

# Our Board, governance and compliance

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

Although the majority of the financial year was unaffected by COVID-19, the ongoing impact is significant. As for all organisations, the pandemic has caused a significant shift in the way we operate and brings numerous and serious risks. Our Board receives weekly updates on the provision of core services, how we are supporting colleagues and the community, and the mitigation of the risks to our business. Following the year end, our Board has considered any potential impact to our compliance and compliance processes, and, where applicable, this is noted in our risk and compliance statement.

## 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 - principles' and its Information Notice IN20/03 - 'Expectations for monopoly company annual performance reporting 2019-20'.

Throughout this section we reference a number of different documents where you can find more detailed information on our Group-wide 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 Articles of Association and Matters Reserved to those Boards
- Our Code of Conduct, Doing the Right Thing
- Charter of Expectations

- Group Conflicts of Interest policy
- Remuneration policy
- Our Assurance summary, which can also be found in Appendix A.

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

Our Board's annual statement focusing on how the Company has set its aspirations and performed for all those it serves is located in 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 to fully articulate how we apply the principles and provide direction to additional published information where relevant.

### Our purpose, values and culture

At Severn Trent we embrace continuous improvement, learn from industry best practice, and listen to feedback to make sure that we improve year-on-year. Our Board leads this approach by setting the right behaviours, values and culture for our business. Our well-established governance framework builds on our Purpose and Values to ensure there is confidence in our reporting.

Our Board is responsible for establishing Severn Trent Water's purpose, vision and strategy,

and satisfying itself that its culture is aligned. Our Purpose and Values set the cultural tone of our organisation, guide our behaviours and express the intent behind what we do. This year we undertook a consultative project involving people from across our organisation - from the front line of our operations to our Board - to re-articulate our Purpose and Values in a way that would be meaningful and inspiring for everyone. Our new purpose - 'Taking care of one of life's essentials' - 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.

Our four new values are 'how' we go about delivering our purpose. They're the principles that guide our behaviour. They're what makes us Severn Trent.

This understanding and recognition of our 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. The interests of our stakeholders are often interlinked, with many of our employees also being our customers.

Our Purpose and Values have been created to be relevant across the whole of the Severn Trent Group. They are not solely for Severn Trent Water. They apply across our other regulated water business, Hafren Dyfrdwy, and our non-regulatory businesses. Our recent employee engagement survey shows strong engagement levels across the Group. Our Purpose and

Values strongly resonate with our employees as demonstrated by our recent employee engagement score of 8.1/10 - placing us in the top 5% of Global Utilities.

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 our Annual Report and Accounts ('ARA').

### Focus on culture

To support the creation of long-term value for the mutual benefit of our shareholders, employees, customers and communities, the Board recognises the importance of building and promoting a culture of integrity and openness, where inclusion and diversity are valued. At the heart of Severn Trent's culture is a closely held set of values. Our Code of Conduct, *Doing the Right Thing*, was relaunched this year. It sets out clear guidance on the standards of behaviour that we expect from everyone who works for us including our supply chain, contractors and sub-contractors. The Board and Executive Committee also recognise the importance of their roles in setting the tone for the Company's culture and that is why they complete a *Doing the Right Thing* e-learning course every year together with all employees.

The Board also has oversight of a number of accompanying policies. These policies, together with *Doing the Right Thing*, explain 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. *Doing the Right Thing* details the values we work by, to help guide our people where there are no hard rules in place. Our values apply to how we report information just as much as any other service we provide for our customers.

Our Board monitors and assesses the culture of Severn Trent Water by regularly meeting with the Executive Committee, all levels of management and employees and reviewing the outcomes of employee surveys. We believe that our strong culture is a unique strength and we see the benefits in employee engagement, retention and productivity. During the year, the Board has focused on deepening its understanding of the Group's culture even further, through a dedicated Company Purpose and Culture session in January 2020. The session was centred on the results of our employee survey, 'QUEST', and other relevant data. The Board considered the positive and more challenging aspects revealed by the survey and discussed the Company's approach to addressing areas of employee focus. Members of the Board also regularly attend the Severn Trent Company Forum, to listen directly to what employees have to say and for our employees to observe first-

hand matters that the Board is reviewing and considering. We do not see corporate governance as something we do because we have to. We choose to see it as something that should be ingrained in the way we behave, how we make decisions, how we run our business and ultimately, how we build trust.

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 personal insights.

### Group composition and responsibilities

Severn Trent Water is the principal operating subsidiary of the FTSE100 company Severn Trent Plc, which means we operate at the high standards expected of a publicly listed company. Severn Trent Plc also publishes its own ARA and a history of dividend payments by 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

**Whistleblowing:** Our Whistleblowing Policy 'Speak Up' sets out the ethical standards expected of everyone that works for, and with, us and includes the procedure for raising concerns in strict confidence. Our workforce can raise concerns through their line manager, senior management and through our confidential and independent whistleblowing helpline, 'Safecall'. All investigations are carried out independently with findings being reported directly to both the Audit and Corporate Sustainability Committees. The Board as a whole monitors and reviews the effectiveness of the Group's whistleblowing arrangements annually, to ensure that it has sufficient oversight of whistleblowing to support its work on culture, risk and stakeholder engagement and all significant whistleblowing matters are reported directly to the Board. The Board has reviewed these arrangements again this year and is satisfied that they are effective, facilitate the proportionate and independent investigation of reported matters and allow appropriate follow-up action to be taken.

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 and we pay dividends and Executive salaries that are reasonable and sustainable and linked to the delivery of outcomes to customers. Further information can be found in our Severn Trent Plc ARA. The ownership structure of Severn Trent Water Limited within the Severn Trent Group can be found on the Severn Trent Plc website.

### **Board Membership**

- J B Coghlan
- A J Duff (retired on 31 March 2020)
- C M Hodgson (appointed on 1 April 2020)
- J Bowling
- O R Garfield
- K Beeston
- S Nebhrajani (appointed on 1 May 2020)
- D Reiniche
- A Strank
- P Remnant

### **A standalone regulated company and our Board structure**

The differing interests of stakeholders are considered in the business decisions we make across the Company, at all levels, and are reinforced by our Board setting the right tone from the top. Our Board's role is to ensure the long-term success of Severn Trent Water. Responsibility to all 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.

Maintaining the highest standards of governance is integral to the effective delivery of our strategy and requires that our Board takes 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 the Severn Trent Plc 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.

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 Chair and CEO. To allow these responsibilities to be discharged effectively, our Chair 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.

### **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 and its Committees consider potential conflicts at the outset of every meeting and the Board formally reviews the authorisation of any potential conflicts of interest every six months with any conflicts being recorded in the 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 Board 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, such as considering the potential conflict presented by Directors having roles on other Group companies. Modifications were made to the Audit Committee meeting structure during the year to remove a potential conflict of interest in relation to Directors of both Severn Trent Water Limited and Hafren Dyfrdwy Cyfyngedig.

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 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 mitigation will be implemented.

### Board appointments and induction

Any new appointments to our Board result from a formal, rigorous and transparent procedure, responsibility for which are overseen by the Plc Nominations Committee (although decisions on appointments are a matter reserved to our Board). All Plc Nominations Committee members are also Directors of Severn Trent Water. Further information can be found in the Severn Trent Plc ARA. We have an established induction programme in place which is tailored to meet the requirements of individual Directors and includes the following elements/details:

- One-to-one meetings with the Chair and each of the existing Non-Executive Directors.
- One-to-one meetings with the CEO, CFO and the Company Secretary along with other members of the Executive Committee and the company's advisors.
- New Directors receive a briefing on the key duties of being a Director of a regulated water and waste water company.
- 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 our Purpose and Values, Doing the Right Thing, 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.
- Governance matters and company policies.

This year Christine Hodgson was appointed as an Independent Non-Executive Director on 1 January 2020 and Chair on 1 April 2020. Christine brings extensive board and governance experience to the Company as well as a deep understanding of business, finance and technology leadership. She is a committed advocate of the need for companies to serve all of their stakeholders effectively and deliver their social purpose. Sharmila Nebhrajani joined the Board as an Independent Non-Executive Director on 1 May 2020. When recruiting for our new Chair and Non-Executive Director the recruitment processes were in line with our Board Diversity Policy to include candidates from diverse backgrounds and those with non-listed company experience.

We continually enhance our Board's induction process, building in feedback from new appointees and the Board Effectiveness evaluation. A deep dive on Christine Hodgson's induction can be found in the Severn Trent Plc ARA.

The Board remains focused on promoting broader diversity, and creating an inclusive culture in line with the recommendations of the Parker and McGregor-Smith reviews. A diverse organisation benefits from differences in skills, regional and industry experience, background, race, gender, sexual orientation, religion, belief and age, as well as culture and personality.

The Board Diversity Policy (the 'Policy') was reviewed in April 2020, with recommended updates approved by the Board. As part of Board discussions, recognition was given to the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths throughout the organisation, including on the Board itself. The objectives and targets of the Policy, and an update against each of them, are set out below. A copy of the Policy is available on the Severn Trent Plc website.

### Board Diversity Policy - Objectives and progress against targets

When recruiting for our new Chair and Non-Executive Director the Committee ensured that the recruitment processes were in line with our Board Diversity Policy to include candidates from diverse backgrounds and those with non-listed company experience. We were pleased to appoint Sharmila Nebhrajani on 1 May 2020 as Non-Executive Director of the Company. Sharmila went through a rigorous recruitment process and we are delighted to welcome Sharmila to the Board and look forward to her contribution over her tenure with the Company.

Policy objectives	Implementation	Progress against objectives
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Annual review of the Board's composition with particular consideration being given to the balance of skills, experience and independence of the Board. The Board Effectiveness evaluation specifically considers the composition of the Board and the contribution, commitment and independence of individual Directors.	A formal review was undertaken in March in regards the composition of the Board and the performance, contribution and commitment of individual Directors in the context of the Board Effectiveness evaluation. No concerns were raised in relation to the composition of the Board. Regular updates in respect of succession planning fully consider the Board's Diversity Policy and its aims to increase the ethnic diversity of the Board in line with the recommendations of the Parker and McGregor-Smith reviews.
Ensure consideration is given to candidates for Non-Executive Director Board appointments from a wide pool.	The Board recognises the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.	Two Board appointments were made during the year: (1) the Non-Executive Chair and (2) a Non-Executive Director. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, 2018 Code and additional relevant guidance. We were pleased to appoint a female Chair and a female Non- Executive Director from a BAME background. The Company ensured that Korn Ferry presented a diverse potential candidate list.
Ensure Board appointment 'long lists' include diverse candidates, including diversity of social and ethnic backgrounds and cognitive and personal strengths.	The Board recognises the importance and benefits of greater diversity, including gender diversity, social and ethnic background and cognitive and personal strengths, throughout the organisation, including on the Board itself.	Two Board appointments were made during the year: (1) the Non-Executive Chair and (2) a Non-Executive Director. The recommendations in respect of these Board appointments were conducted in full consideration of the Policy, 2018 Code and additional relevant guidance, with a selection of diverse candidates being included in the long lists. We were pleased to appoint a female Chair and a female Non-Executive Director from a BAME background.
Ensure the Board only engage executive search firms that have signed up to the voluntary code of conduct on gender diversity and best practice.	The Company only engages with executive search firms that have signed up to the voluntary code of conduct on gender and BAME diversity and best practice.	We continue only to engage with executive search firms that have signed up to the voluntary code of conduct on gender and BAME diversity and best practice.
Ensure focus is given to the development of a pipeline of diverse high calibre candidates for Board level roles and report annually on the diversity of the Executive pipeline as well as the diversity of the Board.	Regular Board consideration of the importance and benefits of greater diversity including gender diversity, social and ethnic background and cognitive and personal strengths. This includes representation of these cohorts in the Company's talent pipeline and on the Board itself.	In March, consideration was given to diversity and inclusion within the Company. The Board committed to building on existing graduate, apprentice and leadership programmes to embed inclusivity in our succession planning and talent development work. This included discussion on strengthening our talent pipeline, with an enhanced focus on ensuring appropriate representation from minority ethnic candidates, as well as other relevant diverse cohorts. This was also an area of specific focus within the Board Succession Planning discussions that took place during the year. The diversity of our Executive pipeline is disclosed on page 102.



Policy Targets	Progress against target
33% female share of Board Directors by 2020.	56% female representation on our Board as at 1 May 2020.
Minimum of one Board Director from an ethnic minority background by 2021.	In line with the Principles of the Parker Review, the Board has been actively looking to appoint a Non- Executive Director from a BAME background for a few years. The calibre of the candidates identified in this year's search was outstanding and it was after careful deliberation that the Board approved the appointment of Sharmila Nebhrajani to the Board.

## Board effectiveness

The effectiveness of our Board is reviewed at least annually, and the 2019/20 evaluation was conducted internally by the Chair with support from the Company Secretary through a series of one-to-one meetings in January and February 2020. 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.

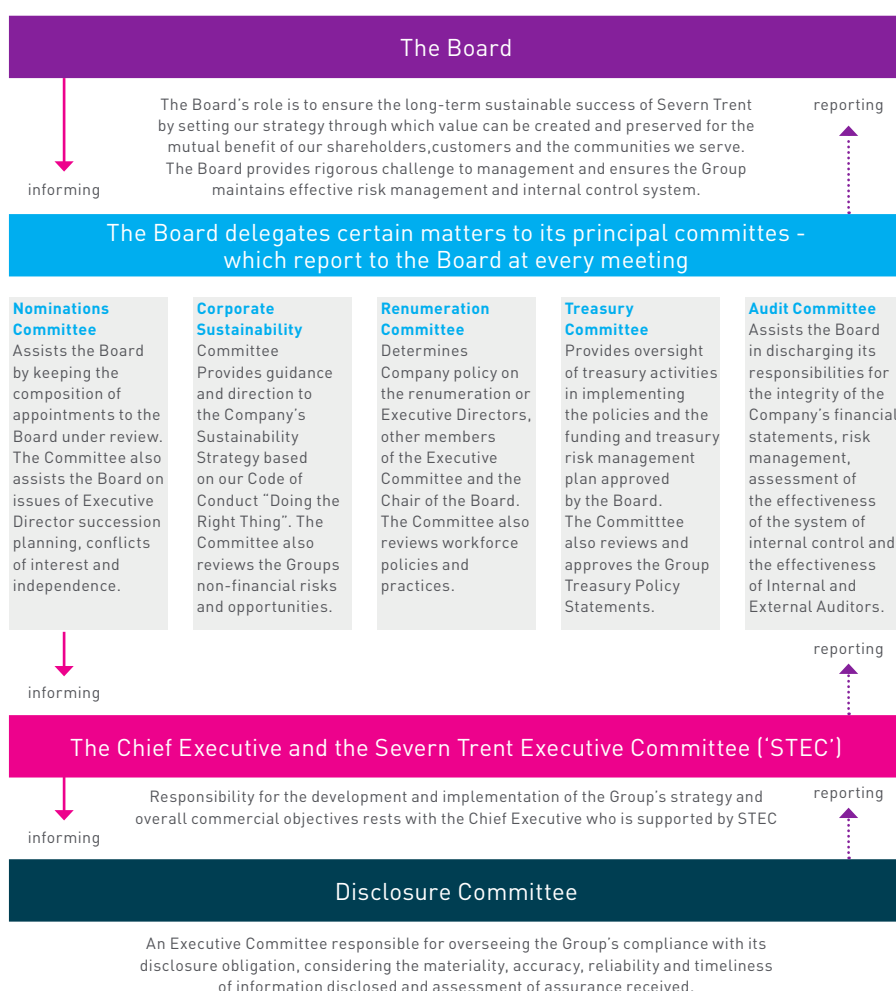
## Board and Committee membership and meeting attendance

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

## Our Governance Framework

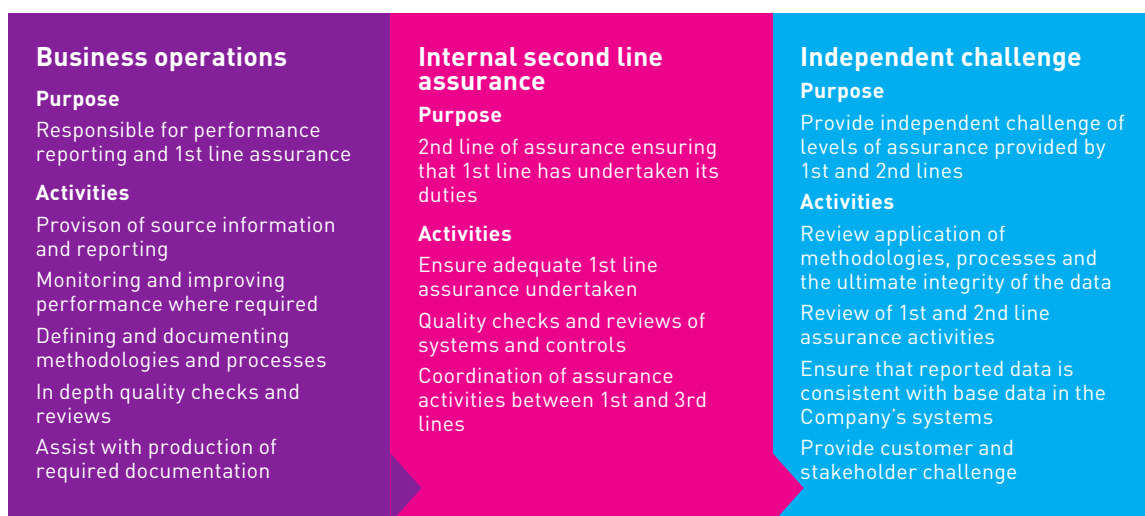
The Board is supported by the Severn Trent Plc Governance Framework, which is set out below. The Governance Framework comprises the Board, Executive Committee and their respective Committees.

In line with the 2018 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 their respective 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 Severn Trent Plc Executive Disclosure Committee oversees the Group's reporting obligations under the Companies Act 2006, the 2018 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 have a well-established and robust assurance and performance reporting framework. Our assurance plan for this financial year, 2019/20, 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 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 assurance is proportionate and aligns to what our customers value most. The diagram below 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:

- Jacobs - typically review non-financial operational performance processes and data. Also responsible for cost allocation activities and financial reporting processes.
- Deloitte - our financial auditors who mainly examine our statutory accounts.
- Internal Audit - used for financial data, process and other ad-hoc assurance.

We use this model for our regulatory returns so that we, customers, and wider stakeholders have an appropriate level of confidence that our submissions have been well prepared and are consistent with our robust internal processes. These processes are outlined below and further detail on 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 Board.

### Internal Audit and internal controls

Internal Audit is an independent assurance function available to the Board, the Audit Committee and all levels of management. The Internal Audit function is supported by three main co-sourcing partners, PricewaterhouseCoopers, Ernst & Young and BDO. These arrangements are reviewed annually and it is considered that this structure adds value, through greater access to specific areas of expertise, increased ability to flex resources, and the ability to challenge management independently. Co-source specialists continue to bring expertise to support the team and delivery of the audit plan where relevant.

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. Each year, Internal Audit develops an annual risk-based audit plan for approval by the Audit Committee; this is supported by regular reporting that enables it to monitor delivery of the audit plan. The Audit Committee's role is to challenge the plan, specifically whether the key risk areas identified as part of our ERM process are being audited with



appropriate frequency and depth. Following the completion of each planned audit, Internal Audit seeks feedback from management and reports to the Audit Committee on the findings of the audit, including any action that may be required. Where any failings or weaknesses are identified during the review of internal control systems, management puts in place robust actions to address these on a timely basis. Action closure is reported to and monitored by the Audit Committee and its review established that management places a strong focus on closing audit actions and ensuring timely completion.

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. To ensure continued efficiency, a review of the effectiveness of Internal Audit was carried out in January 2019. The review, performed by BDO, concluded that the Internal Audit function is fit for purpose, is operating efficiently and effectively, and in line with good practice. This year the Audit Committee also reviewed the quality and effectiveness of Internal Audit and approved the approach and Internal Audit plan for 2020/21 at its meeting in April 2020.

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. Internal Audit reports are presented to and considered by the Committee, to ensure that the Committee is satisfied that management have resolved or are in the process of resolving any outstanding issues or actions through to completion.

### 3. Monitoring performance and compliance

#### Performance

Our performance commitments matter to our customers, our wider stakeholders 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 2020-2025 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 Audit Committee at least twice at mid-year and year-end points in the reporting cycle.

#### Compliance

As a regulated company we are subject to statutory and regulatory duties and obligations, primarily set out through the Water Industry Act 1991 and our Instrument of Appointment (the 'Licence'). We will continue to use our established processes, controls and governance routes to continue to meet these obligations. Our AMP7 specific obligations were developed and defined through our PR19 Business Plan 2020-2025 and further information relating to the activities already underway can be found in Appendix A.

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 our established and robust governance and systems of internal controls. We set ourselves high standards, though it is important to understand that such systems cannot provide absolute guarantees.

We introduced our compliance framework 'licence to operate' in 2015, at the start of the PR14 business plan period. It provides a robust process to set high levels of compliance backed up with rigorous risk-based assurance. We continue to refresh, build and develop on this process every year and now cover nearly 1,600 duties and obligations in the framework. Our Group Compliance and Assurance team oversees the framework and ensures that managers across the Company are aware of their statutory and regulatory duties. Each duty and obligation is assigned to a responsible manager, a senior leader and Director. The senior leaders are responsible for the development, implementation and testing of controls to ensure compliance in areas such as policy and standards, procedures, training, management information as well as completing regular reviews of these controls. 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. This year end we added an additional self-assessment disclosure to consider any impact on compliance as a result of COVID-19.

In order to comply with the requirements of the Regulatory Accounting Guidelines 5.07 ('RAG5'), 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 middle and senior management sign-off against the requirements

of RAG5 via our licence to operate framework. Our RAG5 compliance framework was reviewed by Ernst & Young this year to determine if it was sufficiently robust taking into consideration Ofwat guidance, Ministry of Justice ('MoJ') and HMRC principles and the Competition Act 1998. Ernst & Young concluded that the compliance framework is comprehensive in relation to Ofwat's requirements. Our RAG5 training has been expanded this year to include a broader audience through face-to-face training and an eLearning module. We have an established Steering Committee responsible for overseeing RAG5 compliance who report directly to the Executive Disclosure Committee. In addition, we have established a RAG5 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. Material departures are set out at the end of this section on page 24.

## 4. Risk management

Risk is all about uncertainty. We recognise that uncertainty can manifest itself as both negative and positive impacts. Our goal is to identify risk, 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 Group's Enterprise Risk Management ('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. Across the Company, 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 these businesses 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.

### Our Enterprise Risk Management process

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 a standardised 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 unit information is combined to form a consolidated view of risk. Our significant risks are reported to the Executive Committee for review and challenge and reported to the Audit Committee and Board on a six-monthly basis. 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, emerging risks and overall risk landscape were also discussed by the Board during the year.

### Changing risk landscape

Emerging risks are reviewed frequently as part of our horizon scanning process. We monitor closely changes in the global risk landscape as climate change and the environment continue to be key areas of risk focus. Building resilience to climate related risks is of key importance to the water sector and we constantly review how our business risks reflect and work towards this. By the nature of what we do several of our Principal Risks have a sustainability focus, and we monitor our social and environmental impacts with the same rigour as our broader performance. This year we have introduced a Group Strategic Risk Forum to help provide a strategic lens and review of our existing and

emerging risks. The findings of the Forum will help guide emerging risk discussions and ensure existing risks are continually peer reviewed.

### **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 61-73 of our STW ARA.

## **5. Customer expectations and stakeholder engagement**

We understand that businesses are more successful and sustainable when they balance the needs of their stakeholders. Stakeholder engagement is central to the formulation and execution of our strategy and is critical in achieving long-term sustainable success.

We recognise the importance of our commitment to delivering outcomes that reflect our customers' views and needs. In serving our customers we want to provide both value and a great experience; 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 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.

We have expanded our communication channels with customers and use a number of platforms to engage, with our website and social media and now WhatsApp providing additional means for customers to receive information and engage with us.

We carried out extensive customer engagement to help shape our 2020-2025 business plan, which received fast-track status from Ofwat. 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, and we continue to discuss and consult with the 15,000 strong online customer community TapChat. Throughout the year we work with the Water Forum to demonstrate how we are delivering on our customer ODIs and how we are assuring them. As in prior years, we brief the Water Forum to provide oversight of our year-end performance including our customer ODI results and the assurance over them prior to publication.

From an external stakeholder perspective, we have continued to share our operational performance with the Consumer Council for Water on a quarterly basis and consult with external stakeholders on our assurance plans to ensure we receive appropriate levels of customer challenge and scrutiny as well as shaping our assurance plans to meet customer expectations.

This year we have also set up an independent customer panel to oversee which local projects our Community Fund donates 1% of profits to each year.

### **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. Our stakeholder engagement processes enable our Board to understand what matters to stakeholders and carefully consider all the relevant factors and select the course of action that best leads to the high standards of business conduct and success of the Company in the long term. The table below sets out details of key stakeholder engagement undertaken by the Board during the year.

### Board Engagement and Activities

#### Customers



- Board members attend our Customer Challenge Groups.
- Customer Delivery performance is discussed at every Board meeting.
- Customer perceptions of value for money and trust reported at every Corporate Sustainability Committee meeting.
- Extensive customer engagement in shaping our Business Plan.

#### Communities



- We created our Community Fund for the benefit of good causes in our region. The Board receives regular updates on the work and priorities of the Fund.
- Our Board undertook a number of site visits centred on community and the environment, including the Wonderful Water Tour.
- Employees who live and work in our communities meet the Board at the Employee Forum, and site visits.
- Corporate responsibility, community activities and volunteering programmes are discussed at Board meetings.
- Environmental matters are regularly considered by the Board.

#### Employees



- The Chair, Non-Executive and Executive Directors attend the Employee Forum and feedback at Board meetings.
- Company purpose and culture, talent development and people strategy are discussed at Board meetings.
- Remuneration Committee reviews workforce policies and practices and makes recommendations to the Board.
- Board considers QUEST survey results and steps taken to address feedback.
- Directors meet employees at site visits, both during and outside of the Board meeting calendar.
- The Board retains oversight of health, safety and wellbeing.
- The Corporate Sustainability Committee oversees diversity and inclusion across the Group.
- Adoption of living wage.

#### Suppliers/ Contractors



- Commercial performance is discussed at every Board meeting, including an update on relationships with suppliers.
- Members of the Board visited the site of our largest capital project, the Birmingham Resilience Programme, to observe progress first-hand, meet the teams and suppliers / contractors involved.
- Our Chair met with key suppliers as part of her induction.
- Supplier representatives attend the Capital Markets Day and the Employee Forum alongside Executive Directors and Non-Executive Directors.
- Our Corporate Sustainability Committee regularly monitors progress on sustainability in our supply chain.
- Adoption of living wage throughout supply chain.

#### Regulators/ Government



- To deepen Board level understanding of our Regulators, our Chair and Non-Executive Directors formally met with Ofwat five times during the year.
- Regulatory matters are regularly considered by the Board, including PR19 plans, Water Resources Management Plan and Scheme of Wholesale Charges.
- Regulatory stakeholders attend Board meetings and dinners, including from Ofwat, the Drinking Water Inspectorate ('DWI'), the Environment Agency ('EA') and the Consumer Council for Water ('CCW').
- Regulatory consultation updates are considered by the Board.
- Non-Executive Directors also attend Ofwat events.

# Statement from non-financial assurer - Jacobs

2019-20 Assurance Statement

**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 2020 (APR20) submission we were asked to review the 2019-20 Legacy Severn Trent Water and some Legacy Dee Valley Water Performance Commitments, AMP7 Shadow 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 APR20 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 APR20 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**  
Senior Associate Director



# Statement from non-financial assurer - Black & Veatch

**BLACK & VEATCH**

**BLACK & VEATCH LIMITED**  
60 HIGH STREET  
REDHILL, SURREY, RH1 1SH, UK  
+44-1737-774155

To: The Board of Directors,  
Severn Trent Water Limited,  
Severn Trent Centre,  
2 St John's Street,  
Coventry,  
CV1 2LZ

4 May 2020

## **Annual Performance Review 2020 Independent Technical Assurance Statement**

Black & Veatch Ltd has been appointed to provide independent technical assurance of information reported in the Annual Performance Report for 2020 (APR20). Our assurance covered only the Chester area of the company and provides third-line assurance for a limited number of annual Output Delivery Incentive measures where former Dee Valley Water systems were involved in data reporting.

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 reported figures 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.

In some cases, the figures we audited were normalised to provide a per-capita or per-property measure for reporting in the APR20. The population and property data used in these calculations were audited by others and not checked by Black & Veatch.

From our assurance work we are satisfied that for the topics we covered, the information reported in and supporting the APR20 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

A handwritten signature in black ink that reads 'Stephen Bentley'.

**BUILDING A WORLD OF DIFFERENCE®**

# Setting aspirations and performing for all those we serve

At Severn Trent Water we are first and foremost driven by our purpose 'taking care of one of life's essentials'. United by a clear social purpose we will deliver better outcomes for all our stakeholders - our customers, our colleagues, our investors, the society we live in and the environment we rely on to deliver our services.

Our social purpose aligns with our company strategy, which considers short and long-term goals. These are focused on driving long-term sustainable performance for the benefit of all those we serve. We continue, as a Board, to oversee the delivery of our strategy through:

- Our five-year business plan: delivering the outcomes and social purpose our customers want.
- A focus on our climate change commitments to create long-term sustainable value.
- Sharing our longer-term ambitions that go beyond our business plan for 2020-2025 including our 30 year drought plan, and our long-term leakage reduction targets.
- Fostering the engagement of employees to deliver our plans.
- Sharing our commitments on our triple carbon pledge.
- A focus on our wider stakeholder commitments including diversity and equality opportunities in our workforce and supply chain.
- A focus on supporting our local communities through our social tariffs, social dividend, and other charitable contributions.

We have undertaken a number of engagement activities this year to develop our understanding of the Company's culture and to ensure we understand what matters most to our people. This helps us develop and promote the Company's purpose:

- Participated in a dedicated company purpose and culture session held in January 2020.
- Employee engagement survey (QUEST) results reviewed and steps taken to address feedback.
- Reviewed feedback from the Chair, Non-Executive and Executive Directors who attended quarterly Employee Forum meetings.
- Met with employees at site visits both during and outside of the Board meeting calendar.
- Company purpose and culture, talent development and people strategy discussed at Board meetings.
- Participated in a strategy day specifically to consider our carbon and energy strategy and the legitimacy of our sector.
- Monitored and assessed the culture of the Group through regular meetings with the Executive Committee and management.

Through the employee engagement methods above, our Purpose and Values have been put together by our people, for our people. Our business culture of integrity and openness is key to ensuring we remain a trusted company. Our Code of Conduct, Doing the Right Thing, which has been relaunched this year, sets out the cultural norms and behaviour expected of everyone at Severn Trent. Everyone who works for and with us is required to comply with this. The Board also recognises the importance of its role in setting the tone for the Company's culture and that is why we complete a Doing the Right Thing e-learning course every year alongside all employees.

Each and every person in the Company plays a key part in delivering our business plan. The company Purpose and Values are translated and embedded into company objectives through each management level. These are focused on improving performance for all those we serve, in line with our overall strategic objectives. This is also reflected in our employee bonus scheme, whereby 51% of measures are non-financial and customer focused targets.

# 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.

The Board confirms that:

- We have a full understanding of, and we meet all of our relevant statutory, licence and regulatory obligations in all material respects except where indicated on page 24.
- 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 meet the Ofwat objectives on board leadership, transparency and governance and ensure that we explain clearly how we meet those objectives.
- We have reviewed our governance to ensure we conduct the regulated company as if it were a public limited company separate from any other business.

*COVID-19 impacts have been considered when making our declaration*

Signed for and on behalf of the Board



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



**Christine Hodgson**  
Chair  
Severn Trent Water Limited



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

10 July 2020

## Departures from the statement

Description of duty/obligation	Purpose of duty/obligations	Disclosure	Customer Impact	Action Taken
Reservoirs Act 1975 Section 11	Recording of Water Levels: For every [high-risk reservoir] the undertakers shall keep a record in the prescribed form of water levels and depth of water, including the flow of water over the waste weir or overflow	We have identified that there have been 4% of instances during the year where water levels have not been fully recorded in line with 1(a) of section 11 legislative requirement between April 2019 and December 2019. While this is not a material engineering issue and poses no risk to reservoir safety, we want to be open and transparent around issues identified with reservoir processes and the corrective action taken as we recognise this is an area of importance to our customers and stakeholders.	There is no direct customer impact. Reservoir safety has been maintained throughout.  The independent Reservoir Review Panel has appraised the situation in 2019 and fully endorsed the fact that there was no compromise to reservoir safety.	We have carried out internal second line assurance and confirmed that overall there are no material issues to regulatory compliance. Actions have been noted for further improvement and are being monitored through to completion. In the interim, in January 2020, a section 11 tracker has been distributed to team managers on a weekly basis to provide oversight of tasks required to be completed. In the last three months of the financial year, no breaches have been identified. Our long-term technology solution was instigated through a project to automate SAP tasks which can be tracked instantly. This more substantial fix was completed in May.
Non-financial Cost Assessment Tables (RAG 4): 4R.2- Number of S101A schemes completed in the reporting year	Additional regulatory information which forms part of the Annual Performance Report	During the APR assurance audit for this obligation, we identified that one of the three schemes claimed for as having been delivered last year, was in fact delivered this year.	We have claimed for a completed scheme early. Overall, there is no final AMP financial impact.	The reporting on this commitment will be restated with commentary to support. Economic modelling and financial modelling have been reviewed and no impact identified. The associated PDT has been updated to ensure number of milestones and number of schemes are monitored in conjunction with one another to prevent issue reoccurring.
Non-financial Cost Assessment Tables (RAG 4): Number of combined, settled and emergency sewer overflows	Additional regulatory information which forms part of the Annual Performance Report	During a review of our sewer overflows, we identified a variance in the number of overflow assets and the number of permits/consents that we have, which impacts our asset data returns for annual reporting.	There is no impact on the ODI reward/penalty position.	We are submitting permit applications this AMP for overflows that have been flagged to the EA.