurance. Our Board directed that the assurance of our business plan would not only meet Ofwat's requirements - it would deliver on our customers' expectations. Our Board believed we needed to develop a robust and fit for purpose assurance framework to provide confidence that our plan would be of high quality and that the Board could have full confidence in signing the Board statement.

We began our assurance journey by inviting a number of specialist assurance providers to tender for a proposal to develop our assurance framework. Following consideration of all the proposals received, we engaged PricewaterhouseCoopers (PwC) to work with us to develop the framework. Our framework was designed over a number of months and took account of our existing assurance process; our governance approach; our own - and the wider industry - lessons learnt at PR14; and future customer and stakeholder requirements. Following discussion and challenge our assurance framework was approved by the Board in July 2017 as being fit for purpose to meet our Boards, customers, regulators and other stakeholders requirements.

To build on our established assurance framework and develop a bespoke, risk-based approach, our framework contained four key components:

- bottom up risk assessment;
- a top down board statement;
- assurance allocation aligned to risk; and
- oversight through robust governance.

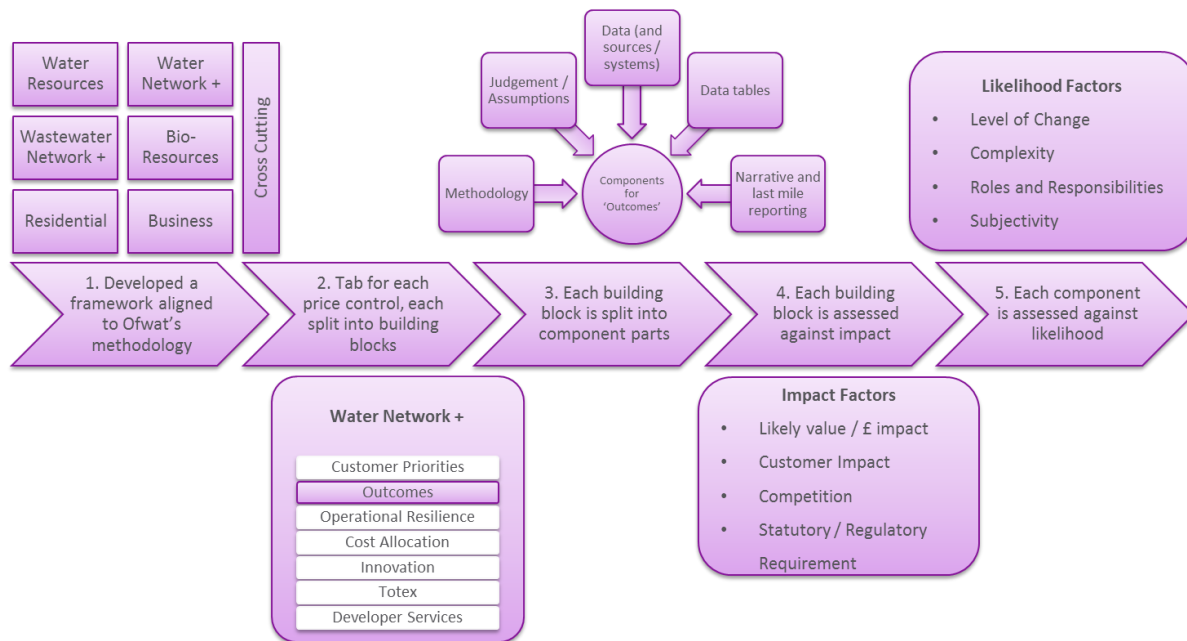
How our assurance supported our plan



2.1 The bottom up risk assessment

Our assurance framework determines the 'bottom up' risk of potentially inaccurate reporting associated with each 'building block' in our business plan.

How we built up the assurance risk assessment



We developed the overall structure of the framework aligning the price controls and building blocks to Ofwat's methodology and reviewed the risk within each price control by building block and then by component parts (methodology; model; data sources / systems; judgements and assumptions; data table; and narrative).

Each building block was assessed against a number of impact factors including financial and customer impact, and impact on legal and statutory requirements such as competition and licence obligations, while also considering our Boards strategy. An impact level of low, medium, high or significant was assigned and an overall impact calculated against each building block.

Each component part was assessed against a number of likelihood factors including the degree of change and our usual business activity, the complex nature of each component, the level of ownership and accountability, and the level of subjectivity:

Degree of change

- High degree of change from PR14 or a new requirement;
- significant levels of people change or little continuity of knowledge;
- errors found in PR14;
- one off use for the purposes of PR19 only;
- little or no formal documentation i.e. PDT;
- emerging or unknown methodology, PR19 guidance not locked down;
- there is high chance of 'last mile' adjustments to address late developing changes or errors; and
- significant changes to the underlying data structure/systems of the model.

Component complexity

- Highly complex component i.e. model with a number of complicated calculations;
- external high reliance on third party or specialist input required;
- requires extensive modification following extraction from Severn Trent Water or Hafren Dyfrdwy (at the time Dee Valley Water) core systems or models;

- component currently assessed as being of low quality i.e. poor data accuracy or incomplete data capture; and
- component is especially time sensitive or volatile with resultant scope for error during data capture.

Level of ownership and accountability

- Lack of clear agreed ownership of component i.e. data ownership, model owner;
- lack of clear director ownership to take active accountability;
- no clear plan for stakeholder involvement and oversight; and
- lack of accountabilities and responsibilities for reviewed oversight.

Level of subjectivity

- Subjective or intangible measures;
- judgments and assumptions are yet to be identified and communicated; and
- difficult or challenging to verify output or compare with other sources.

A simple yes / no flag to identify the likelihood against each of the individual questions was used to calculate the overall likelihood. The 'gross risk' against each component was determined by considering both the impact and likelihood factors:

Gross risk calculation taking account of component likelihood and building block impact factors

		Likelihood			
Risk Level		Low	Medium	High	Significant
Impact	Low				
	Medium				
	High				
	Significant				

The composite risk for each building block was calculated as the average of the gross risk of the component parts.

Our risk assessment outcome showing composite risk at building block level

Cross Cutting		<div>Key Level of Risk</div> <div><div>Significant</div><div>High</div><div>Medium</div><div>Low</div></div>		
Financeability, risk and reward	Resilience in the round			
Outcomes	Tax allocation			
PR14 Reconciliation	Tax business rates			
Customer Engagement Strategy	Legal and Statutory Obligations			
Affordability	Vulnerability			
Efficiency	Direct Procurement			
Cost Envelope	Market Mechanisms			
Environmental and Social Governance	Consistency			
Price Control				
Water Resources	Water Network +	Wastewater Network +	Bio-Resources	Residential
Customer Priorities	Customer Priorities	Customer Priorities	Customer Priorities	Customer Priorities
Outcomes	Outcomes	Outcomes	Outcomes	Outcomes
Operational Resilience	Operational Resilience	Operational Resilience	Operational Resilience	Operational Resilience
Cost Allocation	Cost Allocation	Cost Allocation	Cost Allocation	Cost Allocation
Innovation	Innovation	Innovation	Innovation	Innovation
Totex	Totex	Totex	Totex	Totex, inc inflation
RCV Allocation			RCV Allocation	Revenue
Market Design			Market Design	Affordability / Vulnerability
Consistency with WRMP				Debt Management
Data Tables				
Cost Exclusions				

Using the methodology above, we risk assessed not only every building block, but every component, which enabled the higher risk components within a lower risk building block to still receive an appropriate type of third line review. Or to ensure lower risk areas within an overall higher risk building block aren't excessively assured, for example our 'tax allocation' cross-cutting building block was identified as low risk overall, however the judgments and assumptions components with respect to tax allocation and business rates, including corporation tax, were identified as high risk and were therefore subject to third line assurance.

By developing the associated risks in this way we were able to identify the component parts within each building block that carried a higher or lower risk than the building block composite risk and tailor our assurance accordingly, applying third line assurance to component parts of the plan where appropriate.

2.2 The top down approach led by our Board

As part of the assurance framework, approved by our Board in July 2017, we developed the statements a best-in-class company Board would wish to make using Ofwat's draft methodology and then updated them to align with Ofwat's final methodology. To support our Board in making these statements, proof points were devised with supporting evidence collected. The list of statements and associated supporting proof points are listed in annex A. The proof points are, in the main, supported directly by the assurance undertaken as a result of our bottom-up risk assessment and are supplemented by Board engagement and critical challenge provided through the Water Forum.

Following the bottom up risk assessment detailed above in 2.1, we took another look at the building blocks and components within them using our critical eye to understand if we wanted to increase the level of assurance on certain areas based on our Board's top down strategy. For example, our legal and statutory obligations building block came out as medium risk in our assessment because these obligations are already well managed through our established licence to operate framework. However, we recognised that in the PR19 methodology, Ofwat noted this as a critical factor for our Board assurance statement so our top down judgment upgraded the level of assurance required.

There were some building blocks where high risk components, which after reviewing against our assurance framework, we believed third line assurance was not the most appropriate approach. For example, Water Resources Market Design where not all components of this building block were third line assured. For example, the long term risk sharing mechanism. After review, we felt that due to fact that this was a brand new requirement from Ofwat and the given the prescriptive nature of the methodology, the Board was comfortable accepting the risk at second line only. For clarity, our bid assessment framework did receive independent expert peer review in line with the assurance framework.

In relation to our cost envelope building block we engaged with industry experts to provide expert advice and peer review early on in the process to support the development of our approach. The work undertaken was then rigorously reviewed and challenged at second line by the accountable senior manager and our economic regulation senior manager, followed by independent challenge at our Severn Trent Executive Committee, Audit Committee and by our Board. We discussed this approach with Jacobs and Internal Audit who deemed our approach to be reasonable.

We believe using this approach to assurance is proportionate and cost effective by targeting areas of greatest risk and greatest important to our customers.

2.3 Allocation of assurance on a risk-basis

The framework, developed with PwC and agreed by our Board, gave us the basis for our assurance plan and enabled us to connect the level of risk in the plan to the level of assurance required. Given the level of complexity that comes with, and importance to our customers of, developing a business plan we agreed that all component parts of the plan would undergo at least first and second line assurance, with the higher risk components undergoing an additional independent third line review.

The risk assessment was used to allocate the appropriate level of assurance.

We reviewed the building blocks and component parts to determine what type of third line assurance was required and assigned it to one of our assurance partners:

- **Engineering/technical** - where assurance required an expert engineering / water industry technical background.
- **Regulatory** - external expert assurance providers where challenge was required around the fundamental methodology and assumptions against our regulatory requirements; and adaptability to meet future requirements.
- **Data integrity and consistency** - this was undertaken by Internal Audit who, as our independent audit function reporting directly to our Audit Committee, perform these checks across significant parts of our regulatory reporting and through their annual audit programme and so were best placed to understand and test these areas for our plan and against our wider reporting.
- **Financial** - used for areas requiring specific financial expertise, such as pensions, where our Internal Audit team are not specialists.
- **Model Integrity** - where a complex financial model was involved and required specialist external expertise to test and challenge.
- **Industry Expert Peer Review** - used in particular specialist/niche areas to provide independent test, challenge and benchmarking to inform the development of our plan.

In addition to this:

- Our Water Forum provided challenge to areas where their customer focus and expertise would benefit the plan development, for example to our customer engagement approach and to areas of our plan such as education, vulnerability, affordability, cost adjustment claims and our performance commitments.
- We created an internal team known as the 'red team' who provided additional independent targeted review of the submission for compliance with Ofwat's guidance. This team existed in addition to our lines of assurance to provide an extra layer of challenge to key areas such as our data tables.

The framework also included a final check to ensure consistency across the data tables and narrative and also to other regulatory submissions such as our annual performance report and Water Resources Management Plan.

2.4 Matching assurance requirements to assurance providers

Having identified the types of assurance required and the components to be assured, we made sure we had the right provider in place for when we would need it over the coming year or so.

One of the lessons we learnt from PR14 was to avoid using too many different assurers as this could lead to a greater risk of inconsistencies across our plan and our data tables, reducing trust in the accuracy of our data.

Taking that into account, we asked our existing technical assurance provider, Jacobs, to undertake assurance on the work identified through the framework within its area of expertise. This package covered the majority of our engineering, technical and regulatory assurance. As our existing assurance partner providing third line assurance across a range of areas as part of our business as usual operations, Jacobs were able to pull on their existing knowledge of our organisation to test and challenge our approach not only in line with future requirements, however also taking into account our past and current performance. From experience we were confident that Jacobs would provide robust challenge to areas of potential risk or non-compliance and had existing knowledge of our systems and processes, allowing them to act as a critical eye over a significant proportion of our plan.

We worked together with Jacobs to agree the scope and timing of assurance for each building block given the need for some earlier business plan submissions prior to the submission of our main plan on 3 September 2018. Where dependencies existed between our business plan and our annual performance report assurance, we aligned the assurance wherever possible.

Internal Audit is an independent assurance function available to the Board, Audit Committee and all levels of management and is supported by co-sourcing partners, PwC and Ernst & Young, which adds value through greater access to specific areas of expertise, the increased ability to scale up operations, and the ability to challenge management independently.

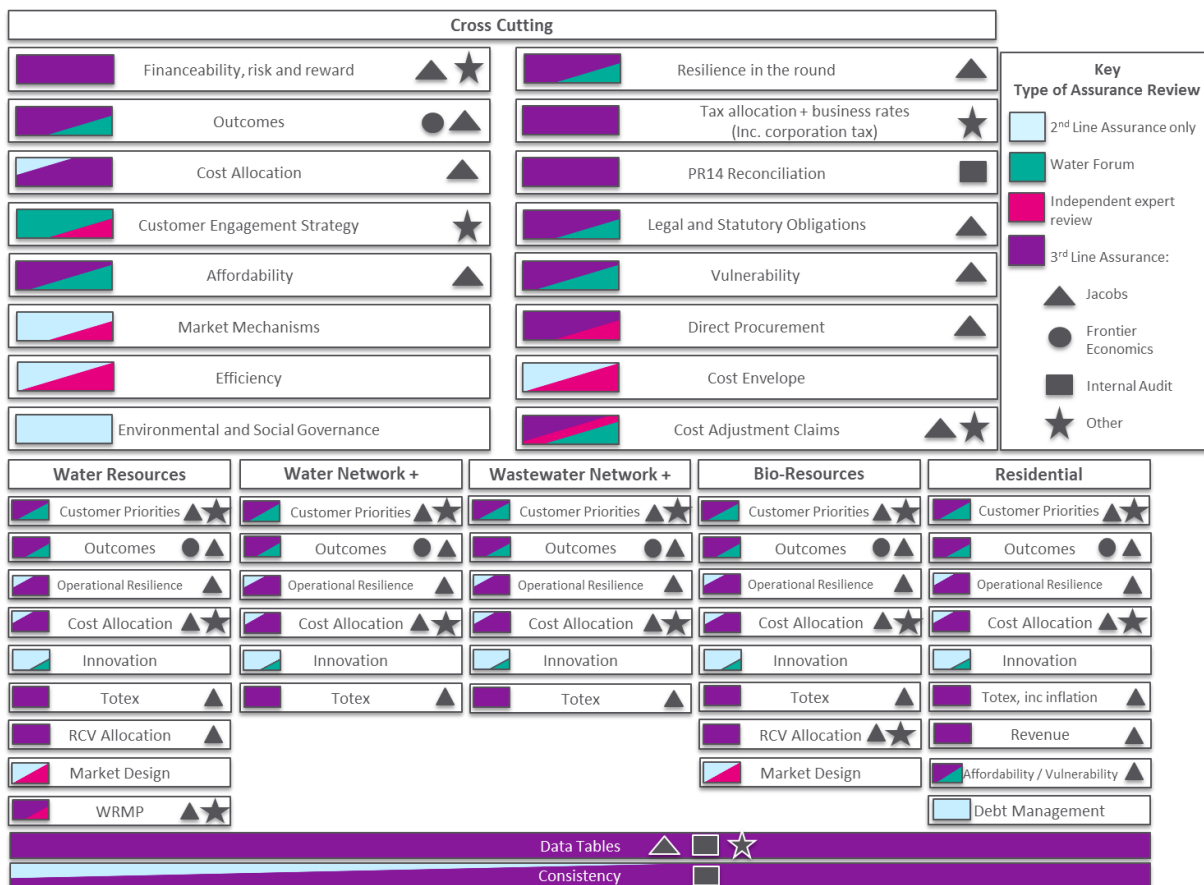
The Audit Committee has responsibility for the oversight of Internal Audit and both the Chairman (independently from the executive) and the Committee hold regular meetings with the Head of Internal Audit. To ensure continued efficiency, and in line with industry best practice, a planned external review of the effectiveness of the Internal Audit function will be carried out this financial year (2018/19).

Where we have requested the services of our Internal Audit function we have worked together to agree the scope of assurance and the requirement for data tables assurance in line with the framework.

Where expert challenge or specialist assurance is required we identified and procured the services of a number of specialist companies, for example:

- Customer Engagement Strategy – Trinity McQueen
- Customer Willingness to Pay Triangulation – Frontier Economics
- Outcome Delivery Incentive Rates – Frontier Economics
- Financial Model review - KPMG

The diagram below shows at a high level the type of assurance undertaken against each of the building blocks. Where a building block shows as having had ‘third line assurance’ or ‘independent expert review’, first and second line assurance has also been undertaken - for example PR14 reconciliation. Where a building block has a mixture of assurance levels within the component parts this is shown as a blend - for example our cost adjustment claims have received technical and regulatory assurance from Jacobs, external expert review of cost components from Turner and Townsend, and challenge from the Water Forum. Where third line assurance has been undertaken we have noted which auditor has undertaken this.



2.5 Applying the Framework to ensure a high quality plan

Building on our established assurance process as described in section 1 of this appendix we allocated a number of roles and responsibilities within the business. This has ensured that we were able to undertake the required level of assurance in accordance with the framework, to ensure the quality of our plan and associated data, and to maximise the effectiveness of third line assurance.

2.5.1 Role of data providers

Our programme governance has ensured that each building block of the plan has been allocated to an accountable senior manager for the relevant area of the business. This is to ensure that accountability is set at the appropriate level within the business.

The accountable manager is accountable for:

- Approving documentation, methodology and data;
- ensuring the section of the plan for which they are accountable is high quality and has had appropriate levels of assurance;
- ensuring that the correct first and second line assurance is in place; and
- ensuring that they understand the checks to be considered before they sign off their business plan submission.

The accountable manager will have a number of subject matter experts who are responsible for elements of the plan, these are the activity owners.

The activity owner is responsible for:

- Ensuring documentation has been produced in line with our statutory and regulatory requirements and internal processes and standards – including documented roles and responsibilities (RACI), process description template (PDT), process map, data flows and methodology and version control;

- identifying the correct person to undertake second line technical assurance;
- obtaining accountable manager sign-off and handing over documents to second line assurance; and
- attending assurance reviews and responding to any assurance queries in a timely manner.

2.5.2 Role of first line assurance

First line assurance has been undertaken by a member of the same department as the activity owner who will be a subject matter expert in the relevant field. They are responsible for providing in depth assurance checks regarding completeness, accuracy and consistency of documentation data and submission, including:

- Verification of documented and signed-off justification, methodology / approach statement e.g. PDT, model and data map and RACI.
- Confirming that the documented process has been followed in order to produce the information.
- Completing the assurance checklist and documenting challenges ensuring coverage of key risks and mitigations.
- Verification of change management governance process for models/methodologies.
- Ensuring that any actions identified as part of first line assurance are completed and checking updated process documentation / data following any amendments.
- Confirming accountable manager sign-off and handover to second line assurance or sending back for remediation.

2.5.3 Role of second line assurance

To maintain a level of independence and to ensure a reasonable level of scrutiny, second line assurance in most cases has been undertaken by a suitably experienced member of a team within a different business function. In a few instances where specialist subject matter expertise is required and this sits within one business function, for example complex financial modelling, additional separate checks have been undertaken within the same business function area. Second line assurance providers are responsible for:

- Ensuring the adequacy of first line assurance.
- Confirming the assurance checklist is completed and signed-off by first line.
- Confirming that the documented process been followed and appropriate evidence captured at a high level.
- Confirming that any changes / deviations to documentation have been recorded and have appropriate sign-off.
- Testing / review to ensure reliability of first line assurance checklist.
- Applying curiosity to ensure an independent critical challenge of process and approach.
- Ensuring an independent tick and tie exercise of data has been conducted where appropriate.

While many people engaged in the business plan programme were familiar with the principles of our established assurance approach, we wanted to ensure that everyone from data providers up to accountable strategic leaders had a basic understanding of our assurance framework and how to practice good assurance. In order to facilitate this, our compliance team and Internal Audit rolled out bespoke training to over 100 personnel to explain the expectations of assurance and their individual accountabilities and responsibilities. Where attendees could not make any of these sessions for whatever reason, we undertook individual sessions at a time convenient to the individual.

The objective of the training was to ensure that people understood the requirements of the business plan submission, the need to provide robust assurance to achieve our goal of a high quality business plan, the role each individual would play in terms of assurance and the support network available through our compliance and assurance teams.

The sessions also let staff ask questions directly to the compliance and Internal Audit teams; and to raise potential risk issues around resource and knowledge levels, which gave us the opportunity to address these early on in the process. We put in place compliance coordinators for our business areas (retail, operations and finance) who were responsible for pulling together assurance timelines and ensuring that their teams met critical deadlines for producing process documentation and submitting data. These coordinators also acted as a first point of contact for any issues or queries within the business.

In addition to the assurance training, we produced guidance on other relevant assurance topics such as how to prepare for a third line audit and structured first / second line assurance templates to ensure that our staff felt suitably prepared for all lines of assurance. The feedback we received following the sessions was largely positive.

2.6 Ensuring a resilient plan

As described in the ‘securing long term resilience’ chapter (8), we understand the importance of demonstrating our plan is able to withstand, and takes account of the risks associated with the challenges of an emerging political, economic, social, technological, legal and regulatory, and environmental, technical, operational, and health and safety risks. Furthermore, our extensive customer engagement asked our customers about what is important to them and the role we play in delivering it.

While risk identification is important, so too is our response. Within our plan we’ve sought to give a rounded view of how we’re managing risks. For example:

- we’ve produced a seven-year viability statement for this year’s annual report to evidence our financial resilience;
- we’re focusing on skills development, succession planning and the importance of fair and balanced decision making to support corporate resilience; and
- for operational resilience, including our approach to asset health. Our plan builds on a systems view of risk, including a greater focus on catchment management and managing flood risks, we equally recognise we need to embed the lessons from the recent freeze thaw event.

As part of our assurance framework we took account of where we have previously undertaken independent assurance on some of these wider resilience factors which are reported separately through our annual report and accounts, annual performance report or our long term water resource management planning.

2.7 Ensuring our customer voice underpins our plan

At PR14, we developed our assurance approach to embed customer views in our plan and we set up our Water Forum. While the initial purpose of the Water Forum was to provide challenge to PR14, we evolved its role to provide customer expert challenge on our regulatory submissions such as shaping our annual assurance plans and we share our assurance findings to aid transparency. We’ve held 13 meetings with our Water Forum since 2016 and 46 meetings with Water Forum sub-groups during our plan development. They have been consulted and provided us with challenges, every step of the way.

During the development of our plan we’ve undertaken our most in depth customer engagement programme ever - as well as continuing to track customer sentiment. In addition to the established engagement with our regulators, investors, customers, our communities and other stakeholders, to create this plan we conducted targeted research with over 32,000 customers, on topics such as willingness to pay, and deliberative research on strategic investment areas. This has helped us develop a better understanding of how we help customers who are struggling to pay their bills. To further ensure that our customer views were accurately represented, we engaged specialist external independent assurers to verify our insights and then tested that the outputs informed our plan.

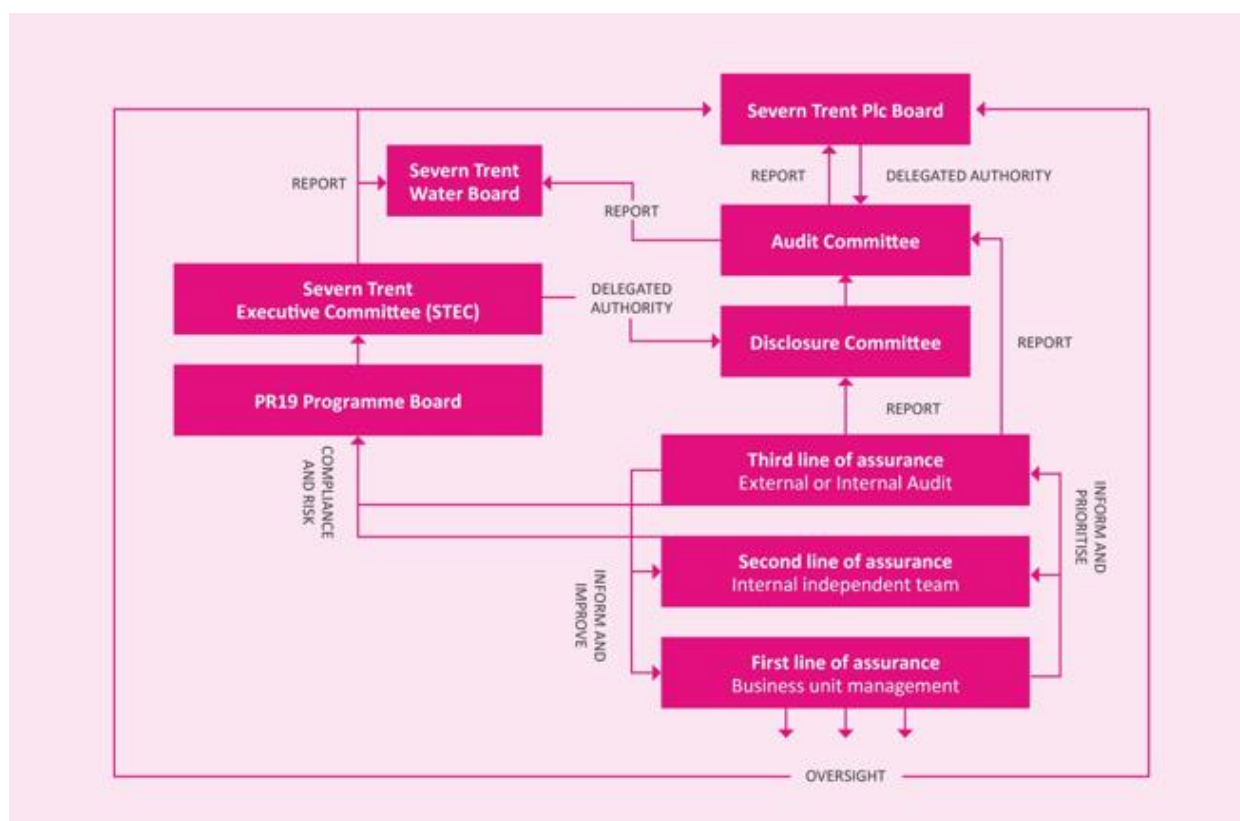
It is important to us that our plan earns our customers’ trust and confidence through high levels of transparency and customer engagement on issues such as our corporate and financial structures and by providing a fair balance between our customers and investors. To ensure we covered these topics, our customer engagement included how we share the benefits of outperformance with customers and communities, as well as topics such as re-nationalisation, company ownership and the fair balance of charges between current and future customers. Knowledge of our approach to funding investment and balancing charges over time helps engender trust that we will behave in customers’ interests.

The assurance framework and summary of initial findings were presented to the Water Forum jointly with Jacobs in June 2018 with the Chair of the Water Forum closing the session saying ‘from my work with other Boards, I can confirm that this assurance process is excellent’.

3. Our Board has challenged and engaged every step of the way

The final piece of the assurance framework was to ensure that it was supported by effective governance. Our established, and we believe best-in-class, governance arrangements were overseen by our Board to guide and shape our plan, and provide challenge while reviewing our assurance evidence. We implemented a programme board reporting directly to our Executive Committee with updates on progress and highlighting potential risks or issues for escalation.

Our assurance governance framework



Severn Trent Executive Committee and the role of our executive Board members – Our Severn Trent Executive Committee have met on a regular basis to discuss the plan and the programme at length. They received project updates from the programme both monthly and on an ad hoc basis, which clearly highlighted key developments, risks and issues for review and escalation. Ultimate responsibility for developing and implementing our business plan sits with our Chief Executive. Additionally, our Chief Financial Officer chairs the Disclosure Committee whose contribution to assuring the plan is described below.

Board meetings - The assurance framework and assurance findings have been reviewed through our established governance arrangements described above, which has enabled our board to provide robust critical challenge to shape our plan at regular intervals.

Our Board collectively met 13 times to discuss our plan over the course of the programme with significant portions of the agenda dedicated to the development of our plan enabling our Board an appropriate opportunity to ask probing questions and rigorously challenge the key components and areas of risk. Our main plan contains examples where the Board has shaped the direction of our plan, for example in setting ambitious efficiency targets to meet the Board's desired level of customer bill reduction. Our technical and regulatory auditors, Jacobs, presented their findings on our plan directly to our full Board in July 2018, which allowed Directors to ask questions on the work undertaken.

Committee meetings - In addition, to discussion by the full Board, our Audit and executive Disclosure Committees have met 11 times collectively during the development of the plan and received regular updates on our assurance progress. They provide scrutiny of both our direct plan assurance – in line with our framework - and our wider assurance programme, taking into account where other decisions and work may impact on our future plan. For example, examining the outputs of assurance on preparatory cost allocation work ahead of our boundary realignment, the scenarios underpinning our long term viability statement, or our long term planning on our water resource management.

As our plan developed, both Jacobs and Internal Audit presented their findings to our Audit Committee allowing members to ask questions directly and gain further insight into the work undertaken. Details of the meetings are included in the tables below.

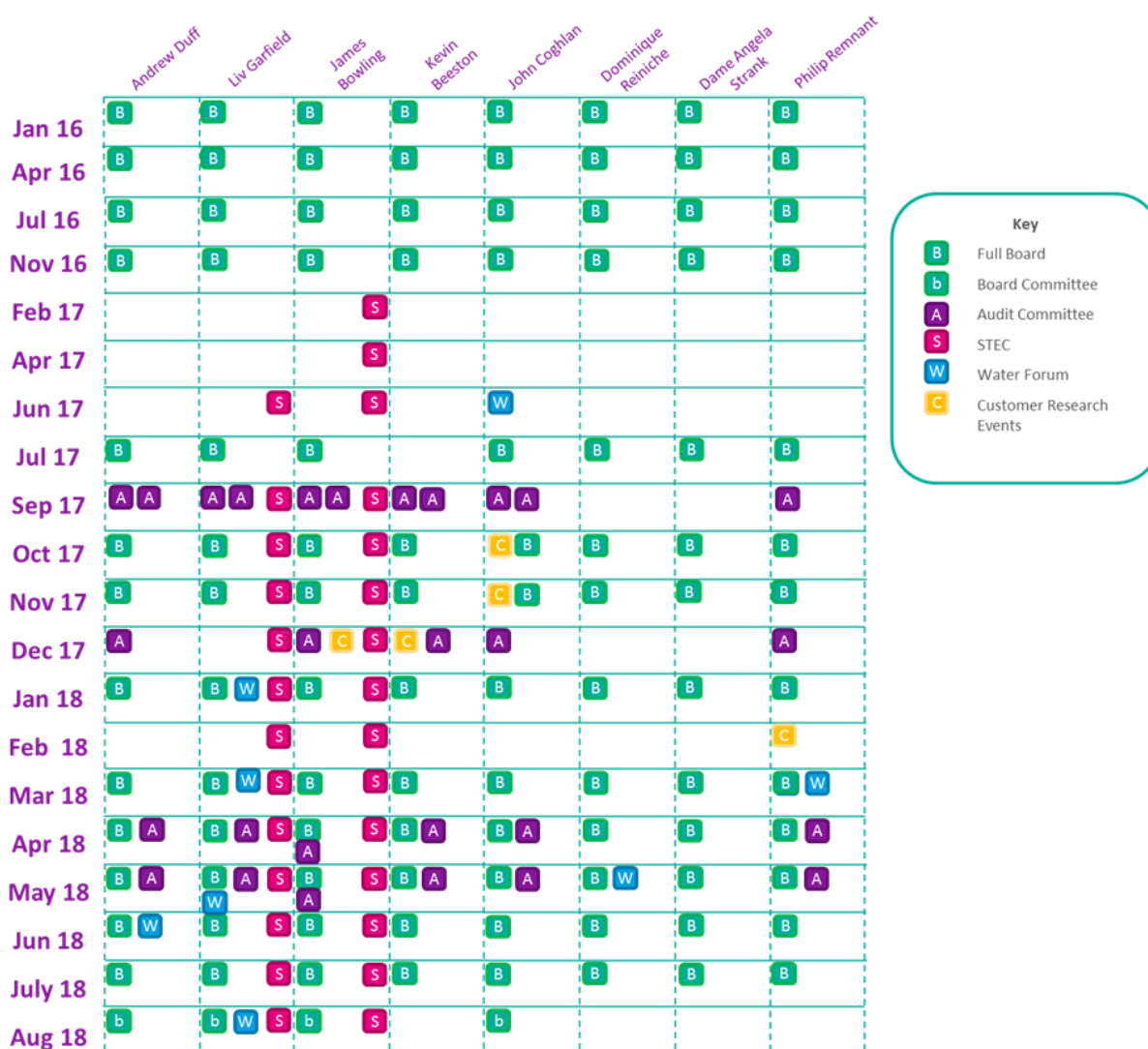
Disclosure Committee meetings and agenda items

Date	PR19 Assurance Related Item
9 August 2018	"PR19 Assurance update"
10 May 2018	"PR19 Board statement proposal"
1 May 2018	"PR19 Assurance- May Submission STW"
11 April 2018	"PR19 Assurance – 3 May PR19 Submission for Severn Trent Water"
3 April 2018	"PR19 Assurance - May Submission"
19 February 2018	"PR19 Business Plan Assurance"
29 August 2017	"Economic asset valuation for the bioresources RCV allocation at PR19"

Audit Committee meetings and Agenda Items

Date	PR19 Assurance Related Item
15 May 2018	"PR19 Board statement proposal"
19 April 2018	"STW- PR19 Assurance – 3rd May 2018 Submission"
22 December 2017	"Water Resources RCV allocation for PR19"
28 September 2017	"PR19 Assurance Framework"

The diagram below also shows which of our Board members attended which committee meetings where PR19 has been discussed.



Water Forum meetings – In the 15 months prior to the submission of our plan, five different members of our Board attended six formal Water Forum meetings to present our plans and assurance activity, and to hear, first-hand, members of the Forum providing robust challenge to our plan and asking questions of the Board. In addition, there have been numerous informal discussions with Water Forum to members to engage on specific topics.

Customer research workshops - Our Board was ultimately interested in the views of our customers. By attending our customer research workshops, individual Board members were able to hear directly from them, in their own words, about the areas that were most important to them. This has helped our Board to keep customers at the forefront of its decision making.

Ofwat non-executive director events – Our Board regularly engage with Ofwat at market-wide and company-to-Ofwat events. This engagement provides our Board an opportunity to use its wider experience to bring best-practice from other sectors to shape the industry for the better and to challenge management where choices are required to balance the direction of our regulators, the needs of our customers and the wishes of other stakeholders.

Annex B shows the full range of engagement that the Board has undertaken and the topics specific to our business plan that were discussed whilst preparing for our plan submission.

Treasury Committee – In addition to the governance in the diagram above, our Treasury Committee provides oversight of treasury activities in implementing the policies, funding and treasury risk management plan. Specific to our business plan submission a key area of focus for our Treasury Committee has been the analysis of Ofwat’s proposed cost of debt methodology, including an early view of the impacts of a number of scenarios on the our credit metrics going forward.

The Treasury Committee has approved the financing strategy incorporated in our plan, which is based on Ofwat’s own AMP7 Cost of Debt assumptions regarding the tenor of new debt (averaging 20 years), with 30% of debt in index linked form and the balance at fixed rate. All embedded debt at the start of AMP7 will also be at fixed rates, with interest rate swaps being used where necessary to achieve this position.

3.1 Changing course – areas of challenge from our board

During the development of our plan, our Board provided robust challenge, which has led, in some areas, to the plan being changed, such as:

- Financeability – our Board challenged us to ensure our ratings would support a BBB+ with sufficient headroom to manage small variations;
- Executive remuneration – our board wanted to ensure that there was a stronger link to customer performance and more stretching targets (upper quartile RoRE) demonstrating our commitment to fair and reasonable executive pay;
- Deliverability of our performance commitments targets – our board wanted assurance that we believe we are able to deliver the stretching targets we have proposed for our performance commitments, particularly in areas such as water efficiency; and
- Climate change – ensuring that our plan has the ability to withstand and adapt to a changing climate.

4. The effectiveness of the process – our assurance findings

Our Board was provided with supporting evidence aligned to the proof points underpinning the board assurance statement including: the outcome of reports and presentations from assurance providers, expert assessment, outputs and minutes from meetings, customer research workshops etc. and their own engagement. In line with our key principles underpinning our established framework, our Board received a statement from each member of our Executive Committee demonstrating our management’s level of engagement with, and commitment to delivering, our plan.

4.1 Our assurance partners and their findings

To help us carry out this programme of assurance we engaged a number of external assurance providers and specialists to provide critical challenge to our plan. For all our assurance partners, we tracked their recommendations through to response centrally in the Compliance Team. A list of the assurers and a summary of the scope of their engagement is provided in the table below.

Our assurance partners

Who	Scope	Findings
Jacobs	Providing technical assurance on the plan by challenging methodology, examining data tables and providing an independent review of our governance arrangements (including licence to operate, how we've accounted for future government strategy and resilience in the round).	<p><i>'Overall we observed that you had a thorough understanding of Ofwat's expectations.</i></p> <p><i>Where we have noted risks, or areas where we considered the building blocks would benefit from further evidence, we understand that your teams have updated narrative and tables as required.</i></p> <p><i>Based on our scope, we consider the Board can support the relevant Ofwat statements'</i></p> <p>See section 4.2 for more detail below.</p>
Internal Audit	Assurance of data flows through financial model to data tables. Checking the plan, data tables and supporting appendices to ensure a consistency check with previously reported data, consistency of data and narrative across the plan and consistency of messages to the supporting data. Reviewed our PR14 reconciliation submission. Review completion of assurance framework.	<p>Internal Audit completed all scheduled reviews; more detail can be found in section 4.3 below.</p> <p><i>'During the course of our review we have seen considerable assurance activity has taken place, particularly in the high risk areas - in some cases in excess of the original plan in order to address new risks or requirements or simply to provide additional assurance. Where third party assurance has been carried out this has been done to a good standard and to an appropriate level. There have been some instances where the scope of their work has been limited due, for example, to a reduced timescale. Where this has been the case this has been assessed and carefully considered by the Compliance team and has not compromised overall adherence to the framework.'</i></p>
Water Forum	Providing specialist customer challenge to the plan. In particular, reviewing areas such as vulnerability and affordability with a customer lens.	<p><i>'The Water Forum has taken our assurance responsibilities to Ofwat very seriously. Unsurprisingly, we have not always agreed with the company but in all areas we have arrived at a position which both Water Forum and company recognise as a reasonable compromise. Of course the most important verdict comes from the customer. The acceptability research shows that the majority of customers find the plan acceptable.</i></p> <p><i>In summary, we are pleased to assure you that, from what we have seen and read, Severn Trent has engaged effectively with its customers and this plan does reflect their priorities.'</i></p>
External Assurer	To ensure the customer compendium accurately represents the views of the customer obtained through research.	<p><i>'We feel that the Customer Insight report clearly and accurately synthesises the results of STW's research programme, and showcases variety and volume of research undertaken by STW as part of the 2019 Price Review process.'</i></p> <p><i>'A wide variety of research approaches have been used in throughout the research programme, and a very wide sample of customers have been able to participate in the research.'</i></p> <p><i>'We feel that the key findings reached in the report provide an accurate and clear reflection of the research programme as a whole.'</i></p>
External Assurer	Review of post triangulation adjustments to customer valuations; converting customer valuations into incentive rates; caps, collars and deadbands; and enhanced incentive rates.	<p><i>'STW has clearly responded thoughtfully and conscientiously to Ofwat and CCWater's challenge. Both the range of evidence used and the consideration of external evidence show serious intent to identify robust and justified WTP values'</i></p> <p><i>'Severn Trent Water (STW)'s approach to setting outcome delivery incentive rates (ODIs) for PR19 is reasonable and in line with Ofwat's expectation.'</i></p>

Who	Scope	Findings
External Assurer	To undertake estimating of a number of schemes in order to provide confidence of allowances included within our PR19 business plan.	<i>'To conclude, it is our view that in the majority of cases, Severn Trent Water's estimates appear to be competitive' (the full report can be found in appendix A8)</i>
KPMG LLG	To carry out procedures to test the logical integrity of the arithmetical operations in the Model's formulae and calculations under the assumptions and input data for the base case. Specifically, for each unique formula, KPMG inspected the formulaic code for instances of apparent arithmetical inaccuracies or deviation from the intended logic (as implied by the model structure and construction or as explicitly stated in the cell label or management's documented understanding of the Model). ¹	KPMG's overall finding was that <i>'the Model has been constructed so as to materially achieve the purpose which it was designed to meet, insofar as its logical integrity under the base case assumptions is concerned.'</i> KPMG also provided us with additional detailed findings and comments but stated <i>'that these did not change their overall finding on the construction of the Model referred to above.'</i>

Jacobs also assured our cost allocation methodology to confirm we had allocated costs correctly between price controls, and between us and other group businesses, ensuring we are compliant with the regulatory accounting guidelines and our licence conditions. Jacobs noted: *'you have a satisfactory base level of documentation and processes in place to report data that are compliant with the principles and rules within the Regulatory Accounting Guidelines.'* They also examined areas impacted by the changes resulting from our boundary realignment between Severn Trent and Hafren Dyfrdwy.

Our judgements and assumptions with respect to Tax have been reviewed by PwC, these assumptions are inputs into the financial model which has been reviewed by KPMG. The tables that are fed from the model have been assured (tick and tie) by Internal Audit.

4.2 Jacobs assurance approach and findings

The extensive programme of assurance as set out in the framework has been completed in full and the supporting evidence, including assurance reports have been shared with our Board.

The majority of our technical and regulatory compliance assurance having been undertaken by Jacobs who completed a risk based approach driven by our assurance framework following the recognised three stage approach that is used for the technical assurance of other submissions:

- Stage 1 - Documentation (desktop review)
- Stage 2 - Process (meeting)
- Stage 3 - Data (audit)

¹KPMG's work did not include any testing or checks on or report upon:

- the accounting and tax assumptions in the Model;
- whether the financial statements are presented or contain disclosures in a format that is consistent with the requirements of existing UK accounting and financial reporting standards or of existing UK tax legislation;
- matters that require commercial, technical or legal interpretation in the Model;
- the factual accuracy, validity, reasonableness or completeness of the input data and assumptions in the Model;
- whether there are logic errors or matters which do not correspond to our experience of generally agreed best practice but that do not directly impact the ability of the Model to meet its purposes;
- the appropriateness of visual elements (such as graphs) included within the Model;
- the accuracy of linkages to data sources outside the Model; and
- the accuracy and correctness of the software or operating system within which the Model operates.

KPMG's procedures do not amount to an audit performed in accordance with any standards applicable to auditing, a review performed in accordance with any standards applicable to reviews or an assurance engagement in accordance with any other assurance standards. KPMG's procedures were set out in the engagement letter dated 27 October 2017 and carried out on the model version "180625 Severn Trent RFM 010a.xlsm" dated 25 June 2018 15:19 ("the Model"). KPMG LLP wishes you to be aware that KPMG LLP's work for us was designed to meet our agreed requirements and particular features of the engagement determined by our needs at the time. KPMG's findings should not be regarded as suitable to be used or relied on by any party wishing to acquire any rights against KPMG LLP other than us for any purpose or in any context. In consenting to the disclosure of the above finding to you KPMG LLP does not assume any responsibility to you in respect of its work for us, the findings in the full report or any opinions that KPMG LLP may have formed and to the fullest extent permitted by law, KPMG LLP will accept no liability in respect of any such matters to you. Should you choose to rely on the above finding, you will do so at your own risk. The above finding is not to be copied, referred to or disclosed, in whole or in part, without our prior written consent. Any wider disclosure will damage KPMG LLP's commercial interests.

Stages 1 and 2 were a multi-point assessment for each area that covered: document management; alignment to the Ofwat final methodology requirements/guidance; the process methodology for producing the narrative/output figures; evidence/input data; and control procedures.

Stage 3 covered our adherence to processes; tracing to source data / evidence; sample checks; and review of commentaries / narrative.

This approach has provided critical review for elements of building blocks and challenge to:

- Approach;
- interpretation / compliance against regulatory guidance;
- key assumptions;
- consistency with evidence / inputs; and
- final narrative – level of evidence.

Where a number of assurance providers have reviewed areas across the same building block, the relevant reports, or assurance scope, have been shared with Jacobs to ensure that there are no gaps in the assurance process. Where Jacobs have made recommendations, our Compliance Team have captured these centrally and tracked them through to response from the appropriate team.

Jacobs has presented their overall conclusions to the Board allowing the Board to ask questions directly. We include at annex C, the full presentation as shared with the Board. During the development of our plan, Jacobs also provided to the Board the letters of assurance for each building block. A summary of the assurance undertaken and Jacobs findings is in the table below.

Area	Scope	Findings
Financeability, Risk and Reward	Application of modelling on both notional and actual structure, consistency with Ofwat guidance and review of modelled scenarios.	<p><i>'When running Ofwat's financial model you have followed the general guidance in Ofwat's PR19 methodology statement and the specific guidance provided in Ofwat's financial model. Where guidance lacks prescription or is open to interpretation, you have made what appear to be reasonable and defensible assumptions.</i></p> <p><i>As part of our work we reviewed your business plan narrative, and confirmed that it was consistent with your modelling and the outputs from your modelling. As requested we provided challenge on your key modelling assumptions, for example your arguments to support your use of the financeability levers. We observed that all your assumptions align with your agreed policy decisions and understand that these assumptions have been fully discussed at STW Board.'</i></p>
Affordability & Vulnerability	Review of our plan and narrative against Ofwat's affordability and vulnerability themes from the final methodology. This includes delivering a step change in efficiency to provide for more customers and the environment while keeping bills low. It also needs to demonstrate we understand who our vulnerable customers are and the specific needs of different types of customers.	<p><i>'It is our view that the company's business plan</i></p> <ul style="list-style-type: none"> <i>• will improve affordability and provide appropriate assistance for those struggling, or at risk of struggling, to pay; and</i> <i>• provides sensitive, well-designed and flexible support and services for customers in circumstances that make them vulnerable.'</i>
Legal and Statutory Obligations	Review process to identify and manage relevant obligations and subsequent inclusion within the plan.	<p><i>'You have in place mature and well-documented systems to understand your legal and statutory obligations, and to identify and manage risks. We have identified a number of non-material areas where we understand you are already planning to make some improvements to the systems.</i></p> <p><i>These systems enable you to take a forward look to identify relevant legal obligations and to understand operational and or other risks to meeting these obligations for PR19 and your business plan. We note we were unable to review the narrative</i></p>

Area	Scope	Findings
		<p><i>that demonstrates how you have taken account of the UK and Welsh Government's strategic policy statements in developing your PR19 plan as this was not available at the time of our review.</i></p> <p><i>We observed that the cost models, including the capex optimiser, used to derive the post-efficiency expenditure in the plan include costs related to the delivery of your legal and statutory obligations.</i></p> <p><i>Overall, and subject to the points noted in this report, we consider that you have appropriate systems and processes in place to identify all relevant obligations impacted by or impacting the business plan and understand operational and or other risks to meeting obligations.'</i></p>
Direct Procurement	Review your process for selection of possible projects and the methodology used to determine scheme eligibility for DPC against the guidance provided by Ofwat.	<p><i>'Overall, we consider the business planning process has been informed by a robust and systematic assessment of major infrastructure projects against Ofwat's Direct Procurement for Customers criteria.</i></p> <p><i>Overall we observed that you had a thorough understanding of the Ofwat expectations for DPC and that there was close alignment in your approach with the requirements of the Ofwat guidance.'</i></p>
Outcomes	Review of definitions ahead of draft submission and review of approach and methodology for setting targets/baseline for bespoke and common PCs.	<p><i>'Overall we consider that STW has produced a strong set of performance commitments that cover the specified requirements (common PCs and prescribed bespoke PCs) and also provide a range of innovative new PCs in areas such as collaborative catchment management (Farming4Water) and Repair of Visible Leaks.</i></p> <p><i>Of the 41 PCs, all were scored either A or B indicating no material weaknesses in the production of the baseline and performance commitment level.'</i></p>
Resilience in the round	Challenge that the narrative presents a compelling approach and case that demonstrates how resilient the operation is and that any resilience improvements reflect the greatest risk and the service that customers' value.	<p><i>'At the time of completing our review, we observe that your chapter is in the process of being finalised, but that it is a document that provides confidence that the main expectations have or are in the process of being addressed. We found that the draft of the resilience chapter that we reviewed reflects an integrated approach and reflects the requirements of Ofwat's tests for resilience. We observe that the commentary describes:</i></p> <ul style="list-style-type: none"> <i>• your overall approach to assess risks;</i> <i>• how best value is demonstrated;</i> <i>• how customer priorities have been used to inform your approach; and</i> <i>• customer engagement with respect to resilience.</i> <p><i>Accordingly, we conclude a generally positive assurance outcome on the document.'</i></p>
Cost Allocation	Review methodology to allocate costs across price controls, and between Severn Trent Water England and Hafren Dyfrdwy reviewing compliance with Regulatory Accounting Guidelines.	<p><i>Overall, for the majority of the documentation and processes we reviewed, we consider</i></p> <ul style="list-style-type: none"> <i>• you have a satisfactory base level of documentation and processes in place to report opex data for Wholesale Production & Customer Delivery that are compliant with the principles and rules within the RAGs;</i> <i>• you have a satisfactory base level of documentation and processes in place to report opex data between STW (England) and Hafren Dyfrdwy (HD) that are</i>

Area	Scope	Findings
		<p><i>compliant with the principles and rules within the RAGs; and</i></p> <ul style="list-style-type: none"> <i>we found no material issues with the TSA process; and</i> <i>you have satisfactory processes in place to report capex data that are compliant with the principles and rules within the RAGs'</i>
Cost Adjustment Claims (Cost Exclusions)	See section 4.7 below	See section 4.7 below
Totex	Review of the methodology used to generate the totex forecasts and allocation across controls and expenditure categories.	<p><i>'Overall, for the documentation we were provided with to review and the processes we reviewed, we consider</i></p> <ul style="list-style-type: none"> <i>you have a good level of documentation and processes in place to produce totex forecasts by expenditure category that are consistent with Ofwat's definitions;</i> <i>you have used the processes set out in your documentation to produce the totex forecasts, with any deviations justified; and</i> <i>accountability and responsibility of each stage of the process is clear with dependencies, risks and mitigations identified.</i> <p><i>Overall, we were comfortable with the approach taken to populating the totex business plan tables. We consider that your teams had good knowledge and understanding of the models, the processes used, and the resulting data.'</i></p>
Data Tables	Cover a range of data tables, identified as high risk, reviewing process and compliance with Reporting.	<p><i>'We have provided feedbacks following each audit noting any areas where we consider data needs to be reviewed or additional commentary added. In a number of instances supporting commentaries are being finalised and we understand that Internal Audit are completing a final consistency check across all tables and with commentaries.</i></p> <p><i>We note that all actions and recommendations have been tracked through to completion by the Compliance Team.'</i></p>

4.3 Internal Audit Findings

Internal Audit undertook assurance on a number of elements of our plan. Any recommendations were tracked centrally by the Compliance Team through to response. This work and their findings are detailed in the table below.

Area	Scope	Findings
Future Reporting Procedures	Internal Audit were asked to review evidence for the following statements: <ul style="list-style-type: none">"The business plan will deliver, and the Board will monitor delivery of, its outcomes and performance commitmentsThe company's proposed approach to reporting on its performance commitments, ODIs and the projections of outcomes is robust"	<i>'Severn Trent has an established approach to governance which includes the Board, STEC and Audit Committee. All of which are consulted and give approval on major regulatory submissions and this process is to be continued going forwards. The Water Forum are also a regular consultee and have been involved in the PR19 planning process and will continue to be consulted as part of future submissions.'</i> The full report on future reporting procedures is included in annex D.
Data Tables	Check that data has been produced in line with the Process Description Template provided; check that data has been completed in the relevant data tables; and review 1st and 2nd line assurance processes.	<i>'The supporting evidence provided by first and second line assurance to confirm their activities was reviewed for completeness. In addition, further independent data checks were carried out by IA. All additional supporting evidence and answers to queries raised were provided.'</i>
Consistency	Check data in the narrative is consistent with relevant data tables; check that data in the narrative is consistent with previously reported data where relevant; and check that data and messaging with in the narrative and data tables is consistent.	<i>'In order to complete the consistency check Internal Audit were provided with the narrative and data tables. These documents were provided at various points during the finalisation of the plan. For certain chapters we were provided with a list of proof points to evidence where data and statements had originated, PwC carried out a cross check of consistency between the data tables and any errors were highlighted to the Compliance team in Strategy and Regulation. These are being addressed by the Regulatory Oversight team.'</i>

In addition to above Internal Audit performed a final check to ensure our assurance framework had been adhered to and that all assurance activity had been completed.

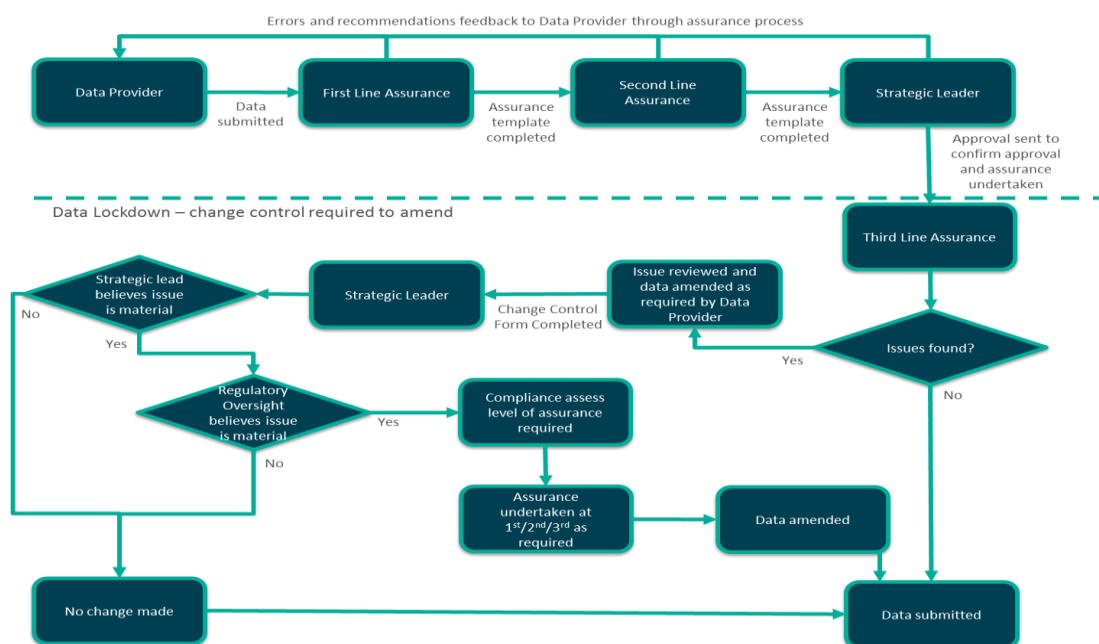
4.4 Data Table Assurance Process

We have performed rigorous third line assurance on all data and commentary that is included in our data tables and also on data that is used as supporting evidence for our proposals.

To ensure that all areas received comprehensive first and second line checks, we produced a standard set of assurance templates to be completed as part of the data submission process. These were reviewed for completeness as part of our central governance checks prior to submission to third line assurers. These checks included accountable managers sending an approval email through to our central inbox to confirm that they had seen evidence of first and second line assurance. These approvals were subsequently tracked by our compliance team and reviewed by Jacobs or Internal Audit to ensure all areas had received appropriate sign off.

We enacted strict controls to our data tables to prevent unauthorised changes once they were examined by third line. Any changes required were made through an authorised change control process where the accountable manager was made aware of the reasoning for the change prior to approval being sought using the process below.

Our data submission and change control process



Where our data tables were sourced from previously assured data e.g. APR, ARA etc. the table has been assured by Internal Audit who performed a consistency check to verify that the data has been transposed correctly across all data tables, narrative and appendices.

4.5 Data Table Assurance Findings

All of our data tables have undergone third line assurance. In line with our framework Jacobs reviewed areas which required regulatory challenge from a methodological and assumptive perspective. Jacobs provided feedback following each audit and all recommendations were tracked through to completion by our compliance team.

Our financial auditors for our statutory and regulatory accounts, Deloitte, have performed Agreed Upon Procedures on three tables requiring complex financial information to assist us in preparing these tables accurately.

Our judgements and assumptions with respect to Tax have been reviewed by PwC, these assumptions are inputs into the financial model which has been reviewed by KPMG. The tables that are fed from the model have been assured (tick and tie) by Internal Audit.

For tables where our data was sourced from previously assured data or was not complex financial or regulatory, Internal Audit performed the third line review. This included the process and data flows through the financial model in order to complete the final set of data tables.

Following the assurance on the individual tables, a consistency check has been undertaken across all the data tables and supporting narrative by Internal Audit.

The third line assurance on our data tables can be summarised as follows:

Data Table assurance providers and summary

Assurance provider	No. of tables	Findings
Jacobs	29	<p><i>'We have provided feedbacks following each audit noting any areas where we consider data needs to be reviewed or additional commentary added. In a number of instances supporting commentaries are being finalised and we understand that Internal Audit are completing a final consistency check across all tables and with commentaries.</i></p> <p><i>We note that all actions and recommendations have been tracked through to completion by the Compliance Team'</i></p>
Internal Audit	66	<p><i>'The supporting evidence provided by first and second line assurance to confirm their activities was reviewed for completeness. In addition, further independent data checks were carried out by IA.</i></p> <p><i>Below are details of the steps carried out by IA:</i></p> <ol style="list-style-type: none"> <i>1. Where process description templates (PDTs) were available the process used to produce the data required for the submission was followed by IA.</i> <i>2. Where PDTs were not available discussions with the data providers took place to walk through the data production process.</i> <i>3. Source data and documentation was reviewed and any gaps in evidence identified were queried and additional evidence was requested and reviewed.</i> <i>4. IA checked that any errors identified by the first and second line assurance had been rectified and that any observations and recommendations had been actioned.</i> <i>5. Historic data used in the tables and models was agreed back to source or previous published submission.</i> <i>6. IA agreed data from the models to the final data tables to ensure that all data had been complied and transferred correctly.</i> <i>7. Where tables have been assured by external providers and changes have been made to the final submitted tables, IA have carried out a sample review of the changes via the change control process.</i> <i>8. Internal Audit carried out a final tick and tie of all data tables from the working files to the master submission document.</i> <p><i>All additional supporting evidence and answers to queries raised were provided.</i></p> <p><i>IA would recommend a further check of the data submitted into the Ofwat portal to ensure an accurate upload has taken place.'</i></p>
Deloitte	3	Reviewed with no material issues raised.

In addition to the tables listed above, there are eight tables that are either not applicable to our business plan submission or where we have submitted a nil return. These have been checked by Internal Audit to ensure that this is the case:

- WS10 - Transitional spending in the wholesale water service
- WS17 - Water trading incentive mechanism
- WWS10 - Transitional spending in the wholesale wastewater service
- Bio7 - Wholesale wastewater bioresources special cost factors
- R2 - Residential Retail special cost factors
- R4 - Business retail - Welsh companies
- R5 - Business retail - non-exited companies operating in England
- R6 - Business Retail special cost factors

A full list of tables together with the assurance provider is shown at annex E.

App5 / App6 assurance

As part of a listed company we update the City regularly with performance forecasts and customer ODI expectations. We regularly report forecasts internally and use the weekly Executive level loopcell to review delivery and resource plans to challenge our ability to deliver for customers. The forecasts for 2018/19 and 2019/20 were additionally complex given the change in licence that took place on 1 July 2018. As such, to ensure we accurately forecast our performance commitments outturn position for the

start of the 2020-25 period, including any potential penalty or reward, and in accordance with the framework, we undertook three lines of assurance on App5 and App6 with Internal Audit providing an independent view. Specifically, Internal Audit were asked to:

- Check targets aligned with the NAV determination by Ofwat.
- Review assumptions underpinning allocation of incentive rates where necessary.
- Review allocation of 2018/19 forecasts between the new licence and the counterfactual position.

First and second line audits focussed on accuracy of calculations, tracing input data back to source, and alignment with developing performance commitments in App1. Below we include the list of recommendations and associated actions as a result of the Internal Audit review:

Internal Audit review

Table number	Notes Ref	Issue Details	Owner	Recommendations / Suggested Actions	Actions Undertaken	Date Action Taken	Complete?
App5	1	Cross-referencing columns Y to Z – STE and HD proportion splits	MP	Please can you send me the link as discussed, and add to PDT	Link sent	10/07/18	
App5	2	Cross-referencing columns AB to AE – New targets following NAV	MP	Please can you send me the link as discussed, and add to PDT	Link sent	10/07/18	
App5	3	WE1 – size of carbon footprint. Needs correcting and also revise the penalty rates that flow through	MP	Update analysis file and App 5	Changes made.	10/07/18	
App5/ App6	4	SC3 overall percentage – not matching between App 5 and App 6	MP	Align tables	Update App5 to match App6 for 2019/20	10/07/18	
App5	5	Lack of documentation on Regulatory oversight override on forecasts in PDT	MP	Add line by line commentary of all of the regulatory oversight adjustments on PDT (including update on SIM)	Not material to submission.		
App5	6	For the industry wide common PCs (lines 49-61) I can't see these in the Severn Trent specific PC outcomes.	MP	Please can you send the link for Incentive rates for these PC's, and add to PDT	These are not industry wide PCs, they are the DVW PCs that will still be reflected in Chester and Powys post 1st July. Link to DVW FD sent.	10/07/18	
App5	7	SD1 targets are not matching the FD targets (cells J41 & K41)	MP	Update SD1 targets	This should match to the corrigenda to the FD as we have formally updated our targets. Link sent.	10/07/18	
App5	8	SC5 and SD1 Incentive rates – There seems to be a calculation error of the magnitude x 10. This flows through to the calculated incentive rate on SD1	MP	Correct error	Error corrected.	10/07/18	
App5	9	RA2 (SIM) incentive calculation - $=((13/16)*AU44)+(0.995*((3/16)*AU44))$ - Should this be changed to 0.9942 as per the revenue split agreed? And also 0.0058 for HD?	MP	Correct proportion	No - different approach for SIM. No change	10/07/18	
App5	10	Where the targets have been apportioned for 18/19, why have they not been apportioned for 19/20 ? e.g. WA1 (Water quality complaints).	MP	Targets should be apportioned consistently	Because apportionment is due to the NAV licence change occurring part way through the year, it apportions the period up to 30th June.	10/07/18	
App5	11	Need to add the links in the PDT for the source data as discussed.	MP	Incentive rates, Ofwat website final determination - (https://www.ofwat.gov.uk/wp-content/uploads/2015/10/pap_te_c201503odimenuvst.pdf) FD PC targets - https://www.ofwat.gov.uk/wp-content/uploads/2015/10/det_pr_20141212svt.pdf	Not material to submission.		

On an annual basis the Water Forum is asked to review and challenge our customer ODI claim to ensure that we are not unfairly rewarded, for example our 2015/16 performance was challenged and a -£1.9m adjustment made to our customer ODI claim. As

part of the development of our plan the Water Forum have reviewed our performance commitment suite and challenged the 2020 outturn forecasts on an iterative basis through its performance sub-group.

4.6 Evidence of a resilient plan

We asked Jacobs to independently review our plan against Ofwat's concept of 'resilience in the round' and to ensure alignment with the requirements and expectations outlined in Ofwat's final methodology. Specifically, we wanted Jacobs to challenge whether our plan demonstrated how we would maintain operational, financial and corporate resilience now and in the future. To ensure Jacobs were able to give us early recommendations, they utilised a staged approach and reviewed our narrative several times to check recommendations had been addressed. Jacobs concluded *'We found that the draft of the resilience chapter that we reviewed reflects an integrated approach and reflects the requirements of Ofwat's tests for resilience'*.

In addition, our approach has been informed by wider assurance on our resilience programme, for example:

- Cyber Security Resilience- we asked Atkins to examine our cyber security plans to ensure we met our obligations under the Network and Information (NIS) regulations who found the following: *'the gap analysis conducted by STW against the NIS Regulations appears to be both realistic and honest. Whilst the current level of conformance with the majority of the NIS principles is poor, this is the case with many organisations we have reviewed. However, in several respects, such as governance and awareness training STW is ahead of their peers.'*
- Long term water resource planning – Jacobs provided assurance both as part of our draft Water Resource Management Plan (WRMP) submission and our statement of response following a period of consultation, we have considered the consultation responses and where appropriate have incorporated these into the plan.
- Long term viability statement - As part of our [annual report](#) the Board challenged us to extend our long term viability statement out to 2025 in support of our commitment to maintaining long term financial resilience. Within Deloitte's audit of our annual report and accounts 2017/18, they reviewed our long term viability statement.
- Corporate resilience is regularly discussed at Board level. We asked our assurance partners, Jacobs, to review our licence to operate framework, our ERM process and our governance arrangements in general to provide an independent review. Jacobs noted *'You have in place mature and well-documented systems to understand your legal and statutory obligations, and to identify and manage risks. These systems enable you to take a forward look to identify relevant legal obligations and to understand operational and or other risks to meeting these obligations for PR19 and your business plan.'*
- Common scenario testing – we have used the requirements set out in Ofwat's methodology to stress test our plans for totex against potentially volatile economic conditions and scenarios i.e. high inflation, low inflation, under performance on ODIs etc., as well as further scenarios developed from the principal risks included in our ERM process. More information can be found in appendix 11.

4.7 Assuring our cost adjustment claims

Our cost adjustment claims are covered by our framework as described in this appendix. Jacobs undertook a three staged review at various points in the programme to ensure we were able to capture any potential issues with our cost adjustment claims at an early stage before conducting a further check later in the plan's development cycle. Their findings are included in the table below.

Area	Scope	Findings
Stage 1 - Cost Expenditure	Review process for developing and maintaining cost curves within the Severn Trent Water Unit Cost Application (STUCA), and then their subsequent utilisation within three sample areas of the UME programme (combined sewer overflows; WRMP resilience; and flooding resilience – since withdrawn as an exclusion). This included sampling a limited number of costs derived from STUCA back to the application.	<p><i>‘Overall:</i></p> <ul style="list-style-type: none"> <i>we consider that the Company has appropriate processes in place to develop adequate and robust historic capital cost curves; and</i> <i>we saw no evidence your cost adjustment teams are applying the curves inappropriately.</i> <p><i>In summary, we assessed your processes for the generation, maintenance and application of capital cost curves as ‘B’, namely acceptable but with some scope for improvement.’</i></p>
Stage 2 - Projects	Review processes in place to support your business cases and whether your teams’ business cases appear to have considered the factors Ofwat expects in a well evidenced Cost Adjustment Claim. Overall, the second stage comprised wider review of the cases against the Ofwat’s assessment criteria. STW made an early submission to Ofwat in May.	<i>‘With respect to the Process Description Templates (PDTs), they generally provide a good level of detail on how investment plans have been derived but, in all cases would benefit from additional consideration to process risks and mitigations, on inherent assumptions, and on associated checks and controls that are in place.’</i>
Stage 3 - Business Cases	Review of the emerging and final Business Case documents against the Ofwat assessment criteria as indicated in its information note (IN 18/02, March 2018). Jacobs performed this review in two parts a.) initial assessment prior to our early submission in May 2018 and b.) a further review prior to our submission in September 2018.	<p><i>At the initial assessment, Jacobs noted: ‘Overall, we consider that the working drafts of the CAC business cases we saw provide a reasonable baseline but we observed that all can be improved and there is most risk/scope for improvement’</i></p> <p>Prior to our submission, Jacobs repeated the desktop review of the four business cases covering Water Resilience, Supply Demand, SEMD and Waste Water Quality. Following this review, Jacobs noted: <i>‘During our review of your updated business cases we observed you had made significant progress since our previous review.’</i> and further noted <i>‘Overall, and based on the material available, your business cases appear to consider the factors Ofwat might expect to see in a well-evidenced cost adjustment claim.’</i></p>

In addition to the three stages of assurance that Jacobs have undertaken, our Water Forum has also performed significant challenge through the investment sub group and through the full Water Forum meetings. We have shared our assurance report from Jacobs with the Water Forum and discussed findings and our subsequent response. The Water Forum have confirmed they will include a section in their report on their assurance and challenge to the cost adjustment claims.

4.8 Assuring the Framework

We designed our framework at the outset of the business planning journey to ensure that robust assurance was undertaken during the development of our business plan. The compliance team has ensured that the relevant assurance has been undertaken in accordance with the framework and have tracked all elements and subsequent recommendations through to completion.

However no process is infallible, therefore completion of the framework, review of change control, adherence to process, and tracking of recommendations has been assured by our Internal Audit team and has been presented to the Audit Committee and Board for review prior to final approval of our plan.

4.9 Critical challenge applied by the Water Forum

Our Water Forum was established to embed customers’ views into our plan for 2015-20 and has since evolved to provide expert customer and stakeholder challenge to our regulatory submissions such as our annual assurance plan, annual performance report and customer ODI performance outturn. The Water Forum started its challenge to the development of our five year plan in early 2016, and the full Water Forum have met 13 times to discuss our business plan along this journey.

The Water Forum set out to make clear what it needed to deliver to successfully challenge our business plan, building on the success of our 2015-20 business plan submission. In order to ensure rigorous and robust challenge would be given to the company, the first task was to recruit a new and independent Chair, Gill Barr. Gill has extensive retail experience (previously Marketing Director for John Lewis and on the Board for the Co-operative and MasterCard), bringing a wealth of industry knowledge and experience. The Chair agreed that there were four main areas in the designing phase for the Water Forum. These were as follows:

- The membership of the Water Forum.
- The ways of working we agreed.
- A focus on what it would call, 'collaborative challenge'.
- The planning approach.

In order to ensure there was a richness of challenge and expertise, the existing members and the new Chair highlighted the skills gap. It also looked at diversity as it recognised that a broader range of backgrounds would improve the quality of discussion. Once this demanding recruitment brief had been addressed, the Water Forum had expertise in areas such as Market research, asset appraisal, retail and local government expertise. Research provided by Ofwat on the 2015-20 business plan process reported that nationally Customer Challenge Group members found the workload to be challenging. It was therefore agreed by the newly formed Water Forum that a new and efficient way of working would be established, to meet these demands. In order to make the most of individual skill set and expertise, sub groups were formed. These were comprised of the following:

- Market Research – Dr Nick Baker sub group lead (Managing Director of customer research agency)
- Retail – Karen McArthur sub group lead (Consulting and Non-Executive Director)
- Strategic Investments – Rish Chandarana sub group lead (Transaction Director, Arup)
- Performance Incentives and Outcome Delivery Incentives – Dr Steven Wade (Associate Director, Atkins)

The sub groups challenged and scrutinised our plans and proposals in these meetings. The main Water Forum meetings were then held with all members in attendance. By working in this way, it ensured that company proposals were challenged at least twice, once at sub group level and then again at the main meetings, ensuring robustness and assurance. A summary of the sub group meetings can be found in the table below. Minutes were taken at all sub group meetings and main Water Forum meetings and challenges recorded in a log reviewed consistently.

Water Forum sub-group meetings

Sub Groups	Meetings	Contact hours	Challenges
Customer Insight	10	42	61
Retail	10	45	48
Investment	12	48	73
Performance	14	55	39

All of the challenges raised by the Water Forum have been considered and reflected in the plan where appropriate. Where the Water Forum challenges are not reflected in the plan the reasons for this have been discussed with Water Forum. The challenges are included as an appendix to the Water Forum report. A full copy of the Water Forum report has been published alongside our business plan.

There are a number of Board statements where the Water Forum Challenge and conclusions provide supporting evidence to the Board Statement proof points. We have not relied on the Water Forum to provide third line assurance to the plan, more a level of critical challenge that provides the Board with confidence that the plan has been developed with its customers at its heart.

In addition, the Water Forum has also been keen to understand the assurance framework and the work that Jacobs are undertaking. We presented our assurance framework to the Water Forum and also to the investment sub-group meeting to give them an understanding of the assurance we were applying across the plan and more specifically to our proposed cost adjustment claims. The assurance framework and summary of initial findings was presented to the Water Forum jointly with Jacobs in June 2018. The Chair of the Water Forum closed the session saying 'from my work with other Boards, I can confirm that this assurance process is excellent.'

4.10 'Red Team' Oversight

The Red Team have operated a structured assessment framework which has been used to provide feedback on sections of the plan during production phase as and when requested by accountable managers. The framework has also been used to review the business plan narrative against the Ofwat requirements. The assessment framework has been used to capture and record findings and recommendations, which were then addressed.

The Executive Committee have used the same framework whilst undertaking its additional review of the plan.

4.11 Incorporating UK and Welsh Government Policy

UK Government Policy

We reviewed the UK Government policy document against our business plan. We noted that the key themes of the government's strategic policy mirror the main themes of Ofwat's PR19 methodology: securing long term resilience and protecting customers. In addition, the policy document emphasises the need to develop emerging markets and encourage competition in areas like water resources and bioresources.

Below are some examples of where we have account for UK Government policy and our statutory obligations:

- Long term resilience – our securing long term resilience chapter (8) details how we believe we've created a plan that addresses the needs of our current and future customers that can withstand long term shocks and adapt to changing conditions. As detailed above, this chapter has been reviewed by Jacobs to provide an extra level of assurance to our plans.
- Cyber resilience – we recognise that we have a statutory duty to comply with the new Network and Information Systems (NIS) directive. We asked external assurers Atkins to assess our plans: *'Based on Atkins' experience performing gap analysis and security planning work for organisations similar to STW (including water companies and other CNI organisations) the gap analysis conducted by STW against the NIS Regulations appears to be both realistic and honest. Whilst the current level of conformance with the majority of the NIS principles is poor, this is the case with many organisations we have reviewed. However, in several respects, such as governance and awareness training STW is ahead of their peers. Also, STW's level of organisational maturity and forward planning is also ahead of the field.'*
- Protecting customers – we've set ourselves stretching targets in our performance commitments to help as many people as possible to afford their bills through the use of social tariffs and promoting water efficiency. Our customer challenge group have provided huge challenge with an added level of assurance and customer research acceptability in this area.
- Emerging markets - our embracing markets appendix (A6) describes how we intend to innovate in the new water resources and bioresources arena. We've consulted with experts in the field to gain additional insights.
- Continuing to meet our statutory obligations under the Water Act and other legislation – our license to operate framework details all statutory obligations across our appointed business, risk assesses them and requires action plans for any areas requiring improvement.

4.12 Embracing new markets and procurement

We have undertaken third line assurance for our Water Resources and Bioresources RCV and Market Information publications. We also submitted a board assurance statement alongside these publications to demonstrate that our Board had received adequate evidence of assurance and endorsed the submissions. As part of our assurance for our business plan, Jacobs has reviewed the methodology and data associated with sludge volumes and costs.

Our bid assessment framework has been assessed as part of the assurance framework. An independent expert review has been undertaken on our proposed framework by the Canals and Rivers Trust who are looking to become more active in the trading markets from 2020 onwards and have been a member of Ofwat's Water Resources Steering Group for PR19 (Water 2020). Following the review we have developed two frameworks:

- a. Tactical trades (smaller transactions – e.g. farmers and breweries where our checks and balances were lighter touch)
- b. Strategic trades (where we require rigorous checks and balances to prevent issues arising in maintaining supplies to our customers).

5. Providing confidence and assurance through to 2025 and beyond

While we believe our processes are robust and effective, we are constantly striving for ways to develop our assurance processes further, innovate new methods and to be the most trusted.

5.1 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, in emerging markets where we are always gaining further understanding of the requirements and our ability to report on them. In 2017, we published information relating to our bioresources RCV, since publication we have gained a better understanding of our data and have responded to feedback from Ofwat, and believe we have produced a more accurate return with our plan since the original publication. As such we will be restating our original position for PR19.
- 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. For example, we included a section in our 2016/17 annual performance report stating that we needed to make some adjustments to our historic performance in 2015/16. To ensure we were not unfairly rewarded, we made -£1.9m to our customer ODI claim due to the retrospective amendment. We are committed to always considering the impact of errors on any reward/penalty mechanism and consulting with both Ofwat and our Water Forum to ensure our customers are not adversely impacted.

5.2 Our performance commitments

For our performance commitments, which we consider to be a customer critical area our Board will continue to remain fully engaged in monitoring our performance and providing challenge where required through our established governance arrangements. Our established governance arrangements will continue to apply with performance regularly being 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. We have already started to understand what our future reporting and performance will look like through the shadow reporting measures. We asked Jacobs to review our shadow performance commitment submission as part of our 2017/18 annual performance report. Jacobs also considered the adequacy of our governance structure for the monitoring and reporting of our legal and statutory obligations to understand the level of risk of non-compliance. As a result of their review, one of the shadow measures (unplanned outages) was included in our year end compliance statement as an area that was not yet fully compliant, and which we are working to improve. In addition to Jacobs' assurance, our Internal Audit team reviewed our plans for our future performance commitment monitoring and reporting arrangements to ensure we had adequate reporting procedures in place. The Internal Audit report is included as annex D.

From an external stakeholder perspective, we will continue to share our performance with CCWater on a quarterly basis and consult with our Water Forum on both our assurance plans and our performance 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.

We will continue to use our risk based three stage assurance approach for our performance commitments. To ensure we spot potential issues early, we will focus early on making sure our reporting methods for the new measures are robust. We expect all performance commitments to go through both mid-year and year end audits in the first year - to be able 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.

We'll also continue to comply with our statutory and regulatory requirements when publishing information such as the annual performance report and the annual report and accounts to ensure we continue to be transparent about the areas of our business

that matter most to all our stakeholders - including executive pay, corporation tax and dividend payments. Read more in our chapter on 'a company you can trust' (18).

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.

5.3 A future plan that demonstrates long term resilience

We'll continue to use both enterprise and our licence to operate framework to ensure that we manage our company wide risks and statutory obligations both now and in future. We believe that the combination of our established assurance processes, our governance approach, established systems and the work undertaken by assurance partners as part of our plan, enables our Board to have confidence that our plan demonstrates long term resilience in future and that we can deliver and finance it appropriately. The completion of our PR19 assurance framework combined with our Board's own engagement, has enabled our Board to have confidence in providing their assurance statement (on page 12).

Annex A – Board Statement Proof Points

Statement	Board Proof Points	Source of assurance / evidence
Business Planning		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The Board has challenged and satisfied itself that all the elements add up to a business plan that is high quality and deliverable	Assurance framework designed.	Board approval of framework (July 2017)
	Self-assessment against Ofwat's themes, government policy and IAP tests	'red team' review
	Third line assurance, where proportionate to the risk associated with each component of the plan and each data table, has been carried out	All third party assurance reports associated with framework Internal Audit review and Audit Committee sign-off of framework completion
The Board has challenged and satisfied itself that the overall strategy for data assurance and governance processes delivers high-quality data	Established processes for reporting regulatory data at year end, and the outcome of Ofwat's annual 'Company Monitoring Framework' assessment	Sign-off and publication of Risk and Compliance statement CMF improvement plan
	An expert external assurance provider has designed a risk-based assurance framework	Review and approval of PwC framework by Audit Committee and Board
	This risk based assurance framework has been implemented. The Audit Committee has reviewed the outcome of third line assurance.	Internal Audit review and Audit Committee review

Statement	Board Proof Points	Source of assurance / evidence
Business Planning		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The Board has challenged and satisfied itself that the overall strategy for data assurance and governance processes delivers high-quality data	A 'red team' review process has been established to test the plan against Ofwat 'Initial Assessment of Plan' criteria during plan development. This has included a more holistic challenge of the plan in critical areas.	'red team' review
	Accountable owners have been assigned to component parts of the plan and data tables, and appropriate sign-off has been provided in line with the company's three line of assurance model	Completed RACI for assurance framework and data tables IA review of complete framework
	Third line assurance, where proportionate to the risk associated with each component of the plan and each data table, has been carried out	All third party assurance reports associated with framework Assurance reports / feedback for completion of data tables Internal Audit review and Audit Committee review of framework completion
	PR19 governance process has been designed, implemented and used	Completion of programme plan / milestones
	Completeness of 2nd line assurance where appropriate	2 nd line assurance checklist
	Data used within tables and the narrative have been checked for consistency and completeness	Internal Audit consistency check feedback and closure of recommendations

Statement	Board Proof Points	Source of assurance / evidence
Business Planning		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The Board has challenged and satisfied itself that the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK and Welsh Government's strategic policy statements	Established processes for monitoring compliance with statutory and regulatory obligations which are exercised annually (Licence to Operate)	Signed off compliance statement and Licence To Operate
	Forward looking L2O process for purposes of next AMP	Signed-off forward looking L2O and IA report
	Assurance of the company's AMP 6 reconciliation rule book, and track record of delivery	External assurance of historic year end performance (Jacobs) PR14 Reconciliation submission - Internal Audit assurance report
	STEC statement to the Board to confirm deliverability of business plan to meet statutory and licence obligations	STEC Declaration to the Board
	Assurance that uncertainty relating to future obligations has been considered and taken account of	External assurance of 'legal and statutory obligations' (Jacobs)
	Views expressed in writing by the DWI supporting our proposals	Quality regulators written statements

Statement	Board Proof Points	Source of assurance / evidence
Business Planning		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The Board has challenged and satisfied itself that its plan will deliver operational, financial and corporate resilience over the next control period and the long term through its governance and assurance processes, taking account of its track record of performance	Assurance of the company's AMP 6 reconciliation rule book, and track record of delivery	External assurance of 'historic year end performance' (Jacobs) PR14 Reconciliation submission - Internal Audit assurance report
	Assurance of convergence measures / split of DVW and STW data	External assurance report (Jacobs)
	The Board continues to comply with Ofwat's principles of corporate governance	Confirmed in publication of ARA Confirmed in plan narrative
	Long term viability statement	Publication of long term viability statement in ARA
	Summation of 'finance' , 'risk and return' and 'resilience'	External Assurance reports for 'financeability, risk and reward' and 'resilience strategy'. (Jacobs)
	Review the effectiveness of the established enterprise risk management system	External assurance of 'legal and statutory obligations' (Jacobs)
	The company has undertaken research to understand customer views on resilience. The company has demonstrated how it has taken account of those views	External assurance reports for review of 'customer engagement' (Trinity McQueen) and 'resilience strategy' (Jacobs) Water Forum challenge

Statement	Board Proof Points	Source of assurance / evidence
Business Planning		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The Board has challenged and satisfied itself that its plan will deliver operational, financial and corporate resilience over the next control period and the long term through its governance and assurance processes, taking account of its track record of performance	Assurance has been undertaken on the company's expenditure proposals and outcomes. The company has demonstrated how its decision making and trade-offs have taken into account resilience and the need for future interventions.	External assurance reports for and 'resilience strategy', 'cost adjustment claims' and 'totex' (Jacobs)
	Established processes for assurance and assurance of current and future of ODIs / PCs / APR performance measures	Annual Performance Report & Compliance Statement publication External assurance reports for 'legal and statutory obligations' (Jacobs) Assurance of 'future performance reporting' (Internal Audit)
	Assurance has been undertaken on the Company's WRMP	External assurance reports for WRMP (Jacobs)
The Board has challenged and satisfied itself that it will enable its customers' trust and confidence through high levels of transparency and engagement with customers on issues such as its corporate and financial structures	Views of the Water Forum on PR19	Water Forum challenge Board Attendance at the Water Forum
	Publication of Company Governance Structure (websites HD & STW & PLC AND PR19 & APR & ARA reports)	STGroup Company structure published alongside ARA
	Compliance with corporate governance	Confirmed in publication of ARA Publication of Company Compliance Statement
	Compliance in line with the Company CMF categorisation	CMF Improvement plan implementation

Statement	Board Proof Points	Source of assurance / evidence
Business Planning		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The Board has provided ownership of the overall strategy and direction of the plan in the long term	Board engagement through topics discussed at Board meetings	Board meeting agenda and minutes
	Board engagement with Water Forum	Water Forum agenda and minutes
		Board attendance at Water Forum
	The Board has set out its ambition for the plan (taking into account customer and other stakeholder priorities, prevailing economic conditions (e.g. affordability) and future needs (e.g. resilience)) and understands the extent to which the plan meets those expectations	PwC Assurance framework approved by Board
		Board engagement, meeting agenda and minutes
		Board Strategy Day
		Water Forum Challenge

Statement	Board Proof Points	Source of assurance / evidence
Customer Engagement		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The Company's business plan has been informed by Customer Engagement	Views of the Water Forum	Water Forum challenge
	Customer engagement assurance and assurance of inclusion of customer views within component assurance (such as PCs and cost adjustment)	‘review of customer engagement’ assurance report (Trinity McQueen) Assurance reports (Jacobs)
	The Board has reviewed and has had the opportunity to respond to the customer compendium	Customer compendium presented to and challenged by STEC / Board
	Board participation in customer research and focus groups	Customer research attendee list and feedback
The Company's business plan has been informed by feedback from the company's CCG about the quality of its customer engagement and this has been incorporated into its plan	Board engagement with Water Forum	Water Forum agenda and minutes Board attendance at Water Forum
	The Board has reviewed and has had the opportunity to respond to Water Forum conclusions	Board attendance at Water Forum Board meeting with Water Forum Chair

Statement	Board Proof Points	Source of assurance / evidence
Affordability		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The company's business plan is affordable for all customers, including in the long term and including appropriate assistance for those struggling, or at risk of struggling, to pay	Customer views / views of the Water Forum on affordability have been considered and responded to	Water Forum challenge log
	Assurance that affordability and vulnerability measures have been included, and are consistent with Ofwat's tests and principles	External assurance report for 'affordability and vulnerability' (Jacobs)
	Expert opinion as to whether appropriate steps and measures has been sought, considered and responded to.	External assurance report for 'affordability and vulnerability' (Jacobs)
Outcomes		
<p>The business plan will deliver, and the Board will monitor delivery of, its outcomes and performance commitments</p> <p>The company's proposed outcomes, performance commitments and ODIs reflect customer preferences and are stretching</p> <p>The company's proposed approach to reporting on its performance commitments, ODIs and the projections of outcomes is robust</p>	The Board has, reviewed, and responded to, the final views of the Water Forum	Board/Water Forum Meetings
	The Water Forum chair has had regular interaction with the Board / Board engagement with Water Forum	Board/Water Forum Meetings
	The Water Forum has discussed and challenged the ODIs and confirmed that they are stretching	Water Forum agenda, minutes and challenge
	Assurance has been undertaken on the company's proposed outcomes, PCs and ODIs to ensure there is a clear line of sight to customer research, an appropriate methodology has been followed to determine PCs and their Targets, and where mandated by Ofwat, the appropriate methodology has been followed	External assurance reports 'PR19 Outcomes' (Jacobs) 'review of ODIs' and 'valuation triangulation' reports (Frontier Economics)
	The company has set out a framework for monitoring future performance that builds on its established AMP6 framework and responds to future PC reporting needs	Internal Audit review

Statement	Board Proof Points	Source of assurance / evidence
Resilience		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
<p>The company's business plan has been informed by:</p> <p>A robust and systematic assessment of the resilience of the Company's systems and services</p> <p>Customer views about managing resilience</p> <p>A comprehensive and objective assessment of interventions to manage resilience in customers' long term interests</p>	Review the effectiveness of the established enterprise risk management system	External assurance report for 'legal and statutory obligations' (Jacobs)
	The company has undertaken research to understand customer views on resilience. The company has demonstrated how it has taken account of those views	<p>External assurance reports for 'review of customer engagement' and 'resilience strategy' (Jacobs)</p> <p>Water Forum challenge</p>
	Assurance has been undertaken on the company's expenditure proposals and outcomes. The company has demonstrated how its decision making and trade-offs have taken into account resilience and the need for future interventions.	External assurance reports for 'operational resilience' and 'resilience strategy' (Jacobs)

Statement	Board Proof Points	Source of assurance / evidence
Cost Assessment		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The expenditure forecasts included in the company's business plan are robust and efficient	The company has established a challenging and efficient cost envelope, which its plans operate within	External third party consultancy
	The Board has reviewed and agreed challenging cost envelopes for the plan to work within	Board meeting discussion, engagement and challenge
	The company has undertaken external benchmarking to determine the relative efficiency of its costs	'Benchmarking' and 'estimating' reports (Turner & Townsend)
Large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers	Views of the Water Forum	Water Forum and strategic investment sub-group challenge
	The company has undertaken external benchmarking to determine the relative efficiency of its costs	'Benchmarking' and 'estimating' reports (Turner & Townsend)
	The Board has reviewed and challenged the case for cost adjustment claims	Board meeting agenda and minutes
	Assurance has been undertaken on the Company's proposed Cost Adjustment Claims and proposals for Direct Procurement.	External assurance reports for 'UME cost adjustments – cost curves', 'cost adjustment claims review' and 'direct procurement' (Jacobs)

Statement	Board Proof Points	Source of assurance / evidence
Risk and Return		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
<p>The Board has identified the risks associated with delivering the plan.</p> <p>The risk mitigation and management plans the Board has in place are appropriate.</p>	Risks, mitigations and contingency are considered as part of the development of the overall plan. These risks, including mitigation and contingency plans are regularly reviewed as part of programme governance and considered in the decision making process.	Effective governance of RAID through Programme Board STEC, DC, AC and board in line with governance framework
	The company has challenged itself to drive innovation, and use market mechanisms, to press for more value for customers. The risks of these approaches have been considered in the overall context of Totex delivery plans	2nd line assurance External assurance report for 'totex' (Jacobs)
	The company has established a challenging and efficient cost envelope, which its plans operate within	Board Challenge External third party consultancy
	Customer views on the overall balance of risk and reward between company and customer, and current and future customers have been considered	Results of Customer acceptability survey Board Challenge and direction Water Forum Challenge
	Assurance has been undertaken on the company's proposed outcomes, PCs and ODIs to ensure there is a clear line of sight to customer research, evidence has been presented that PCs are challenging, and where mandated by Ofwat, the appropriate methodology has been followed	External assurance reports 'PR19 Outcomes' (Jacobs) 'review of ODIs' and 'valuation triangulation' reports (Frontier Economics)

Statement	Board Proof Points	Source of assurance / evidence
Financeability		
The STEC Declaration to the Board is a back to back of the below statements and will provide support to each one, though not listed separately.		
The company's business plan is financeable on both the notional and actual capital structure and the plan protects customers interests in the both the short and long term.	Summation of 'risk and return' plus 'outcomes'	External assurance reports for 'financeability, risk and return', 'PR19 outcomes' (Jacobs) 'review of ODIs' and 'valuation triangulation' reports (Frontier Economics)
	Third line assurance undertaken on the Company's Financial Model	External assurance report for Financial Model (KPMG) External assurance report for 'totex' and 'financeability, risk and reward' (Jacobs)
	Assurance and stress testing of notional and actual capital structure under different scenarios	External assurance report for 'finanaceability, risk and reward' (Jacobs)
	The Board is aware of credit rating projections and has considered projections for financial ratios, credit metrics and bill trajectories	Board meeting agenda and minutes

Annex B – Board Engagement

		2016	Jun-17	Oct-17	Nov-17	Jan-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
METHODOLOGY - GOVERNANCE, ASSURANCE	Approach and Methodology	Methodology review - outcomes and implications	Methodology updated	Methodology updated			How will Ofwat assess plans					
	Internal approach, governance and assurance	Approach and impact of methodology updates	Approach and progress	Approach and progress Board engagement approach		Shape of plan key points		- Assess plan in round - Boards & STEC statements review	Assurance progress Board & STEC statement update	Assurance progress	Assurance findings update – Jacobs Submission status	Final assurance Board & STEC statements
KEY INPUTS	Strategic investment (UME)	Preparing for PR19	Progress update		Progress updated	Shape of plan - UME list	Water Forum plan and overall risk	May submission and DPC approach	Progress update	Final cases	Final cases	
	Customer engagement	Preparing for PR19	Plan and timeline		Insight update and Water Forum challenge							
	Affordability and vulnerability				Progress update		Final propositions					
	ODIs						Customer valuations	Rates and design				
	Base plan	Preparing for PR19	Retail and Technology plan update		Revised process and approach and AMP6 impact			Totex update and challenge				
	Base plan - PC's	Preparing PR19					Confirm PC package 19/20 forecast, 24/25 stretch, CBA approach					

		2016	Jun-17	Oct-17	Nov-17	Jan-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
FINANCIAL AND ECONOMETRICS	Financial and econometrics				Plan building blocks			Cost envelopes Econometrics Financial modelling Financeability Proposed scenarios	Finance (JMc)		AMP7 Financials Final outcomes July submission approval	Final submission approval
NARRATIVES	Narrative - approach and development				'Stand-out idea' options				Cross-cutting: Affordability, vulnerability -Resilience in round -Innovation annex			
	Narrative content								Part 2 - Approach and Outcomes (Block 1 of 2)	Part 1 - Summary and signposting Part 2 - Approach and Outcomes (Block 2 of 2) Part 3 - Costs, financials and risk and return Non-technical appendices (Block 1 of 2)	Part 1, 2 and 3 – Revisions Non-technical appendices (Block 2 of 2) Narrative content approval	Final revisions Submission approval

Annex C – Jacobs Board Slides



Severn Trent Water Ltd

PR19 submission – Jacobs assurance

31 August 2018

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Summary

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PR19 – Assurance Summary

Scope

We have provided a programme of assurance, reviewing elements of the business plan across several building blocks

We agreed scope for each of the building blocks consistent with your assurance framework designed to reflect the way in which your plan has been constructed

Our work supports your internal assurance and was focused on a review of the processes that underpin your board statements*

Approach

We tailored our standard three stage approach, focused on challenging your approach, key assumptions, compliance against regulatory guidance and consistency with evidence/inputs

For each area we have provided individual detailed feedback and separate reports

As agreed all actions and recommendations have been tracked through to completion by your Compliance Team and we have completed a sample check to evidence completion

Conclusion

Overall we observed that you had a thorough understanding of Ofwat's expectations

Where we have noted risks, or areas where we considered the building blocks would benefit from further evidence, we understand that your teams have updated narrative and tables as required

Based on our scope, we consider the Board can support the relevant Ofwat statements

* The building blocks we reviewed broadly map to the Ofwat board statements and in some instances our work provides support for more than one statement – mapping in Appendix A



Part 1 Background and scope

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1.1 Background

For PR19 Ofwat requires companies to submit a Business Plan consisting of data and information plus supporting evidence

Ofwat expects each company's Board to own and be accountable for their plans

As part of the PR19 Business Plan submission the Board is required to sign off a number of "Board Assurance Statements" to confirm that:

- They own and have been fully involved in the development of the plan;
- The plan is based on robust information; and
- The plan meets OFWAT's definition of a "high quality plan".

We are your technical assurance partner, providing third line assurance across a range of areas, (APR, WRMP, wholesale charges etc)

For PR19 we agreed to provide a programme of assurance, reviewing elements of the business plan across several building blocks that support your internal assurance

1.2 Scope

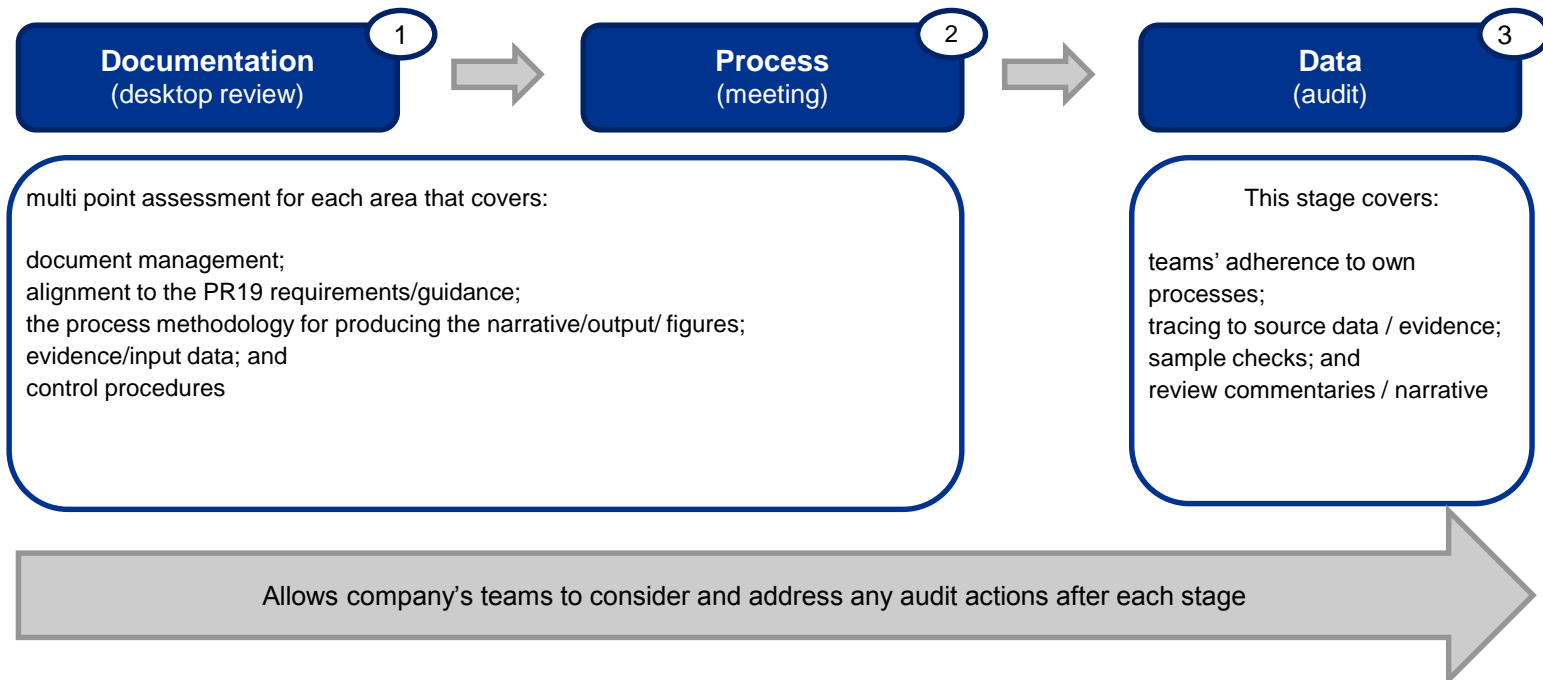
We completed a risk based approach driven by your assurance framework. The following table summarises our scope for each building block.

Building Blocks	Summary
1 - Financeability, Risk and Reward	Application of modelling on both notional and actual structure, consistency with Ofwat guidance and review of modelled scenarios
2 – Affordability & Vulnerability	Review of narrative and supporting material on affordability, vulnerability and test against Ofwat requirements
3 - Legal and Stat Obligations	Review process to identify and manage relevant obligations and subsequent inclusion within the plan
4 - Direct Procurement	Review your process for selection of possible projects and the methodology used to determine scheme eligibility for DPC against the guidance provided by Ofwat
5 – Outcomes	Review of definitions ahead of draft submission and review of approach and methodology for setting targets/baseline for bespoke and common PCs
6 - Operational Resilience	Review approach to appraise resilience risks, underlying assumptions and links to customer research to explore risk appetite
7 - Cost Allocation	Review methodology to allocate costs across price controls, and between STW England and HD reviewing compliance with Regulatory Accounting Guidelines
8a - Cost Exclusions Stage 1	Review process to develop historic capital cost curves and their application to project costs
8b- Cost Exclusions Stage 2	Review processes in place to support your business cases and whether your teams' business cases appear to have considered the factors Ofwat expects in a well evidenced Cost Adjustment Claim.
9 – Totex	Review of the methodology used to generate the totex forecasts and allocation across controls and expenditure categories
Data Tables	Cover a range of data tables, identified as high risk, reviewing process and compliance with Reporting Guidance

1.3 General audit approach

We tailored our standard three stage risk based approach, providing critical review for elements of building blocks and challenge:

- approach,
- interpretation/ compliance against regulatory guidance
- key assumptions
- consistency with evidence/inputs
- final narrative – level of evidence





Part 2 Findings

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2.1 Financeability, Risk and Reward

Scope

We split our review into three elements:

- 1) Pre modelling review involving a review of documentation, models and spreadsheets that input into the financial model
- 2) Review of financial modelling on actual capital structure including scenarios. This involved a risk based sample check on outputs of modelling runs, sample checking outputs from the final modelling run to Business Plan tables and narrative, review of documented evidence on choice of financial levers, and consistency with Ofwat guidance.
- 3) Review of financial modelling on notional capital structure. We focused on the application of Notional assumptions, consistency with Ofwat guidance, and a risk based sample check of modelled scenarios

Board statement

Assurance that the company's business plan is financeable on both the notional and actual capital structure and that the plan protects customer interests in both the short and the long term.

Findings

No material observations identified. All key assumptions and judgements have been fully discussed at board and explained.

2.2 Affordability & Vulnerability

Scope

Affordability is one of Ofwat's four PR19 key themes and addressing vulnerability is a key element of Ofwat's 'great customer service theme'. You asked us to review and comment on five documents that are included in the retail section of the PR19 business plan:

‘Our approach to addressing affordability and vulnerability’ and two subsidiary appendices on affordability and vulnerability.

‘A service for everyone’ and ‘The lowest possible bills’ - documents to be included in the outcomes section of the business plan

Board statement

Assurance that the company's business plan is affordable for all customers, including in the long term and including appropriate assistance for those struggling, or at risk of struggling, to pay.

Findings

No material observations identified. All key assumptions and judgements have been fully discussed at board and explained.

2.3 Legal and Statutory Obligations

Scope

Our review focused on your processes in the four areas which support the company in meeting its statutory and licence obligations, now and in the future and which feed into the development of your PR19 business plan: -

1. Licence to Operate (LTO)
2. Enterprise Risk Management (ERM)
3. PR19 programme management
4. STWL Governance

As agreed we challenged and reviewed your processes to ensure they allow you to identify relevant obligations and, where applicable, costs and/or activity have been included within the plan

Board statement

The Board has challenged and satisfied itself that the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK and Welsh Government's strategic policy statements

Findings

No material observations identified. All key assumptions and judgements have been fully discussed at board and explained.

2.4 Direct Procurement

Scope

Ofwat introduced Direct Procurement for Customers (DPC) as a process and placed responsibilities with companies to develop candidate projects for DPC before running a procurement process that will nominate a competitively appointed provider. We reviewed the process used for selection of candidate projects and the methodology used to determine scheme eligibility. We focused on compliance with the guidance provided by Ofwat and have reviewed and challenged the outputs from your process. As agreed, we concentrated on the characteristics of projects that have been deemed unfavourable for DPC.

Board statement

The scope of our work on DPC supports assurance that large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers

Findings

No material observations identified. All key assumptions and judgements have been fully discussed at board and explained.

2.5 Outcomes

Scope

We reviewed draft definitions of your performance commitments against the requirements included in both IN 18/02 and the PR19 final methodology prior to your submission in May. We have also reviewed your approach to setting your targets and methodology for calculating the upper quartile.

Board statement

Assurance that the business plan will deliver – and that the Board will monitor delivery of – its outcomes and performance commitments. Assurance that the company's proposed outcomes, performance commitments and outcome delivery incentives (ODIs) reflect customer preferences and are stretching. Assurance that the company's proposed approach to reporting on its performance commitments, ODIs and projections of outcomes is robust.

Findings

In our final report covering approach to setting targets and calculating the upper quartile no material observations were noted. We understand that all key assumptions and judgements have been fully discussed at Board and explained.

2.6 Operational Resilience

Scope

Ofwat are expecting companies to take ownership of the resilience challenge and develop innovative and integrated plans to bring resilience in the round to life. They are expecting an integrated and intelligent response to future threats to the sector and are expecting to see companies linking corporate, financial and operational elements together with customers at the heart. Our approach took the form of a desk-based review of the proposed Business Plan narrative and supporting documentation. We subsequently completed a set of structured face-to-face interviews with the key contributors to the Operational Resilience plan, providing a risk-based challenge to the basis of the AMP7 proposed work and a deep dive into specific areas arising from the narrative and the interviews.

Board statement

Assurance that the company's business plan has been informed by a robust and systematic assessment of the resilience of the company's systems and services. Assurance that the company's business plan has been informed by customers' views about managing resilience. Assurance that the company's business plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests.

Findings

Our review was focused on Operational Resilience. Whilst we observed that your plan demonstrates good understanding of operational resilience we consider that the narrative would benefit from further evidence on how resilience needs have been considered holistically.

At the time of completing our final review, we observed that your chapter is in the process of being finalised, but that it is a document that provides confidence that the main expectations have or are in the process of being addressed. We found that the draft of the resilience chapter that we reviewed reflects an integrated approach and reflects the requirements of Ofwat's tests for resilience.

2.7 Cost Allocation

Scope

As an extension to your annual financial year end assurance we reviewed your PR19 cost allocation processes for the following four areas: -

1. Price controls within STW (current boundary) – Wholesale Production & Customer Delivery
2. Allocations between STW (England) and Hafren Dyfrdwy (HD)
3. Allocations between STW and Water Plus
4. The capital business plan structure and assignment to regulatory categories (price control/business and expenditure by purpose) for STW.

We sampled a selection of processes and our review focused on challenging your methodology for compliance with Ofwat specific guidance or in the absence to specific guidance, adherence to cost allocation principles

Board statement

The scope of our work on cost allocation supports the overall strategy for data assurance and governance processes delivers high-quality data.

Findings

We provided a final reports ahead of completion of your annual report for 2017-18. We observed that you have a satisfactory base level of documentation and processes in place to report data that are compliant with the principles and rules within the Regulatory Accounting Guidelines.

You have informed us that you have addressed the areas of risk and improvement that we identified in our report and therefore we have no outstanding material observations

2.8 Cost Exclusions

Scope

As part of developing your Business Plan for PR19, you are developing a number of business cases for activity where you consider cost adjustments to Ofwat's econometric models to be relevant. You asked us to review your proposed cost adjustment cases in three stages:

1. focused on providing assurance specifically on the development and application of your cost curves
2. a wider review of the cases against the Ofwat's assessment criteria
3. sample checking some individual projects, to review your approach for consistency with your process and for transcription accuracy

Board statement

The scope of our work on cost exclusions supports several of the assurance statements, primarily that large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers.

Findings

We observed that you have appropriate processes in place to develop adequate and robust historic capital cost curves. For three of four CACs we found no material issues. For the water resilience CAC we noted some areas of risk and recommended areas where your narrative on this specific CAC would benefit from further evidence. we understand your team has plans in place to address the risks we have identified ahead of your business plan submission.

2.9 Totex

Scope

A key part of your business plan is your totex proposal and you asked us to review your methodology focused on the following areas:

1. Review of the methodology used to generate the totex forecasts, and the breakdown into expenditure category
2. Alignment with Ofwat definitions (including recent guidance in RAGs on Base/Enhancement expenditure)
3. Review the forecasts split at the price controls level in addition to category
4. Review consistency with other parts of plan (where appropriate)

Board statement

Our work on totex supports assurance that the expenditure forecasts included in the company's business plan are robust and efficient.

Findings

No material observations identified. All key assumptions and judgements have been fully discussed at board and explained.

2.10 Data Tables

Scope

Driven by your assurance framework you identified a subset of data tables that required third line assurance. We agreed to adopt a risk based approach and sample check lines focusing on your forecast methodology and alignment to the business plan table guidance. Where appropriate we challenged available evidence and alignment to final narrative.

Board statement

Our review of data tables supports assurance that the Board has challenged and satisfied itself that the overall strategy for data assurance and governance processes delivers high-quality data.

Findings

We have provided feedbacks following each audit noting any areas where we consider data needs to be reviewed or additional commentary added. In a number of instances supporting commentaries are being finalised and we understand that Internal Audit are completing a final consistency check across all tables and with commentaries.

We note that all actions and recommendations have been tracked through to completion by the Compliance Team



Part 3 Conclusions

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3.1 Overall conclusions

Overall we observed that you had a thorough understanding of Ofwat's expectations

As agreed we aligned our assurance to the Ofwat methodology and we note that their assessment criteria are subjective

Where we identified risks and or areas where we considered the building blocks would benefit from further evidence we understand that your teams have updated narrative and tables as required

As agreed all actions and recommendations have been tracked through to completion by the Compliance Team and we have completed a sample check to evidence completion

We consider we have worked constructively together and that your reporting risk is lower as a result of our collective work

Based on our scope and the material we were provided we consider the Board can support the relevant Ofwat statements

For each area we provided separate reports detailing our scope and observations



Appendix A

Appendix A

Area	Required Statement	Jacobs Reports									
		Financeability, Risk and Reward	Affordability & Vulnerability	Legal and Statutory Obligations	Direct Procurement	Outcomes	Operational Resilience	Cost Allocation	Cost Exclusions	Totex	Data Tables
Business Planning	The Board has challenged and satisfied itself that all the elements add up to a business plan that is high quality and deliverable.							✓			✓
	The Board has challenged and satisfied itself that the overall strategy for data assurance and governance processes delivers high-quality data.										✓
	The Board has challenged and satisfied itself that the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK and Welsh Government's strategic policy statements.			✓							
	The Board has challenged and satisfied itself that its plan will deliver operational, financial and corporate resilience over the next control period and the long term through its governance and assurance processes, taking account of its track record of performance.	✓		✓							
	The Board has challenged and satisfied itself that it will enable its customers' trust and confidence through high levels of transparency and engagement with customers on issues such as its corporate and financial structures.										
	The Board has provided ownership of the overall strategy and direction of the plan in the long term.										
Customer Engagement	Assurance that the company's business plan has been informed by customer engagement		✓			✓			✓		
	Assurance that the company's business plan has been informed by feedback from the company's CCG about the quality of its customer engagement and how this has been incorporated into its plan.		✓			✓			✓		
Affordability	Assurance that the company's business plan is affordable for all customers, including in the long term and including appropriate assistance for those struggling, or at risk of struggling, to pay.		✓								
Outcomes	Assurance that the business plan will deliver – and that the Board will monitor delivery of – its outcomes and performance commitments.					✓					
	Assurance that the company's proposed outcomes, performance commitments and outcome delivery incentives (ODIs) reflect customer preferences and are stretching.					✓					
	Assurance that the company's proposed approach to reporting on its performance commitments, ODIs and projections of outcomes is robust.					✓					
Resilience	Assurance that the company's business plan has been informed by a robust and systematic assessment of the resilience of the company's systems and services.						✓				
	Assurance that the company's business plan has been informed by customers' views about managing resilience.						✓				
	Assurance that the company's business plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests.						✓				
Cost Assessment	Assurance that the expenditure forecasts included in the company's business plan are robust and efficient.								✓		
	Assurance that large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers.				✓				✓		
Risk and Return	Assurance that the Board has identified the risks associated with delivering the plan.										
	Assurance that the risk mitigation and management plans the Board has in place are appropriate.			✓			✓				
Financeability	Assurance that the company's business plan is financeable on both the notional and actual capital structure and that the plan protects customer interests in both the short and the long term.	✓									

Severn Trent Water Ltd

PR19 Assurance Summary

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Annex D – Internal Audit Future Reporting Processes Report

PR19 – Future reporting processes – Board Statement

Internal Audit Memorandum

STEC Director: Tony Ballance

Strategic Lead: Heather Richardson

Head of Internal Audit: Sue Wallbank

Date published	Internal Audit
14 August 2018	Rachel Wilson



Three Lines of Defence Model

Internal Audit Memorandum

Date: 14 August 2018

To: Heather Richardson, Head of Compliance

From: Rachel Wilson, Internal Audit Manager

Subject: PR19 – Future Reporting Process Board Statement

Background and scope

As part of the PR19 submission, Ofwat set out in its final methodology that “they expect a company’s full Board to take collective responsibility for assuring its business plan. To provide confidence in its plan, a company’s full Board needs to provide us with a statement, in its own words, of why it considers all the elements (including supporting data) add up to a business plan that is high quality and deliverable.”

The Severn Trent Board has composed a statement which includes the required elements as set out by Ofwat. Each element of the statement has evidence to support it including reports from external assurance providers, minutes from STEC and Board meetings etc.

Internal Audit were asked to review evidence for the following statements:

“The business plan will deliver, and the Board will monitor delivery of, its outcomes and performance commitments

The company's proposed approach to reporting on its performance commitments, ODIs and the projections of outcomes is robust”

Detailed observations

As evidence to support the above statements, Internal Audit have reviewed the relevant sections of the Securing Trust, Confidence and Assurance chapter and supporting appendix of the business plan along with the report provided by Jacobs on their review of legal and statutory obligations. We have also conducted meetings with the Head of Compliance and the Compliance Manager.

Severn Trent are proposing to continue with their current process of regular reporting through STEC and Board and half and full year assurance reporting of Performance Commitments and ODIs through Disclosure Committee and Audit Committee. The process will continue to follow the 3 lines of assurance approach with Jacobs carrying out third line technical assurance in this area for the next seven years. Shadow performance commitments are already reported in this way.

Jacobs have also provided a review of Severn Trent’s Enterprise Risk Management (ERM) approach and its Licence to Operate (LTO) process which allows the company to monitor and review its legal and statutory obligations now and in the future. They have concluded that the ERM and LTO process is mature and well documented with appropriate systems in place. The Compliance team will include AMP7 performance commitments within the LTO process as is the case for AMP6.

Severn Trent has an established approach to governance which includes the Board, STEC and Audit Committee. All of which are consulted and give approval on major regulatory submissions and this process is to be continued going forwards. The Water Forum are also a regular consultee and have been involved in the PR19 planning process and will continue to be consulted as part of future submissions.

Internal Audit recommends that an Internal Audit review of the reporting process for the PCs and ODIs is included in the 19/20 plan.

Acknowledgements

We would like to thank colleagues for their assistance and co-operation.

Disclaimer:

Our report may not have considered issues relevant to any third parties. Accordingly, we assume no responsibility or liability whatsoever in relation to the contents of our report to any third parties who are shown or gain access to our report, and any use such third parties may choose to make of our report is entirely at their own risk.

Annex E – Data Table Assurers List

PR14 Reconciliation Data Tables

Table	Assurance Provider
App5	Internal Audit
App6	Internal Audit
App9	Internal Audit
App23	Internal Audit
App25	Internal Audit
App27	Internal Audit
App31	Internal Audit
WS13	Internal Audit
WS15	Internal Audit
WS17	Internal Audit
WWS13	Internal Audit
WWS15	Internal Audit
R9	Internal Audit
R10	Internal Audit

Nil return / Not applicable Tables

Table	Assurance Provider
WS10	Internal Audit
WS17	Internal Audit
WWS10	Internal Audit
Bio7	Internal Audit
R2	Internal Audit
R4	Internal Audit
R5	Internal Audit
R6	Internal Audit

Complex Financial Data Tables

Table	Assurance Provider
App22	Deloitte
App33	Deloitte
R3	Deloitte

Non-Complex Financial or Regulatory data / Trace to Source Data Tables

Table	Assurance Provider
App7	Internal Audit
App8	Internal Audit
App10	Internal Audit
App11	Internal Audit
App11a	Internal Audit
App12	Internal Audit
App12a	Internal Audit
App13	Internal Audit
App14	Internal Audit
App15	Internal Audit
App15a	Internal Audit
App16	Internal Audit
App17	Internal Audit
App18	Internal Audit
App19	Internal Audit
App20	Internal Audit
App21	Internal Audit
App24	Internal Audit
App24a	Internal Audit
App26	Internal Audit
App29*	Internal Audit
App30	Internal Audit
App32	Internal Audit

* Judgements and assumptions reviewed by PwC

Non-Complex Financial or Regulatory data / Trace to Source Data Tables

Table	Assurance Provider
Bio3	Internal Audit
Bio4	Internal Audit
Bio5	Internal Audit
Bio6	Internal Audit
R1	Internal Audit
R7	Internal Audit
R8	Internal Audit
Wn3	Internal Audit
Wn4	Internal Audit
Wn5	Internal Audit
Wr2	Internal Audit
Wr3	Internal Audit
Wr4	Internal Audit
Wr5	Internal Audit
WS1	Internal Audit
WS1a	Internal Audit
WS5	Internal Audit
WS8	Internal Audit
WS18	Internal Audit
WWn1	Internal Audit
WWn2	Internal Audit
WWn5	Internal Audit
WWn6	Internal Audit
WWn7	Internal Audit
WWS1	Internal Audit
WWS1a	Internal Audit
WWS5	Internal Audit
WWS8	Internal Audit
WWS12	Internal Audit
WWS18	Internal Audit

Regulatory Challenge – methodology / assumptions

Table	Assurance Provider
App1	Jacobs
App2	Jacobs
App3	Jacobs
App4	Jacobs
App28	Jacobs
Bio1	Jacobs
Bio2	Jacobs
Wn1	Jacobs
Wn2	Jacobs
Wn6	Jacobs
Wr1	Jacobs
Wr6	Jacobs
Wr7	Jacobs
Wr8	Jacobs
WS2	Jacobs
WS2a	Jacobs
WS3	Jacobs
WS4	Jacobs
WS7	Jacobs
WS12	Jacobs
WS12a	Jacobs
WWn3	Jacobs
WWn4	Jacobs
WWn8	Jacobs
WWS2	Jacobs
WWS2a	Jacobs
WWS3	Jacobs
WWS4	Jacobs
WWS7	Jacobs