



REGULATORY REPORTING 2020/21

Risks, Strengths and Weaknesses in regulatory reporting and our assurance plan



1. Introduction from our CEO, Liv Garfield

At Severn Trent, we are absolutely committed to drive progress in the water sector now and for generations to come. We are first and foremost driven by our purpose – ‘Taking care of one of life’s essentials’- focussed on the delivery of outcomes for the benefit of our customers, wider society as well as our shareholders.

We understand the urgency of responding and adapting to climate change and the scale of the long-term environmental challenges we face as a sector. As we enter AMP7, we are already underway with delivering our bold ambitions to make positive contributions to the environment, deliver tangible improvements for our customers,

while ensuring bills remain affordable. Moving forward, working in partnership with other water and waste companies is key to delivering water resource resilience for future generations to come.



This document covers our assessment of our risks, strengths and weaknesses that could affect our regulatory reporting this year. It includes a breadth of areas which are driven by our customers and our regulators, as well as our own internal review. The data we provide in our publications provide transparent insight into our performance for our customers and stakeholders. It is also critical information to direct and drive future improvements across the sector. With that in mind, the assurance process we apply to the information and data we publish is vital to ensure that it can be trusted by all.

A key part of our Audit Committee's role is to assist the Board by establishing, reviewing and monitoring the Company's internal control framework, including the internal and external audit and assurance processes and outputs. This document is governed by the Audit Committee. It provides transparent oversight of our intended assurance plan which responds to our assessment of risks, strengths and weaknesses in relation to regulatory reporting, and has been reviewed and approved by the Committee prior to publication.

Liv

We always welcome feedback on how we are focussing our assurance to best meet our customers' needs. If you'd like to share your views on this plan, you can contact us via email or in writing at:

compliance.assurance@severntrent.co.uk

Group Compliance Team, Group Compliance and Assurance, General Counsel, Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ

2. About us

We're one of the largest of the 11 regulated water and sewerage companies in England and Wales. We provide high quality services to around 4.5 million households and businesses in the Midlands. Our region stretches across the heart of the UK, from the Bristol Channel to the Humber, and from Shropshire to the East Midlands. Whether it's the quality of our drinking water or the regulatory performance information we publish on our website, we want to make sure that our customers can trust us to deliver what matters to them most.

Providing accurate, clear and understandable information which can be trusted by our stakeholders is important to us.

Our Purpose and Values

We believe that if we are 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 depend on. So at Severn Trent, we are first and foremost driven by our purpose "Taking care of one of life's essentials" and we're guided by our values:

- Having courage
- Embracing curiosity
- Showing care
- Taking pride



FIND OUT MORE

You can find out more about our purpose and values in our Annual Report and Accounts on our webpage.

Go to

<https://www.stwater.co.uk/content/dam/stw-plc/investors/pr19/stw-ara-2020.pdf>

Sustainability

As a company taking care of one of life's essentials, water, we know that the resilience of our business is intrinsically linked to the resilience of our region, its communities and the natural environment. We have ambitious sustainability plans and over the next 5 years we are investing 1.2 billion in our sustainability ambitions, from climate to biodiversity to helping our customers who are most in need. We are committed to transparent reporting and in 2019 we published our first dedicated sustainability report to communicate more about our environmental, social and governance commitments that are embedded within our business plan.

Our sustainability framework

As a company that relies on people, communities and the environment, sustainability is not a new concept for us. In fact, it's been so embedded in our business that we have never needed to develop a separate sustainability strategy, as many other companies do. But recently, as we developed our business plan for 2020-25, we took the opportunity to confirm that our view of what a good business looks like is aligned with that of our customers. Through this process, we articulated our commitment to being a purposeful company and defined our sustainability framework for the first time. Our sustainability framework draws together our environmental, social and governance ambitions. While those ambitions will still be delivered as part of our business plan, fully embedded in the way we work, this framework helps us to articulate how we deliver our purpose



Carbon reporting

Our approach to carbon reporting is based on the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and we have included only emissions from the assets which we own and operate and which we can directly influence and reduce, known as the financial control boundary.

FIND OUT MORE

FIND OUT MORE IN OUR FULL SUSTAINABILITY REPORT:

<https://www.severntrent.com/content/dam/stw-plc/shareholder-resources/sustainability-report-2020.pdf>

3. The Purpose of this document

Background

Ofwat published the Company Monitoring Framework (CMF) in 2015 to ensure that customers and wider stakeholders can trust the information that water companies publish. Over the last five years it has focussed on ensuring that data we publish is accurate, and that customer and stakeholder views are taken into consideration.

In August 2019 Ofwat confirmed that formal CMF assessments would no longer take place. We think informing our customers and wider stakeholders is important- to improve the engagement we have already established, and to continue to deliver transparency around our performance reporting. For that reason, we plan to continue with our Risks, strengths and weaknesses statement this year.

Overview of the Company Monitoring Framework (CMF)

We have established governance processes and a robust assurance framework which we apply to our regulatory reporting. This is explained in greater detail in section 5.

During the autumn we carry out a mid- year internal risk assessment of our regulatory, statutory and legal duties and obligations. This process is known as our Licence to Operate and is explained further in section 6. This assessment is an essential component of how we assess our highest areas of risk in order to apply the right level of assurance to the information we are reporting.

In addition to our Licence to Operate, we also consider relevant risks which are identified through our Enterprise Risk Management (ERM) system, as well as broader horizon scanning activities to understand what external factors and anticipated future changes might impact our assurance plan. This is explained in greater detail in section 6. We also review customer and wider stakeholder feedback not only from this year, but the themes we have been presented with over the last five years. This is explained in greater detail in section 4.

After publication of our Risks, strengths and weaknesses statement and assurance plan, we may make some final adjustments to the plan. If any material changes are made we will republish the plan.

We complete our year-end Licence to Operate assessments in April. This enables responsible managers, senior management and directors to review our duties and obligations and confirm if we have any non- compliances that need to be reported to our regulator. If we have any instances of non- compliance, we make sure we are open and transparent and report them in our APR (published in July) as part of our Board's signed Risk and compliance statement. We work throughout the year to track and manage any issues until closure and report progress through the relevant Steering Groups and Committees.



4. How stakeholder engagement has influenced our plan

Our AMP6 customer and stakeholder engagement

We have received feedback on our planned assurance activities for a number of years, which we use to help shape our final assurance plans.

In AMP6 we held targeted focus groups to understand which areas customers wanted us to focus our assurance plan. We also carried out a vast customer engagement programme for our AMP7 5 year plan. Throughout our AMP6 and AMP7 business plan engagement there were five areas that were consistently important to our customers and stakeholders. These remain relevant today and will be included in our 2020/21 assurance plan.

AMP: Asset Management Period – this refers to Ofwat’s 5 year planning period. For example, we are currently in year 1 of AMP7.

PR19 (Price Review 2019): Every five years we publish our proposals for the next five year period. Ofwat reviews this and decides whether our plans are suitable.

Our AMP7 business plan was approved with fast track status and we were able to make an early start with it this year.

Performance Commitment (PC) – the level of performance we have committed to deliver either annually or during the five-year period covered by business plans. start in 2020.

CHARGES Charges we apply need to be accurate and transparent	CUSTOMER BILL IMPACT Information produced which can impact customer bills (ODIs and now performance commitments)	BOUNDARY REALIGNMENT Following the realignment of borders for STW and HD, making sure that the correct data is assigned and reported for each area
WATER RESOURCES MANAGEMENT PLAN Long term plan for managing supply and demand of water over the next 25 years	APR and ARA Our Annual Performance Report (APR) provides oversight of how we have performed throughout the year Our Annual Report and Accounts (ARA) provides public disclosure of our operating and financial activities over the last year	

? ANNUAL PERFORMANCE REPORT (APR)

Includes information about whether we’ve achieved our performance commitments in a given year, and our financial performance – based on the accounting conventions in Ofwat’s regulatory accounting guidelines.

Regular customer engagement

To understand which areas matter most to our customers and stakeholders, we use a variety of engagement methods and research tools to glean information to inform our plan. Our regular activities include customer insight gained from our online community panel, an instant online feedback tool called TapChat, and a robust representative customer tracker survey in which we interview a hundred different customers each week.

These tools provide us with brilliant insight into;

- Trust, affordability, value for money, reputation and image
- Customer experience and attitudes
- Behavioural views on key issues for water companies such as leakage, blockages, hot weather incident responses

This year we have conducted customer research on topics including our Covid19 response, sewer misuse, customer communication, investment and our overall strategic outlook. We have also undertaken research to inform and respond to specific service challenges as well. The relevant topics and themes which have helped to shape our assurance plan are summarised below.

IMPACTS OF COVID 19

Covid 19 is one of the most urgent challenges we face right now with many of our customers worried about the impact the pandemic has on areas such as employment, the economy and community issues.

Focus on keeping bills low and affordable

Keeping water and waste services available

Supporting colleagues and communities

ENVIRONMENTAL ISSUES

Environmental issues and controls are a key focus for many of our customers. We are proud to have been one of only two companies to be awarded 4* environmental performance status by the EA for our performance against a range of measures in 2019.

Flooding concerns

Climate change

Habitat and biodiversity

Pollution

RESILIENCE

Resilience to short- and long-term risks must be balanced with planning, investment without significant impact to customer bills.

Infrastructure investment

Supporting 'green recovery'

Flooding and drought management

Regulator engagement

We believe we have a positive and constructive relationship with Ofwat and aspire to maintain this through regular meetings and correspondence. Prior to the cessation of the CMF assessments being issued, we received feedback for areas of focus and improvement from Ofwat which we have incorporated into our processes and reporting.

Ofwat, EA, DWI: These are our regulators for economic, environmental and drinking water compliance

The accuracy and completeness of data and information we provide to our regulators remains pivotal to us - we fully support and contribute to Ofwat's strategy to transform industry performance, and the submission and publication of accurate and complete data is key to helping Ofwat do this.

We have continued to develop open and honest conversations with the EA and DWI. As a socially responsible company with a strong focus on environmental performance, we have included additional environmental data and submissions as part of our assurance plan in section 7.

5. Our assurance framework for regulatory reporting

We have an established, rigorous and robust assurance and performance reporting framework. The assurance approach we use comes from best practice identified across many organisations and industries ensuring that managers, senior managers and Directors are responsible for delivering high quality data through robust processes and methodologies.

Our established framework is underpinned by four main principles which, provides consistency and clarity for our people, and allows flexibility for our assurance processes to build and evolve with our Company and the environment we operate in.



- **Robust assurance** – we operate a three-lines of assurance model, targeted at areas of greatest risk.
- **Ownership and accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- **Effective governance** – provided by our Board, Audit Committee, Executive Disclosure Committee and Executive Committee.
- **Transparency and public accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.

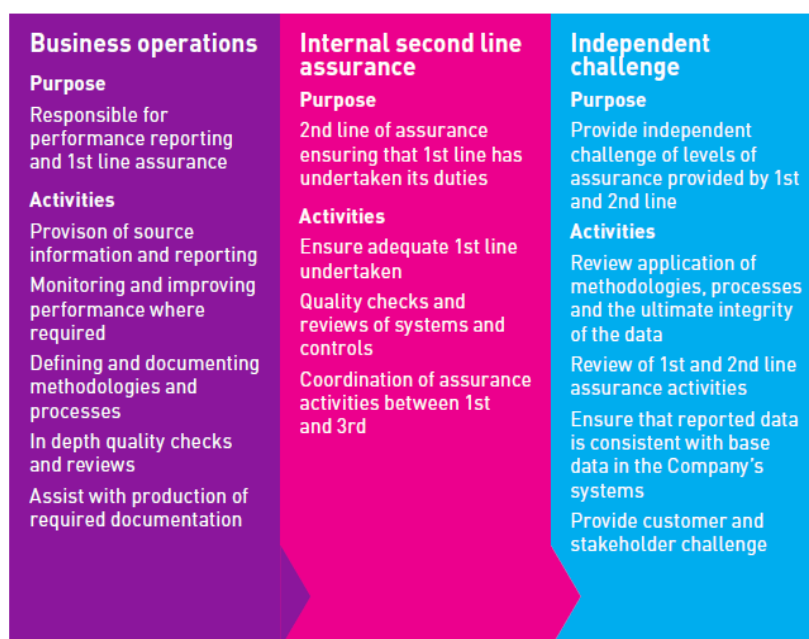
Robust Assurance

We operate a three lines of assurance model. Using a risk-based approach provides an effective programme of assurance which considers areas that we know are of prime importance to our customers and regulators; or may have a significant financial value, alongside the likelihood of reporting issues or regulatory change. Areas that are higher risk receive the full three lines of assurance while other areas, where the risk is lower, may be targeted with first or second line only. This approach ensures we can continually reassess our assurance activity as risk is reduced in certain areas, where mature and stable process exist, and increased where new risks are emerging, resulting in a proportionate assurance spend.

Our three lines of assurance

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

Second line activities are conducted by a separate team that does not report into the same senior manager to ensure a level of independent checking is conducted. For elements of our APR, additional second line reviews are undertaken within the same directorate to ensure that we maintain a strong level of expertise and understanding of the source data.



Third line activities are carried out by internal or external providers depending on the specialisation required. The expertise can be divided into the following categories:

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

The majority of our third line assurance is provided by the following:

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

AMP7 Assurance Map

Our updated AMP7 assurance map is aligned to our outcomes outlined in our AMP7 business plan. We also include oversight of broader requirements to provide a better line of sight for our Board.

Under the headings of the map, we outlined key activities (and child layers of these activities), taking into account areas covered in the AMP6 map, our external publications and key regulatory areas. We then tested these headings by mapping Licence to Operate (L2O) and Enterprise Risk Management (ERM) against them. Any outputs from the assurance map are included in our assurance plan.

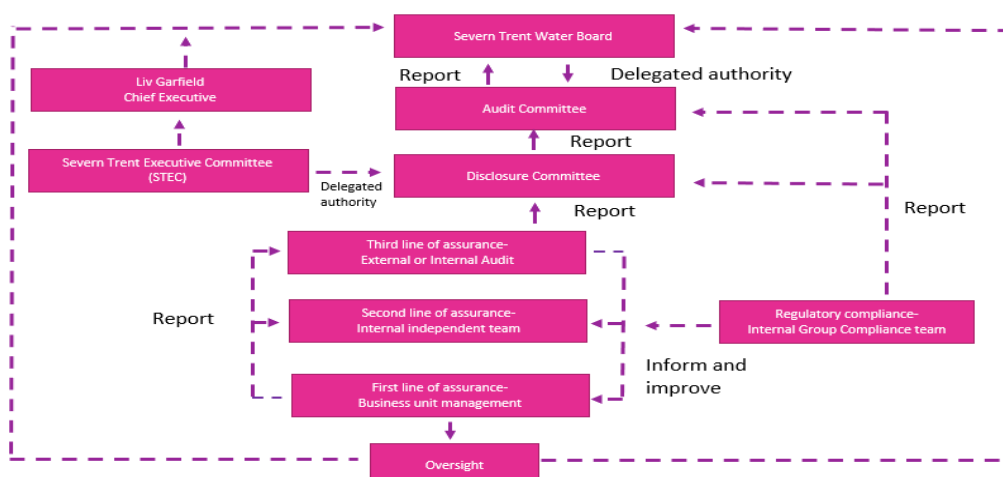
Our risk- based approach to assurance underpins our governance and assurance processes. We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided. Our regulatory, statutory and legal obligations in our appointed business are assigned to managers, senior managers and directors. These managers are responsible for ensuring compliance with our regulatory duties and raising potential risks or issues of non-compliance. This is explained in more detail in section 6.

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

Our Governance and assurance frameworks work together and are built on high standard processes to enable confidence in the information and data we report in our ARA and APR. The below provides an overview of how our frameworks interact to ensure that all levels of the business have an oversight and understanding of the assurance processes we implement. The effectiveness of the controls over reporting are monitored by the Audit Committee, which receives regular reports of the assurance conducted by the External Auditors.

We provide a detailed overview of our governance framework, the Committees that report to our Board and the reviews that are undertaken in our 'Board, governance and compliance' chapter in our APR

<https://www.stwater.co.uk/content/dam/stw/regulatory-library/annual-performance-report-2020.pdf>



6. Identifying our risks and weaknesses

We use a number of tools to undertake assessment of areas where we may have:

- A risk to the accuracy and reliability of the information and data we report.
- Emerging risks that can be identified through internal assessment and horizon scanning.
- Where we have an opportunity to develop our assurance plans to the themes that are important to customers and wider stakeholders. This enables focus on customer led requirements.

Licence to Operate

We use the wealth of expertise within the business to assess our statutory and regulatory obligations relating to provision of water and wastewater. We call this assessment 'licence to operate' and it has been operating in Severn Trent for over five years. We monitor over 120 legislations, which are underpinned by over 1500 reporting lines. Licence to operate is a two-stage process that operates through the mid and year-end of the annual regulatory cycle.

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

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

Once this assessment has been completed, centrally the Compliance team, and other subject matter experts such as the Legal team, assess the impact of non-compliance in this area using six factors:

Customer service impact	Would there be a negative impact on customers?
Environmental impact	Could we damage the environment if we didn't comply?
Health and safety	Could someone be hurt as a result?
Regulatory impact	Is this a key industry or regulatory measure of prime importance?
Financial impact	Could there be a financial penalty or fine? Would investors lose confidence in us?
Competition compliance	Does the duty or obligation interact with competition law?

Our total risk exposure is based on the combined score of the likelihood of a non-compliance and the score for the impact of a non-compliance. This creates a simple way to compare one risk factor to another. Our highest areas of risk may require focus in our assurance plan. If management action is needed the mid-year gives us the opportunity to put mitigation/improvement plans in place prior to our year-end reporting of performance.

Enterprise Risk Management (ERM)

Risk is all about uncertainty and 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.

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.

Emerging risk

We continually identify and monitor emerging risks through our network of ERM co-ordinators, ERM champions and risk owners and through cross-functional workshops at all levels of the organisation using tools such as horizon scanning and PESTLE analysis. This culminates with an emerging risk horizon map reported annually to the Audit Committee and Board. We define emerging risks as upcoming events which present uncertainty but are difficult to assess at the current stage. Emerging risk management ensures these risks are identified and helps to ascertain whether we are adequately prepared for the potential opportunities and threats they pose.

High profile industry issues

Industry wide issues are an emerging landscape and can often receive significant media coverage. We also take into consideration challenges that other water companies like us have faced or continue to face to understand what we can learn and improve on. These issues will often be at the forefront of customers' minds so it's important we are transparent with our performance in these areas of growing interest.

FIND OUT MORE

You can find out more about our ERM system, the Board accountability, and the types of Group wide risks we report on page 57 of the ST plc ARA <https://www.severntrent.com/content/dam/stw-plc/shareholder-resources/ara-annual-report-2020.pdf>

7. Outputs of assessment

Licence to operate

In this year's assessment, the following areas were highlighted as high risk:

PR19 Performance Commitments

We are now in the first year of AMP7 and are ready to start reporting on our PR19 performance commitments (outside of shadow).

Although we started auditing these last year to make sure we have the right processes in place to report accurate information and data, they are a high focus area to both our customers, stakeholders, regulators and investors.

Water Quality Regulations 2000/ Water Industry Act

We have made lots of improvements on our water safety plans, our risk assessment plans, sampling plans, and our focus on treatment of raw water. With lots of work already completed over the last year, our internal assessment ensures a continued focus in these areas.

Obligations relating to the wholesale- retail market

The business retail market faces a number of pressing issues as a result of the 2020 Covid-19 pandemic. In particular, Retailers in the business retail market face being impacted by both a reduction in demand for water by their customers and a number of business customers being unable to pay their bills on time. This reduction in revenue creates a cash flow issue for business retailers because they are still required to pay Wholesalers primary charges under the current market arrangements. There are a number of interim market codes changes that were put into place this year to support Retailers which we are following, and the evolving nature and impact of Covid19 must be monitored carefully to ensure that we support all of our customers, including non- household retailers.

RAG2 and RAG5

RAG 5 contains guidance on applying transfer pricing rules on transactions with associate companies and the non- appointed business.

correct areas of the Severn Trent Group.

We have a number of controls in place to ensure that we apply the requirements as set out by Ofwat. Cost allocation activities within our Finance team are part of our established third line assurance processes. This area remains a focus for us with the introduction of new price controls this year, and to make sure that we allocate the correct costs to the

RAG 2 contains the guidelines for the classification of costs across the price controls.

Wider engagement, risk analysis and horizon scanning

The Group Compliance and Assurance team review our broader ERM system as well as engaging across the business to support submissions which are deemed to require

assurance prior to publication. These may be publications that require Board statements, new delivery requirements, or areas which are subject to regulatory change. We also consider industry wide issues which are identified through the year. The outputs of the review are summarised below.

LONG TERM RESILIENCE

Strategic water resources

To meet the national need to develop options to meet demand pressure and drought resilience we are working with UU and Thames to deliver a water transfer capability to South East England. We are also working with Affinity Water to deliver the Grand Union Canal Transfer.

You can find out more about the plans here:
<https://www.ofwat.gov.uk/publication/pr19-final-determinations-strategic-regional-water-resource-solutions-appendix/>

ENVIRONMENT

PIRP (Pollution Incident Reduction Plan)

In response to the request from the EA, we published our first PIRP, which provides an overview of how we plan to reduce serious pollution incidents. We will be providing updates to the EA on how we are performing against our plan, and also sharing this information with customers.

Environmental Performance Assessment (EPA)

We are really proud to have achieved 4* status for our performance last year. But we don't want to rest on our laurels- we continue to review the assessment requirements and will apply the assurance focus required to provide transparent and accurate information in our reporting.

Regional Water Resources Management Plans (WRMP)

We are now working on regional water resource management plans because we have to plan ahead at a more regional level. Supplies are being stretched and our population is increasing so we need to act now, and will be working collaboratively with other water companies to get the right plans in place at a local level.

SECURITY AND RESILIENCE

Network and Information Systems Regulations (NISR)

The principal requirements are to demonstrate we have measures in place to manage the risks posed to the security of our network and information systems. We recognise the importance of this area so we have appointed a dedicated Board member providing oversight.

INDUSTRY ISSUES	
River pollution	Substantial progress has been made over the last two decades to improve the quality of rivers and waterways but we are committed to making further improvements. EPA measures and our PIRP help focus on these improvements and we are committed to the Green Recovery plan and working with government bodies to deliver more over the next AMP.
CSOs and protecting rivers	CSOs are central to the design of sewer systems and the discharges they make are regulated by the EA. We have invested in monitoring systems and upgrading our systems to achieve stringent water quality standards. We will continue to focus on CSO performance, which is reported within our APR.
Drought	There has been a lot of press coverage this year relating to the risk we face in the UK of severe drought in as little as 20 years. We have our Water Resource Management Plans, as well as regional Water Resource Management Plans. We are also working collaboratively with other water companies to deliver strategic water resource plans.
Carbon neutral	The water industry is the first to commit to carbon neutrality by 2030 and we have lots of plans in place on how we will deliver it. From electric fleets to renewable energy sources, and planting over a million trees in the next 5 years.
Leakage	The combined effects of population growth and climate change are set to significantly impact water supply over the next 25 years. A key requirement to help stem supply issues is a focus on reducing leakage. We have stretching targets to reduce leakage in AMP7.

Our Assurance Plan

8. Our assurance plan

Our assurance plan is grouped into two areas, **core assurance activities** and **focus assurance activities**.

Our **core assurance activities** are published documents which form part of our core regulatory reporting cycle. These documents are subject to our risk based three lines of assurance and governance processes.

Our **focus assurance activities** are shaped by the customer engagement (section 4) our internal assessments (section 7) and environmental themes which are highlighted in both assessments.

Both areas of activities are interlinked with the themes presented throughout this document. We use the below key to highlight where the assurance plan is influenced and shaped both directly and indirectly by customer, environment and internal/ external assessment:

CUSTOMER AND STAKEHOLDER PRIORITY	WE ARE BEING TRANSPARENT WITH AREAS THAT ARE IMPORTANT TO OUR CUSTOMERS
ENVIRONMENT	A FOCUS ON ENVIRONMENTAL PERFORMANCE, SUSTAINABLE SOLUTIONS FOR TODAY AND THE FUTURE
LICENCE TO OPERATE/ INTERNAL ASSESSMENT/ INDUSTRY ISSUE	INFORMATION RELATING TO REGULATORY COMPLIANCE THAT HAVE BEEN IDENTIFIED AS HIGH RISK

Core areas

ANNUAL PERFORMANCE REPORT (APR)



This report is the principal way that we will document our annual performance and hold ourselves publicly to account. Ofwat consulted with us earlier this year and it is likely that there will be some changes to the information we report on. This should be available prior to us publishing our final assurance plan and further information will be provided then.

It is important that we present information in a fair and balanced way that is accessible to our broad range of customers and stakeholders.

In addition, some of our PCs have a financial reward or penalty associated so customer bills will be directly affected by our performance.

We apply the same assurance approach to any area where our contractors performance forms part of our regulatory submission.

PLANNED ASSURANCE:

- On an annual basis all performance data is subject to assurance. In addition, using a risk-based approach, some of our measures are also subject to half year assurance to get early sight of any potential risk areas, which we can address prior to year-end.
- Data and methodology is subject to three lines of assurance with our financial auditor performing third line assurance for financial reporting, and our regulatory technical auditor or Internal Audit performing third line assurance for non- financial data.

ANNUAL REPORT AND ACCOUNTS (ARA)



We have a statutory obligation to ensure that our financial accounts are prepared in accordance with the relevant financial reporting framework and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.

PLANNED ASSURANCE:

- The methodology and data is subject to three lines of assurance with our financial auditor performing third line assurance.
- The Methodology and data of our RORE calculations is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.

CHARGES



Charges including draft wholesale charges, final charges and access prices - We want to make sure that what we charge our customers is correct. We have established assurance processes to ensure we are within our revenue cap and compliant with Ofwat's charging rules. The charges process is split into two parts:

- Draft - Since the non-household retail market opened, we have been required to publish draft wholesale charges in October to give retailers early sight of charges for the next financial year. Access prices are also reviewed at this stage.
- Final - In January, companies are required to publish all of their proposed charges for the next financial year i.e. non-household and household, retail and wholesale and non-primary charges.

PLANNED ASSURANCE:

- The methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Model assurance undertaken by specialists, Numeritas.
- An assurance statement signed by our Board demonstrating Board oversight and scrutiny.

- Engagement with customers and CCWater to ensure bill impacts are understood (particular where these are greater than 5%).

New Connections Charges- Our developer services customers want the ability to accurately predict what their costs will be when they build and connect a property to our network. Therefore, it's important then we publish our annual charges for new connections that they are accurate, easy to understand and cost reflective. Furthermore new connections charges are subject to competition law and is an area of focus for Ofwat. To ensure we meet these requirements, we have put in place a comprehensive set of third line assurance checks.

PLANNED ASSURANCE:

- The data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- An assurance statement signed by our Board demonstrating Board oversight and scrutiny.
- Engagement with developer services customers.

COMPETITIVE MARKETS

Market Performance Standards (MPS) and Operational Performance Standards (OPS)-

On a monthly basis, we are required to submit a number of key performance indicators to the market operator, MOSL, which then publishes the information on its website. This information is used by retailers, Ofwat and MOSL to ensure that wholesalers are delivering a competitive and fair service to all customers in the market. Failure to meet OPS and MPS SLAs will also result in a financial penalty.

PLANNED ASSURANCE:

- Audit performing third line assurance on OPS
- Performance reviewed on a quarterly basis at Disclosure Committee.

Market Information- To help these markets grow successfully, it is important that customers and potential market participants can trust our costs are accurate in these areas for activities such as demand management, treatment, transport and other 'search costs'. We will support these new market areas and ensure our data is accurate and has had a third line review before publication.

PLANNED ASSURANCE:

- The data and methodology is assessed and subject to our three lines of assurance model based on risk with our regulatory technical auditor performing third line assurance as appropriate.

EA AND DWI REPORTING

We take our role and its impact on the environment and drinking water seriously. It is important that information we share with the EA and/ or DWI is accurate and reflective of our performance. If we fail to meet our environmental commitments or drinking water standards we could reduce the level of trust our customers place in us, and we could also face financial penalties. We provide our planned submissions to Disclosure Committee for oversight in the new year and apply the same approach to assurance on any ad hoc requests from our regulators in the same manner.

PLANNED ASSURANCE:

- Submissions are subject to three lines of assurance on a risk-based approach.
- Submissions are subject to our governance processes.

SUSTAINABILITY REPORT



Across our Sustainability Report, we have used our established risk- based, three lines of assurance approach, with our most material sustainability metrics being independently assured. As part of the ARA and APR process, and Jacobs have assured our sustainability-related Performance Commitments and Deloitte has assured our financial data. Other high-risk sustainability information has been assured by Internal Audit with the remaining lower risk areas being second line assured. Full assurance statements can be found on in the Severn Trent Plc Annual Report and Accounts 2020 and Severn Trent Water Annual Performance Report 20.

PLANNED ASSURANCE:

- Submissions are subject to three lines of assurance on a risk-based approach.
- Submissions are subject to our governance processes.
- In ensuring data quality for this report, we followed the GRI's Reporting Principles of balance, clarity, accuracy, reliability, timeliness and comparability.

CCWater



We provide CCW with customer and performance data and commentary. This information is presented in a standardised set of proformas to enable comparative reviews of all water and waste companies and enables CCW to track industry performance. These submissions culminate in CCW publishing annual reports.

PLANNED ASSURANCE:

- Submissions are subject to three lines of assurance on a risk-based approach.
- Submissions are subject to our governance processes.

Focus areas

We have taken into consideration the themes that are of importance to our customers and stakeholders, environmental issues, and internal/ industry wide assessment. These all link to the areas highlighted throughout this document.

PR19 PERFORMANCE COMMITMENTS



Our performance commitments are of critical importance to our customers and wider stakeholders. They are directly linked to our performance of the operational services we provide to customers, the impact we have on the environment, and many of them have financial incentives applied to them which can directly impact customer bills. Some of our PCs are new for AMP7 and therefore the data we use will require scrutiny through our assurance framework to ensure it is accurate and reliable.

PLANNED ASSURANCE:

- The data and methodology is assessed and subject to our three lines of assurance model based on risk with our regulatory technical auditor performing third line assurance as appropriate.

WATER QUALITY



Water quality is a priority for our customers. Our water quality improvement programme continued to deliver a further 14% decrease in drinking water quality complaints last year. Despite this we narrowly missed our own challenging internal targets. We have plans in place to drive further improvements this year.

PLANNED ASSURANCE:

- Where data is provided to DWI as part of our Performance Commitments, the data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Other areas, including our safety plan, are assessed and subject to our three lines of assurance model based on risk with our regulatory technical auditor performing third line assurance as appropriate.

N
E
W

ADAPTATION REPORT

PIRP

EPA

CSOs



The services we provide and the operational activities we undertake are intrinsically linked with the surrounding environment. As a socially purposeful company we are committed to reduce serious pollutions and making positive changes to reduce our impact on climate change. Whilst we achieved 4* EPA status last year, we continue to focus on our environmental performance and apply our established assurance framework to ensure that the information we provide to the EA is transparent and accurate. We have EPA under focussed assurance to allow extra focus in light of the new reporting measures.

Our first PIRP was submitted to the EA earlier in the year and will receive focussed assurance to ensure that the updates we provide are accurate and transparent.

Although this will be the third round of the Adaptation report, we will be not only reporting on our progress against previous publications, but we will be setting out our response for the next five years. Climate change is a growing area of customer interest and we have therefore assigned it to our focussed assurance status.

We reported a departure in our APR 2019/20 relating to the number of sewer overflow assets and the number of permits. We have an action plan in place to submit outstanding permits to align our asset base.

PLANNED ASSURANCE:

- Where data is provided to Defra and the EA, the data and methodology is .subject to our three lines of assurance model based on risk
- We report to our Executive Committee on the action plans in place to reduce risk as part of our licence to operate sign off process.

N E W	STRATEGIC WATER RESOURCES PLAN- INTERCONNECTOR AND GRAND UNION CANAL TRANSFER
	

Ofwat is supporting schemes to provide long term resilience to water supplies in the South East. We are involved in a scheme to transfer water from the river Severn to the river Thames in collaboration with United Utilities and Thames Water. Long term resilience is of critical importance and will benefit customers nationally in light of the risk of supply shortages in the next 20 years.

The Grand Union Canal Transfer is set to be delivered by 2032. This programme will allow Affinity to manage high growth and/or high levels of sustainability reductions.

We have a dedicated team working on the schemes, with oversight of risk through our Licence to Operate process. A Board assurance statement will be submitted as part of the Gate 1 submission in July 2021.

PLANNED ASSURANCE:

- We are finalising a joint assurance framework in conjunction with United Utilities and Thames Water
- We will adopt a joint assurance framework in conjunction with Affinity Water.
- Submissions are subject to three lines of assurance on a risk-based approach.
- Submissions are subject to our governance processes.
- The schemes receives Board oversight and a statement of assurance will be provided.

N E W	NISR

We understand the security of our networks and information systems is critical and we have dedicated Board member oversight for its delivery. NISR is monitored in both ERM and Licence to Operate. We will be providing our current status, our planned delivery and supporting commentary.

PLANNED ASSURANCE:

- The data and commentary is assessed and subject to our three lines of assurance model based on risk with a third party technical auditor (tbc in final assurance plan post award) performing third line assurance as appropriate.

COST ALLOCATION	

Cost allocation and a focus on boundary realignment with HD is important to our customers and wider stakeholders, demonstrated in the feedback to our previous assurance plans so we continue to focus assurance in this area.

Cost allocation activities within our finance team are part of our established third line assurance annual processes. While we have made a big improvement in this area, we continue to ensure that our processes are thoroughly documented within both Severn Trent Water and other entities in the Severn Trent Group. With new cost allocation requirements this year we have placed Costed Allocation into the focussed assurance.

PLANNED ASSURANCE:

- Cost allocation data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Our updated RAG5 compliance Framework is subject to three lines of assurance with an external auditor completing third line assurance.
- We have established controls including licence to operate and ERM.
- Our RAG5 Steering Committee are responsible for overseeing RAG5 compliance and reporting directly to the Disclosure Committee.
- RAG 5 is monitored through ERM.

FREEZE THAW ACTION PLAN	

Following challenging weather conditions in 2018, Ofwat asked us to produce an action plan for improvement. We must understand what we could have done better, and what improvements we can implement to prevent similar issues in the future if we have any severe weather conditions in the future.

We have undertaken a full review, documenting lessons learned and captured improvement actions to be put into place across the business.

Our formal action was subject to external assurance by Jacobs and is available for review on our website:

[https://www.stwater.co.uk/content/dam/stw/ST_Corporate/Severn Trent Freeze Thaw Action Plan-28092018-Customer.pdf](https://www.stwater.co.uk/content/dam/stw/ST_Corporate/Severn_Trent_Freeze_Thaw_Action_Plan-28092018-Customer.pdf)

PLANNED ASSURANCE:

- Actions continue to be tracked and reported to STEC on a monthly basis and we are on track for completion within the agreed timeframe.
- Actions are monitored by Internal Audit.

N E W	REGIONAL WRMP	

Water resources for demand and supply management is a national issue and we are collaborating with other water companies to support areas with a future water deficit. We are working collaboratively with United Utilities, South Staffs, and Welsh Water to deliver a regional West Water Resources Management Plan.

PLANNED ASSURANCE:

- We are finalising a joint assurance framework in conjunction with United Utilities, South Staffs and Welsh Water
- Submissions are subject to three lines of assurance on a risk-based approach.
- Submissions are subject to our governance processes.

N E W	EA ABSTRACTIONS	

Our compliance with abstraction licences will receive focussed assurance in line with our risk based assurance approach.

- Submissions are subject to three lines of assurance on a risk-based approach.
- Submissions are subject to our governance processes.