

# Our Board, governance and compliance

# Providing robust governance, risk management and compliance led by our Board

## 1. About this section

This section sets out our Board structure, its vision and how we meet our statutory duties and obligations to our customers. In doing this we have considered Ofwat's objectives set out in its January 2019 publication 'Board leadership, transparency and governance - conclusions on revising the principles', its Company Monitoring Framework ('CMF'), and its Information Notices on Regulatory Accounting Guidelines for 2018/19 reporting.

Throughout this section we reference a number of different documents where you can find more detailed information on our policies, which are available on the Severn Trent Plc website. These include:

- Our group company structure
- Detailed information about the Severn Trent Plc Board, Severn Trent Water Limited Board and their respective terms of reference
- 'Doing the Right Thing' policy
- Matters Reserved policy
- Conflicts of Interest policy
- Remuneration policy
- Our Assurance summary, which can be found in appendix A.

Our Board's annual Risk and Compliance Statement as set out under licence condition J (levels of service) and Ofwat's CMF is included at the end of this section.

## 2. Board leadership, transparency and governance

Our Board is fully committed to Ofwat's principles for Board leadership, transparency and governance with its emphasis on the importance of strong Board leadership and the special responsibilities attached to regulated monopoly companies providing an essential public service. As such, our disclosures have been revised this year to fully articulate how we apply the principles and provide links to additional published information where relevant. As we have targeted ourselves against Ofwat's 2019 Board leadership principles, we believe we go above and beyond the original 2014 principles which are required for 2018/19 reporting.

### Our purpose, values and culture

Our purpose is to serve our communities and build a lasting water legacy. This drives our vision to be the most trusted water Company by 2020, delivering an outstanding customer experience, best value service and environmental leadership. During the year we were delighted to see this commitment recognised when we were named as a pathfinder with the Purposeful Company Task Force - an initiative that seeks to transform British business with purposeful companies, committed to creating long-term value, through serving the needs of society. We are the only utility to receive this honour.

This understanding and recognition of social purpose has never been more important - our purpose connects us with our customers and communities, inspires our people and reinforces that in the long-term we all share the same interests. We believe that transforming our services and driving growth will lead to mutual benefit for all, with performance that delivers benefits to one group also delivering for others. The interests of our stakeholders are often interlinked, with many of our employees also being our customers.

You can read more in our 'explaining company performance and direction' section on pages 8-11 and also in our social purpose publication, which is available on the Severn Trent Plc website. This document, written in plain English, sets out what our social purpose is achieving for customers, the environment, and society as a whole as well as our colleagues.

### Focus on culture

Our Board recognises the importance of its role in setting the tone for Severn Trent Water's culture and making sure that it is embedded throughout. Our code of conduct, 'Doing the Right Thing', sets out the clearly defined values and standards of behaviour that we expect from everyone who works for, and with, Severn Trent Water. These values embody the principles by which the Company operates, and provide a consistent framework for responsible business practices. The supporting policies codify how to identify and deal with suspected wrongdoing, fraud or malpractice;

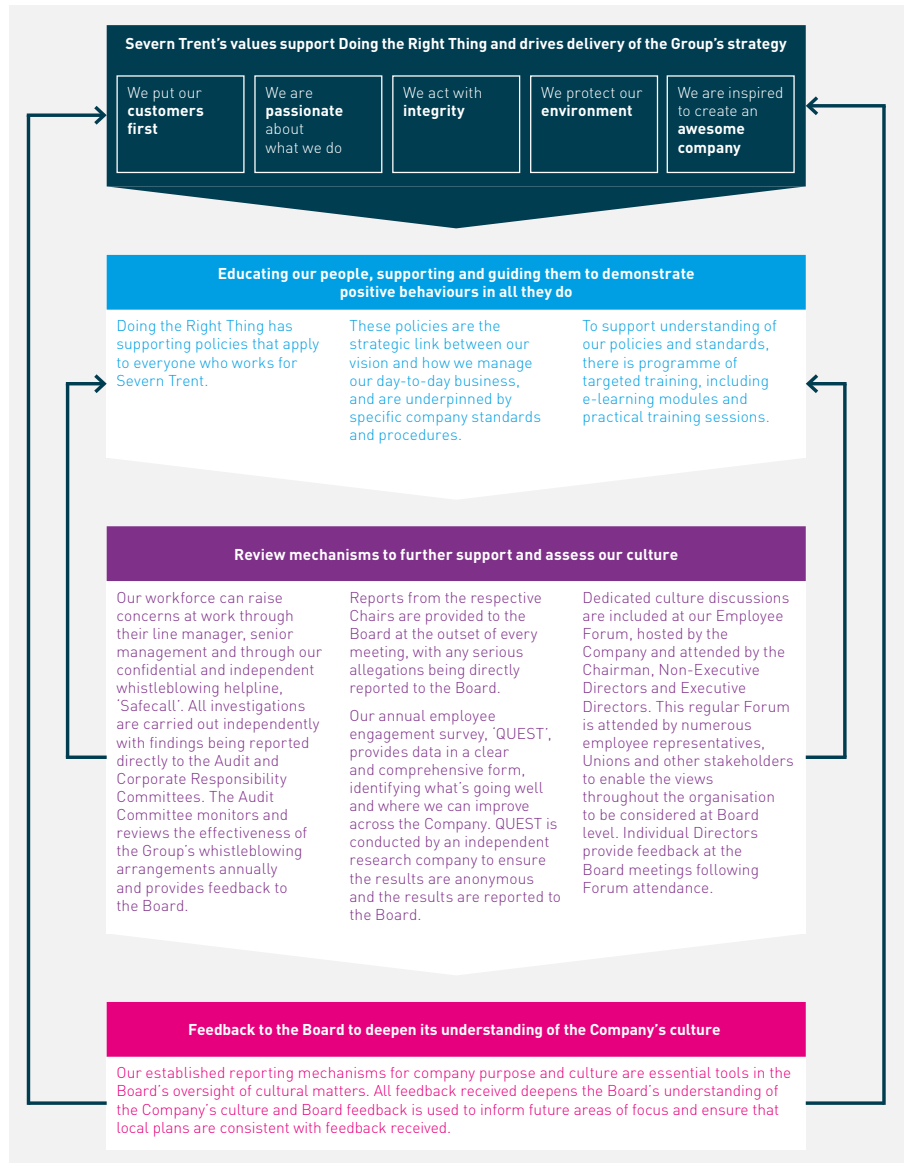
how to ensure that the highest standards of safety are maintained; and how to apply good ethics and sound judgment.

The Board is responsible for establishing Severn Trent Water’s purpose, vision and strategy, and satisfying itself that its culture is aligned. Our purpose - to serve our communities and build a lasting water legacy - reflects ‘why’ we do what we do. Our strategy provides us with ‘what’ we do. But the ‘how’ we deliver our purpose and strategy is what differentiates us and that is driven by our culture, values and behaviours.

During the year, our Board spent time deepening its understanding of the Company’s culture even further, through a dedicated Company purpose and culture session that focused on the results of the all employee survey ‘QUEST’ and other forms of employee engagement. Our Board considered the results of the survey and discussed the Company’s approach to addressing areas of employee focus.

Additionally, our Board routinely interacts with employees as part of their site visit programme. These direct interactions with employees, specifically in relation to culture, allow our Board to understand first-hand the key issues identified by our workforce, and provide an opportunity to feedback specific insights.

Our Board continually monitors, assesses and reinforces our values and culture to satisfy itself that the behaviours throughout the business are aligned with the Company’s purpose. Where misalignment is identified by our Board, appropriate corrective action is taken. Additional detail can be found in the Severn Trent Plc Annual Report and Accounts (‘ARA’) on the website.



### Group structure

Severn Trent Water is the principal operating subsidiary of the FTSE 100 Company Severn Trent Plc, which means we operate at the high standards expected of a publically listed company. Severn Trent Plc also publishes its own ARA and a history of our dividend payments for Severn Trent Plc going back to 1990 is available on the Severn Trent Plc website. Severn Trent Plc's dividend policy is disclosed in its ARA to ensure clarity about how our investors are rewarded based on our performance through the Group's activities.

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; and we avoid complex offshore financial vehicles.

The ownership structure of Severn Trent Water Limited within the Severn Trent Group can be found on our website.

### A standalone regulated company and our Board structure

Our Board's role is to ensure the long term-success of Severn Trent Water. Maintaining the highest standards of governance is integral to the effective delivery of our strategy and ensuring that our Board take decisions that create sustainable long-term value for the mutual benefit of our shareholders, customers, employees and the communities we serve.

The operation of our Board is supported by the collective experience of the Directors and the diverse skills and experience they possess. Details of the experience of our Board can be found in the ARA on our website.

Our Board's collective experience enables it to reach decisions in a focused and balanced way, supported by independent thought and constructive debate between our Directors. Trust and mutual respect are the cornerstones of relationships between our Directors, with a Board dynamic that supports open and honest conversations to ensure decisions are taken for the benefit of the Company in full consideration of the impact on all stakeholders. Responsibility to all of our stakeholders for the approval and delivery of the Company's strategy and for creating and overseeing the framework to support its delivery sits with our Board.

Six members of our Board and Board Committees are independent Non-Executive Directors and there is a clear division of responsibilities between the roles of Chairman and CEO. To allow these responsibilities to be discharged effectively, our Chairman and CEO maintain regular dialogue outside the Boardroom, to ensure an effective flow of information.

The requirements of our Board are clearly documented in the Severn Trent Water Articles of Association, Schedule of Matters Reserved to the Board and Charter of Expectations.

### Board appointments and induction

Any new appointments to our Board result from a formal, rigorous and transparent procedure, responsibility for which is delegated to the Plc Nominations Committee (although decisions on appointments are a matter reserved to our Board). Further information can be found in the Severn Trent Plc ARA.

We have an established induction programme in place which can be tailored to meet the requirements of individual Directors and includes the following elements/details:

- Ofwat pre-appointment process.
- Our business and how we are regulated, including performance.
- Our non-regulated business, including performance.
- Strategy.
- Key operations and processes including an immersive, practical journey through the water and waste cycles.
- Key stakeholder relationships.
- Customer delivery.
- Capital delivery and commercial.
- How the business is financed and financial performance.
- Our people and how we work, including health, safety and wellbeing, talent and succession, Trade Unions and an overview of our Remuneration policy.
- Risk and audit, including the risk profile and our approach to risk.
- Face-to-face meetings with key senior colleagues.
- Directors' duties.
- Governance matters and Company policies.

We continually enhance our Board's induction process, in full consideration of feedback from new appointees and the Board effectiveness evaluation.

## Board effectiveness

The effectiveness of our Board is reviewed at least annually, and the 2018/19 evaluation was internally conducted by the Chairman with support from the Company Secretary through a series of one-to-one meetings in January and February 2019.

The evaluation concluded that our Board, its Plc Committee Chairs and Committees were effective and that all Directors were considered to have demonstrated considerable commitment and time to their roles, well in excess of that required by the Charter of Expectations notwithstanding any other positions held by them outside of Severn Trent Water.

The Board noted that PR19 approval and submission had been particularly well managed and that the use of additional Board Committee meetings and briefing papers had ensured that this topic had not distracted the Board from considering other strategic issues and operational performance oversight.

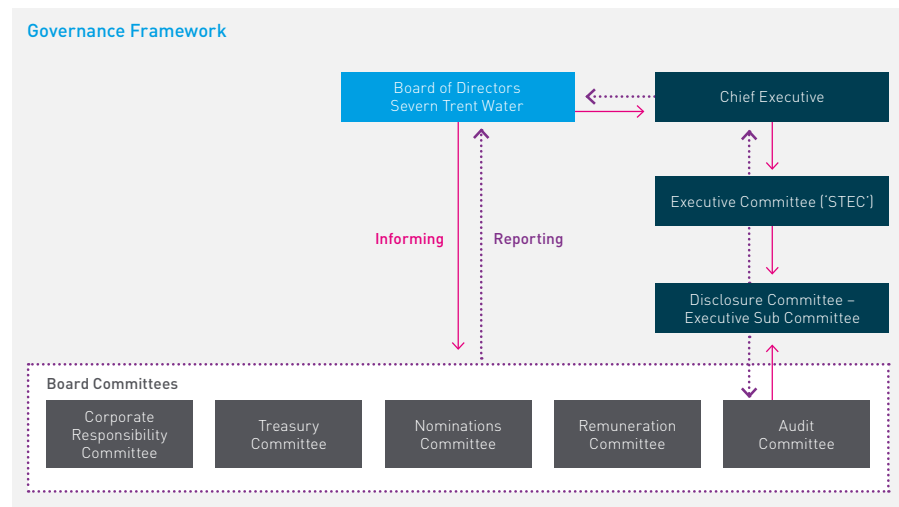
## Board and Committee membership and meeting attendance

Details of Board and Board Committee membership, the number of meetings held and attendance can be found in our ARA.

## Our Governance Framework

The Board is supported by the Severn Trent Plc Governance Framework, which is set out below. The Governance Framework comprises the Board, Executive Committee and their respective Committees.

In line with the 2016 UK Corporate Governance Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions



and actions taken, and making any necessary recommendations to the Board in line with its Terms of Reference. The Board regularly reviews the Terms of Reference of each Committee. The Governance Framework is also subject to periodic review to ensure that it remains appropriate.

The Seven Trent Plc Disclosure Committee oversees the Group's reporting obligations 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 requirements, considering the materiality, accuracy, reliability and timeliness of information disclosed and assessment of assurance received.

## Our Assurance Framework

To support our Governance Framework, we also have a well-established, rigorous and robust assurance and performance reporting framework. Our assurance plan for this financial year, 2018/19, continues the high standard processes we have developed and implemented in previous years for reporting our performance commitments in our ARA and Annual Performance Report ('APR').

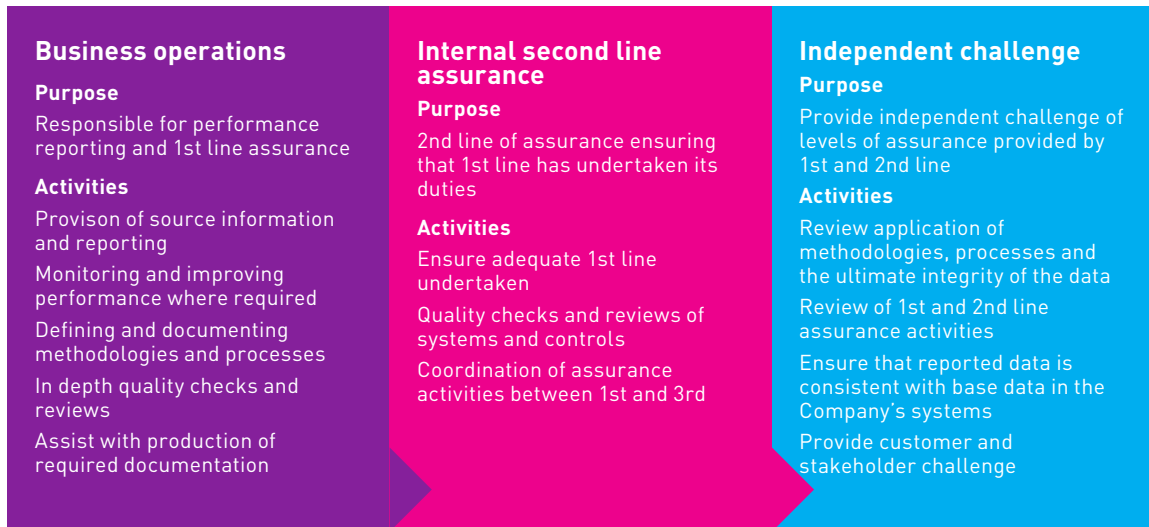
To ensure we're applying an effective programme of assurance,

while balancing value for money, we operate a three lines of assurance model. We target this model using a risk-based approach so areas that we know are of prime importance to customers, or may have a significant financial value or operational impact, receive the full three lines of assurance while other areas may be targeted with first or second line only. This approach ensures our spending on assurance is proportionate and aligns to what our customers' value most. The diagram on page 17 details the three lines and the typical activities for each.

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

- Jacobs - typically review non-financial operational performance processes and data. Also responsible for cost allocation activities and financial reporting processes.
- Black & Veatch - review non-financial operational performance processes and data in respect of the Chester area.
- Internal Audit - used for ad-hoc activity and data audits.

We use this model for our regulatory returns so that we, and our customers, have a level of assurance that our submissions have been well prepared - consistent with our robust internal



processes. These processes are outlined below and the outcome of the assurance is set out in our assurance summary in appendix A.

Overall accountability for the preparation and production of the APR (which includes reporting of performance against performance commitments and associated Outcome Delivery Incentives ('ODIs')) rests with the Chief Financial Officer. The outcome of the assurance undertaken is reviewed by the Severn Trent Plc Audit Committee (the 'Audit Committee') on behalf of the Severn Trent Plc Board.

**Internal Audit and internal controls**

Internal Audit is an independent assurance function available to the Board, Audit Committee and all levels of management. The Internal Audit function is supported by two main co-sourcing partners, PricewaterhouseCoopers and Ernst & Young. The arrangement is reviewed annually and the Committee believes this structure adds value, through greater access to specific areas of expertise, increased ability to flex resources, and the ability to challenge management independently.

The role of Internal Audit is to provide assurance that the Group's risk management and internal control systems are well designed and operate effectively and that

any corrective action is taken in a timely manner. The Head of Internal Audit is invited to attend all Audit Committee meetings. Each year, Internal Audit develops an annual risk-based audit plan for approval by the Audit Committee and performance dashboards to enable onward monitoring of the plan's execution. The Audit Committee challenges the audit plan, specifically whether the key risk areas identified as part of the Enterprise Risk Management ('ERM') process are being audited with appropriate frequency and depth, and also by bringing an external view of risks the Company may be exposed to. The performance dashboards summarise the performance of the Internal Audit function over the year against key measures and are reviewed by the Audit Committee twice a year. Following the completion of each planned audit, the Internal Audit function seeks feedback from management which is reported through the performance dashboards and assessed in turn by the Audit Committee twice a year.

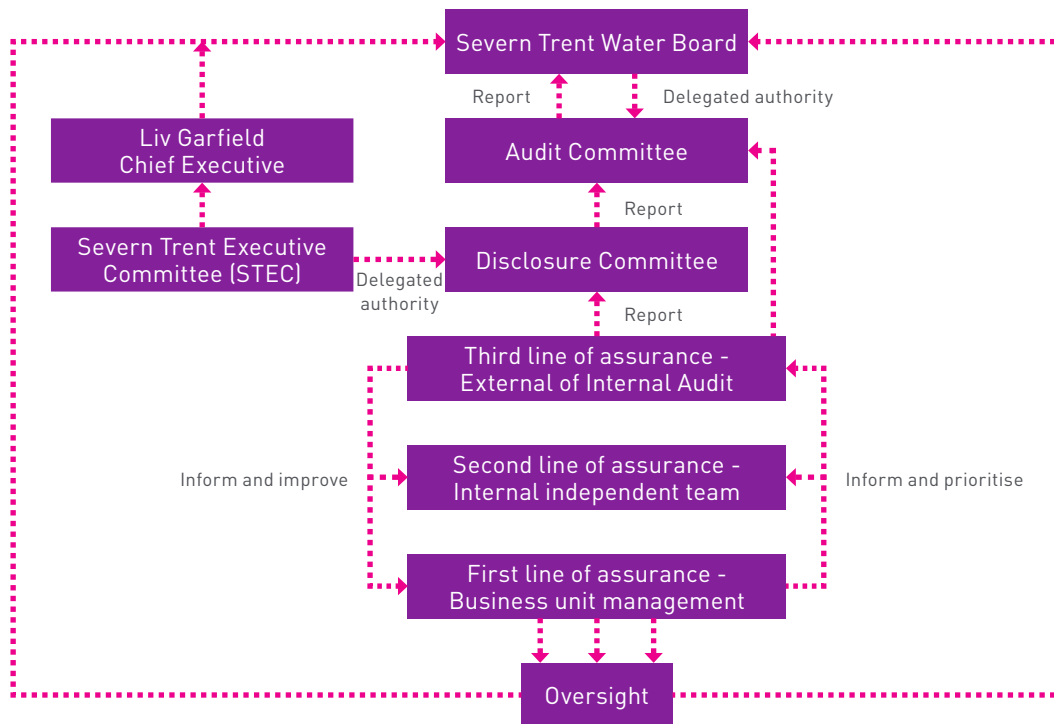
An external review of the effectiveness of Internal Audit was carried out in January 2019. The review, performed by BDO Global, concluded that the Internal Audit function is fit for purpose, is operating efficiently and effectively and in line with good practice.

The effectiveness of the controls over financial reporting is also monitored by the Audit Committee, which receives regular reports of the testing conducted by the External Auditor. The Audit Committee is confident that, where any failings or weaknesses are identified in the course of its review of internal control systems, management puts in place robust actions to address these on a timely basis. An internal control system can provide only reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

**Management of Conflicts of Interest**

Severn Trent Plc has a Conflicts of Interest policy in place for all Group companies, including Severn Trent Water. Our Board considers potential conflicts at the outset of every meeting and formally reviews the authorisation of any potential conflicts of interest every six months. Additionally, the Audit Committee conduct an annual review of individual Director conflict authorisations as recorded in our Conflicts of Interest Register. The Conflicts of Interest Register sets out any actual or potential conflict of interest situations which a Director has disclosed to the Board in line with their statutory duties and the practical





steps that are to be taken to avoid conflict situations. When reviewing conflict authorisations, the Audit Committee considers any other appointments held by the Director as well as the findings of the Board effectiveness evaluation.

The policy continues to be applied practically throughout the year, for example in considering the potential conflict presented by Directors having roles on other Group companies. For example, in September 2018 modifications were made to the Severn Trent Audit Committee meeting structure to facilitate dedicated Committee focus for Hafren Dyfrdwy regulatory matters and remove a potential conflict of interest scenario in relation to John Coghlan who is a Director of both Severn Trent Water Limited and Hafren Dyfrdwy.

To facilitate effective governance, the Boards of Severn Trent Plc and Severn Trent Water Limited are run concurrently as Severn Trent Water Limited comprises a very substantial majority of the Group's business activities. As such, it is less likely that Directors will face decisions that will conflict with

the obligations of the particular Company on whose Board they sit. Nevertheless, this matter is subject to review at every meeting of each Board and in the event the position changes, robust mitigations will be implemented.

### 3. Monitoring performance and compliance

#### Performance

Our performance commitments matter to our customers and to us. Our Board is fully engaged in monitoring and assessing the quality of our performance and providing challenge through our established governance arrangements which will continue into 2020 and beyond to ensure delivery of our PR19 performance commitments. Performance is reported to and reviewed monthly by the Executive Committee and at every Board, and through the Plc Disclosure Committee and Plc Audit Committee at least twice at mid-year and year end points in the reporting cycle.

#### Compliance

The statutory and regulatory obligations relevant to our functions as a water and sewerage undertaker are primarily set down in the Water Industry Act 1991 and our Instrument of Appointment (the 'licence'). The licence also requires us to perform duties imposed under other statutory and regulatory obligations as necessary to fully discharge our duties as a water and sewerage undertaker. Our approach to achieving compliance with our statutory and regulatory obligations is based on establishing sound governance and systems of internal controls. We set ourselves high standards, though it is important to understand that such systems cannot provide absolute guarantees.

In 2015, at the start of this business plan period, we introduced a new compliance framework to provide a robust process to set high levels of compliance backed up by rigorous assurance. We continue to refresh and build on this process every year. Our group compliance

and assurance team, oversees this framework and ensures that managers across the Company are aware of their statutory and regulatory obligations. Responsibility for compliance with specific licence conditions and obligations are assigned to individual senior leaders within Severn Trent Water relevant to their areas of responsibility. This includes the development, implementation and testing of controls to ensure compliance in areas such as policy and standards, procedures, supervision, training, and management information. An annual process of self-certification takes place to inform this compliance statement, which is called licence to operate and is set out in our Assurance summary in appendix A.

In order to comply with the requirements of the Regulatory Accounting Guidelines 5.07 ('RAG 5'), we operate a compliance framework with established processes including; risk assessment and associated controls, guidance and policy documents, maintaining a transaction register, and cost allocation assurance; and includes senior management sign-off against the requirements of RAG 5 via our licence to operate framework. During 2018/19 we have added further controls and governance by establishing a Steering Committee responsible for overseeing RAG 5 compliance and reporting directly to the Disclosure Committee. In addition we have established a RAG 5 working group reporting directly to the Steering Committee, ensuring that any improvement actions are undertaken at an operational level.

As part of the licence to operate framework, our Board has reviewed and considered any potential departures from our statutory and regulatory obligations. Departures are set out at the end of this section on page 25.

#### 4. Risk management

Risk is all about uncertainty which, we recognise, can manifest itself as both negative and positive impacts. Our goal is to minimise the threats and maximise the opportunities for the benefit of our customers, shareholders, employees, supply partners and the environment.

Our Board has overall accountability for ensuring that risk is effectively managed across the Company. The Board's mandate includes defining risk appetite and monitoring risk exposure to ensure significant risks are aligned with the overall strategy of the Company. On behalf of the Board, the Audit Committee assesses the effectiveness of the ERM process and internal controls to identify, assess, mitigate and manage risk. The Executive Committee reviews strategic objectives and assesses the level of risk taken in achieving these objectives. This 'top down' risk process helps to ensure the 'bottom up' ERM process, described below, is aligned to current strategy and objectives. The management of risk is embedded in our everyday business activities. We manage risks within the overall Governance Framework which includes clear accountabilities, delegated authority limits and reward policies. These are designed to provide employees with a holistic view of effective risk management.

Our approach to risk reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of the business is such that there are some significant inherent risks. We have a strong control framework in place to enable us to understand and manage these risks in accordance with our risk tolerance and appetite.

We use an established ERM process to assess and manage our significant risks. The process is controlled by the central ERM team and underpinned by standardised tools and methodology to ensure consistency. ERM Champions and co-ordinators operate throughout the business, with support and challenge from the ERM team, continually identifying and assessing risks in their business units and reporting on a quarterly basis. Criteria are used to consider the likelihood of occurrence and potential financial and reputational impacts. The potential causes and subsequent impact of the risks are documented to enable mitigating controls to be assessed. This assessment allows us to put in place effective strategies to remediate defective controls or implement additional controls. Business units' information is combined to form a consolidated view of risk - with risks being prioritised. Our significant risks form our risk profile which is reported to the Executive Committee for review and challenge. This is reported to the Audit Committee and Board half-yearly. The report provides an assessment of the effectiveness of controls over each risk and an action plan to improve controls where necessary.

To further enhance our ERM information, we report 'risk flightpaths'. These demonstrate the level of risk the Company faces and the timeline for the key risk mitigation steps to manage the risk to the target position. The flightpaths help to facilitate a more thorough review of the target risk positions, consider risk appetite and assess whether actions are on target with the correct prioritisation in place. In addition, individual risks and specific risk topics are also discussed by the Board during the year.



### Risk appetite

The Board keeps the relationship between our strategic ambitions and the management of risk under continual review. The ERM process establishes target risk positions for each of our significant risks. The Board formally discusses the progress towards this position and the mitigating actions being undertaken every six months.

### Our principal risks

The directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. These have been categorised across:

- Customer perception.
- Legal, regulatory and environment.
- Operations, assets and people.
- Financial risks.

The principal risks, what they mean for us and what we are doing to manage them are set out on pages 50-63 of our ARA.

## 5. Customer expectations and stakeholder engagement

We recognise the importance of our commitment to delivering outcomes that reflect our customers' views and environmental needs.

Our customer ODIs provide a transparent mechanism by which we can demonstrate to our customers whether the performance they have received from us is subject to a reward or penalty. We believe our customer ODIs provide strong incentives for us to innovate and become more efficient, protecting our customers against instances of under-delivery and, where merited, rewarding us for outperformance in areas where customers are willing to pay more to receive more of what they want.

Over the past two years we have carried out our most extensive customer engagement programme ever to co-create our PR19 plan, as well as continuing to track customer sentiment through our quarterly customer tracker. Our Customer Challenge Group, the Water Forum, has continued to play a vital role in challenging our customer engagement and reflecting the views of our customers.

In addition to our established 'business as usual' engagement with our regulators, investors, customers and other stakeholders, we undertook focus groups and targeted research to understand our customer views on our plans for assurance, which included:

- Three face to face focus groups with customers impacted by the change between Severn Trent Water and Hafren Dyfrdwy (Chester, Wrexham and Powys), and;
- Online surveying through our 'Tap Chat' tool.

Throughout the year we have continued to work with the Water Forum, to demonstrate how we are delivering on our ODIs and how we are assuring them. We have discussed our year end performance and customer ODI results with the Water Forum - including the amount of reward/penalty we propose to recover through our customers' charges.

From an external stakeholder perspective, we have continued to share our operational performance with the Consumer Council for Water ('CCWater') on a quarterly basis and consult with external stakeholders on our assurance plans to ensure we receive appropriate levels of customer challenge and scrutiny. This year we added a 'regulatory library' to our website to ensure all our regulatory submissions could be viewed in one place with a prominent link displayed at the top of the homepage. Our communications and customer research teams are continuing to improve the way we share our regulatory reporting information in a transparent way that is accessible and engaging to our customers.

### Delivering for customers and stakeholders - board engagement

Our Board recognises the importance of considering all stakeholders in its decision-making, as set out in section 172 of the Companies Act, and the positive impact this has in promoting the success of the Company as a whole. Severn Trent's success also depends on the Board taking decisions that deliver mutual benefit to our customers, communities and other stakeholders. The table below sets out details of key stakeholder engagement undertaken by the Board during the year.

### Board Engagement and Activities

#### Customers



- Customer-shareholders had the opportunity to meet the Board at our AGM and ask questions.
- Customer Delivery Performance Report tabled at every Board meeting.
- Extensive customer research considered regularly by the Board in relation to the PR19 plan and submission.
- Board attended some of our PR19 customer research sessions.

#### Communities



- Employees who live and work in our communities meet the Board at the Employee Forum, AGM and site/operational visits.
- Corporate Responsibility reports regularly discussed at Board meetings, including an update on community activities.
- Board received updates on the Group's volunteering programme during the year.
- Board consideration of the community dividend, developed to fund projects in our community.
- Immersive Board session on the 'Wonderful Water Tour' – our new innovative educational tour to inspire and educate children in our communities.
- Volunteering update considered by the Board.
- Board site visit to Lake Vyrnwy Reservoir and Visitor Experience Site.

#### Employees



- Employee-shareholders had the opportunity to meet the Board at our AGM and ask questions.
- CEO Employee roadshows and senior leader events.
- Board attended a Company Purpose and Culture session with employee representation and discussion of the QUEST survey results.
- Board meetings held at a variety of sites, including operational sites. Directors met a number of employees at these events.
- Board site visits outside of the Board meeting calendar, where Directors met employees and discussed matters with them.
- Chairman, Non-Executive Director and Executive Director attendance at the Employee Forum, including an opportunity to meet employees across the Group. Individual Directors provide feedback to the Board following Forum attendance.
- Internal blogs by Executive Directors.
- Regular senior leader engagement with Executive Directors.
- Talent development considered by the Board.
- Dedicated People Strategy discussion at Board Strategy day.

#### Regulators/ Government



- Renationalisation reports considered by the Board.
- Regulatory matters regularly considered at Board meetings, including PR19, Water Resources Management Plan and Scheme of Wholesale Charges.
- Regulatory stakeholder attendance at Board meetings during the year.
- Chairman met with Jonson Cox, Ofwat.
- Engagement with DWI lead inspector, EA, CCW and the Pension Trustees for the Company's defined benefit pension schemes.
- Regulatory consultation updates provided to the Board, including Severn Trent's proposed response.

#### Suppliers/ Contractors



- Commercial Performance Report tabled at every Board meeting, including an update on relationships with suppliers and associated performance.
- Chairman and Executive Director attendance at the Employee Forum, including attendance by suppliers.

# Statement from non-financial assurer - Jacobs

## Independent Technical Assurance Statement - SVE

To the Severn Trent Water Limited Board

Jacobs has been appointed by Severn Trent Water (SVE) to provide independent technical assurance of the data that feeds into their regulatory submissions. For the Annual Performance Report 2019 (APR19) submission we were asked to review the 2018/19 Legacy Severn Trent Water Performance Commitments, AMP7 common Performance Commitments and non-financial section 4 data on a risk-based approach.

Through a series of meetings and information exchanges, we have reviewed and tested the methodologies and processes on which the relevant statements in the APR19 are based, and we have considered the material accuracy of the performance data presented. Our findings have been discussed with management and the ST Plc Audit Committee.

On the basis of our audit work, we are satisfied that the information we reviewed within and which supports the APR19 has been assembled using appropriate methodologies and processes and that the data provides a reliable representation of Company performance. There is also good evidence of engagement from the teams involved in producing the performance data and of governance and programme management. We note that the Board has included issues we noted during our review in its declared departures from compliance in its statement.

Yours sincerely

Alexandra Martin

Divisional Director

# Statement from non-financial assurer - Black & Veatch

## **Annual Performance Review 2019 Independent Technical Assurance Statement**

Black & Veatch Ltd has been appointed to provide, among other things, independent technical assurance of information reported in the Annual Performance Report for 2019 (APR19). Our assurance covered only the Chester area of the company and was limited to checks on performance reported against selected annual Performance Commitments and against Ofwat Convergence requirements for Leakage, Interruptions to Supply and Per-Capita Consumption.

To provide this assurance we met the members of company staff responsible for collecting and analysing the relevant data and calculating the reported measures. We checked that appropriate procedures were in place and were followed. We followed the audit trail from the figures reported in the APR19 to base data in company systems and confirmed by means of sample checks that these were consistent. We considered the material accuracy of the statements made by the company in its report and checked for material deviations from established procedure. We have provided the company with detailed findings under separate cover.

From our assurance work we are satisfied that for the topics we covered, the information reported in and supporting the APR19 was compiled using appropriate data and methodologies and provides a realistic representation of actual company performance. We identified no material weaknesses or deviations from established procedure.

In our opinion, the company's framework of three lines of assurance provides a good level of confidence that assurance is robust and governance in place. The reporting process and the information for reporting are scrutinized and approved by the Audit Committee and performance is reviewed by the Board.

Stephen Bentley,

Independent Technical Assuror  
Black & Veatch

# Risk and Compliance Statement

Having taken into consideration the information above, our Board approves the Annual Performance Report ('APR'), the associated APR data tables, and the noted departures, including the detail for unplanned outages.

The Board confirms that:

- We have a full understanding of and we comply with our statutory, licence and regulatory obligations in all material respects except where indicated on page 25.
- We have taken appropriate steps to understand and meet customer expectations.
- We have sufficient processes and internal systems of control to fully meet our obligations.
- We have appropriate systems and processes in place to identify, manage, mitigate and review our risks.
- We have reviewed our governance to ensure the regulated Company maintains the principles as if it is a separate public listed Company.

Signed for and on behalf of the Board



**Liv Garfield**  
Chief Executive  
Severn Trent Water Limited



**Andrew Duff**  
Chairman  
Severn Trent Water Limited



**John Coghlan**  
Chairman - Audit Committee  
Severn Trent Plc

9 July 2019

## Departures from the statement

Description of duty/ obligation	Purpose of duty/ obligations	Disclosure	Customer Impact	Action Taken
Asset stewardship: Mains bursts	2015-2020 Performance Commitment	During a review of our burst performance, we identified some operational work was incorrectly coded in our systems, resulting in an under-reported number of bursts.	For APR19, we made the corrections during the year and our APR reflects the correctly coded bursts position. This has resulted in a small change to our historic number of reported bursts, however, there is no impact on the customer ODI reward/penalty position.	Jacobs reviewed the APR19 process and data following the corrections as part of its year end assurance activities, as outlined in our Assurance summary at appendix A. The same process was followed to check and correct prior year data. We have updated our documentation to reflect the new process.
Customers at risk of low pressure	2015-2020 Performance Commitment	During a review of our low pressure performance, we identified that two areas of the business used different methodologies to establish low pressure incidents.	For APR19, we made the corrections in the year and our APR reflects the consistent application of the guidance. Having reviewed prior AMP6 reporting we found that although the change to our historic performance is small, there is an impact on the level of financial reward we should have received. We are repaying the financial reward claimed on the incorrect data as set out on page 46-47.	Jacobs reviewed the APR19 process and data following the corrections as part of its year end assurance activities, as outlined in our Assurance summary at appendix A. The same process was followed to check and correct prior year data. We have updated our documentation to reflect the new process.
Table 2F - Household billable properties Table 4A - Household voids	Customer property information	Through our APR19 year end assurance checks, and in response to a PR19 query we identified some errors in our customer property data as follows: <ul style="list-style-type: none"> <li>In APR17 and APR18, Table 2F overstated unmeasured waste only properties by approximately 70,000.</li> <li>In APR17, Table 4A understated unmeasured voids by approximately 31,000 and overstated measured voids by 3,400.</li> <li>In APR18, Table 4A understated unmeasured voids by approximately 70,000 and measured voids by 3,100.</li> </ul>	For APR19, we made the corrections in the year and our APR reflects the consistent application of guidance. There is no financial ODI impact, for transparency, we have included the restated numbers for previous years in our PR14 reconciliation tables, which we submit alongside our APR.	For APR19 we conducted additional first and second line checks. Following identification of the error in our APR19 assurance checks of Table 2F (Household billable properties), we conducted a review of all our historic property number reporting over the last AMP to ensure we had accurately reported Tables 2F, 4A, 4Q and 4U. Going forward, we have identified how we will improve our business information reporting processes to improve the accuracy of our information. We have also provided bespoke training to the team responsible for producing this data.
Unplanned outages	Shadow convergence Measure	Last year we identified that a programme of work was required to meet full compliance against the new Unplanned outages convergence measure. While we have made significant progress, we highlighted in our May 2019 submission that we have further work to do to reach full compliance ahead of AMP7, in particular on our ability to report a planned outage figure.	As this is a shadow reporting measure that takes effect in AMP7, there is no customer impact this year. We are working hard to ensure we are fully compliant before the start of the next AMP.	We have already implemented the key components of our plan to achieve full compliance and are confident that we will address the remaining issues ahead of AMP7. Jacobs have provided assurance on our progress and our plans to reach full compliance. This report was submitted to Ofwat in May 2019. Jacobs will continue to provide assurance over the coming year.

Where appropriate, the persons involved and the geographical area impacted has been highlighted for each departure.