



South Staffs Water

incorporating



## **Assurance Framework**

# **Annual Risks, Strengths and Weaknesses Publication**

November 2017

# Introduction

## What is assurance?

Water is a vital public service that we all rely on. It is critically important that our customers, and our wider set of stakeholders and regulators, can trust that the information we publish is accurate and well explained, across all of our areas of performance.

Assurance is the set of processes that we follow to give customers or organisations confidence that the information we have published is at the right level of accuracy, is complete, and is explained where necessary. It is a layer of protection, that ensures that our published data is signed off by the people in our organisation who are responsible for transparency and trust. It is also a process that helps us identify areas where data needs to be improved to ensure that we can report accurately.

## About this document

In November each year we publish a review and update of our assurance process. As we produce and publish a great deal of data each year for our customers and stakeholders, our processes of assurance and communication need to be strong, flexible and wide ranging. In this annual review we will:

1. Review, and if necessary update, our main framework to ensure it is current and fit for purpose.
2. Provide a summary of the major data sets or documents we have provided or published this year and review the success of those publications for data quality and assurance.
3. Provide a summary of our performance against our performance commitments for the first two complete years of the price control period.
4. Review and update our scoring of assurance risk (our risks, strengths and weaknesses assessment), taking account of lessons learnt in producing and assuring the data this year.
5. Outline our PR19 and Water Resource Management Plan assurance needs, as these infrequent and significant submissions are submitted in 2017 and 2018.
6. Ask our stakeholders and Customer Panel if they are happy with the data quality, level of assurance and communication that we have provided this year. We will also ask about any future risks that may need additional focussed attention in our future assurance activity.
7. Set out the future high level timescales.

This document is a consultation and we welcome stakeholder views on any of the themes presented here. Please email any comments to [regulation@south-staffs-water.co.uk](mailto:regulation@south-staffs-water.co.uk) by 12<sup>th</sup> January 2018.

## Part 1 – Our main assurance framework

Our assurance framework defines the overall process that we use to score assurance risk for any data set or publication. It is a risk based process looking at a range of factors that could result in data being unreliable, with the final level of assurance being determined based on the likelihood of unreliability and the impact of this for stakeholders or customers.

As part of this annual update we have reviewed our framework. We believe our framework is still thorough and current. The criteria we use to score assurance risk are sufficiently flexible to ensure we can assess a wide range of data sets and publications whilst retaining a common and consistent assessment approach. In applying our framework this year it has been fit for purpose for all of our data sets. We are therefore not proposing to make any significant changes to this main framework document.

We would welcome the views of our stakeholders on our main framework, and whether you agree with our view that it remains a suitable mechanism for assessing the assurance risk on the wide range of data sets that we will be producing in the coming year.

Our assurance framework document is available on our website at the following link:  
<https://www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/our-assurance-framework>

## Part 2 – Summary of published data

We have produced or published a large volume of data and documents in the year since our last annual review. We have ensured that all of our information has had the appropriate level of assurance applied to it, and has been signed off at the appropriate level. We have also maintained focus on the targeted areas identified in our April 2017 assurance plan and this section of the document provides information on how those targeted areas, as well as all of our other publications, have been assured this year.

As part of this consultation we invite stakeholders to express their views on the success of our published data and other publications this year. We have listed below all of our major publications between November 2016 and September 2017. Do our stakeholders consider our publications to be sufficiently robust, sufficiently assured and where relevant, sufficiently communicative and transparent for customers? We will use the feedback we receive to modify our approach for next year as many publications are repeated annually.

### Regulatory submissions and publications

#### Annual performance report (APR) – July 2017

The end of year APR is a significant data set containing financial and performance data. We produced an assurance plan in advance (<https://www.south-staffs-water.co.uk/media/2029/final-assurance-plan-april-17.pdf>), published in April 2017, that described how we would assure and sign off each section of the APR.

Within our published APR ([https://www.south-staffs-water.co.uk/media/2054/full-statutory-accounts-and-annual-performance-report-2016\\_17.pdf](https://www.south-staffs-water.co.uk/media/2054/full-statutory-accounts-and-annual-performance-report-2016_17.pdf)) we included a data assurance summary, which detailed the assurance we had carried out and also described how we had addressed the specific targeted areas we identified in our April assurance plan. This data assurance summary starts on page 156 in the above link. Our targeted areas and how we addressed each of them is as follows:

Targeted area	How we have improved
Appropriate disclosure of debt and dividends	<p>Net debt is disclosed in line with the RAGs in table 1E where we have additionally provided a reconciliation between book debt and debt reported for covenant compliance.</p> <p>Dividends paid to the Company's holding company to enable them to pay intra-group loan interest has been fully disclosed. We included information on dividends in our summary APR, intended for customers and non-technical stakeholders, to increase transparency.</p>
Ensuring that critical elements of our financial reporting are in line with Ofwat guidance	We have introduced additional internal procedures throughout the whole of the APR to ensure that our reporting is fully in line with Ofwat's guidance. In addition we have gained external assurance on our RORE calculation from Jacobs UK Limited.
Publication of more detail on our ODI assurance carried out by our technical assessor	We have included a statement from our external technical assessor, Monson Engineering, who assured our financially incentivised ODIs, on page 160, and a statement from our independent internal auditor, who assured our reputational ODIs, on page 161.
Further information on our parent group structure to be published and accessible to stakeholders	We have improved the presentation of our parent group structure in the statutory accounts section of the report, on pages 33 to 34. We have also now added our simple shareholder diagram to our summary APR document, published alongside this document and intended for customers and non-technical stakeholders, as well as to the 'about us' section of our website.

Examination of best practice for published remuneration and corporate governance information	We have included detailed information in a Remuneration Report for both the Board and the Executive Team starting on page 48. We also include information on group structure, Board membership and Board committees in our Corporate Governance section on pages 32 to 47.
Examination of best practice for our Board's risk and compliance statement	Following feedback received from Ofwat in its Company Monitoring Framework review in November 2016, we undertook an extensive review of how our Board's risk and compliance statement is presented and made significant improvements to ensure it is consistent with Ofwat guidance and principles.
Examination of best practice for reporting of tax affairs	The Company's tax strategy is included in our Accounting Disclosures on pages 140 to 142. We have also included additional commentary explaining our tax structure, calculation of our tax figures reported in this APR and any further explanatory factors that are necessary. We have also included more information on tax in our summary APR document, intended for customers and non-technical stakeholders.
New APR tables 3B, 3C and 3D	We have undertaken external assurance of table 3B (serviceability sub-indicators) and 3D (SIM), and we have undertaken internal assurance of table 3C (AIM). This is in line with our assurance risk assessment.

In addition to the targeted areas identified, we have also increased our transparency in our reporting of trade with associated companies including our process for tendering when an associate is involved and how we deal with 'at cost' contracts.

Following submission we have had three queries from Ofwat on the APR. These were:

- Clarification on the number of decimal places used in the SIM calculation which we believe was an industry wide query. This had no impact on our reported number.
- A query on our reported net debt which clarified that it should exclude cash from our non-appointed business.
- A technical question in relation to a prior period adjustment on our tax charge for the year.

We also ensured continued compliance with cost allocation rules by engaging Deloitte, for the second year, to undertake additional agreed upon procedures. No exceptions were identified and Deloitte's final report was shared directly with Ofwat.

We noted Ofwat's open letter titled 'Holding Thames Water to account', sent to water companies and published in Utility Week in June 2017, setting out principles of governance. Although three of the five principles that Ofwat sets out are specific to Thames Water, two are equally important for all companies including ourselves and we want to assure our regulators and other stakeholders that we take those requirements seriously. We will consider how we address this in further detail in our April 2018 assurance plan for implementation in next year's APR.

### **Summary performance report (for customers) – July 2017**

For the second year running we have implemented a summary version of our APR targeted at customers. <https://www.south-staffs-water.co.uk/media/2055/summary-annual-performance-report-july-2017.pdf>

We think that this is important as the full APR document may be difficult for customers and non-technical stakeholders to understand. We have substantially improved our customer targeted publication this year with more focus on assurance, governance and inclusion of some key financial metrics including revenues, tax and dividends, as well as maintaining our PR14 commitment to include an ODI scorecard and relevant performance information.

We developed this publication in collaboration with our Customer Panel, on which the EA and CCWater are both represented, to ensure that it reflected the needs of customers and used appropriate language for the intended audience. We also used the opportunity to include short case

studies highlighting some of the community activity, environmental activity and capital projects that we have engaged in through the year. We think we have achieved the right balance of technical information and easy to understand information in this publication, and would welcome feedback from stakeholders on this.

We have also implemented an online dashboard giving customers a regular view of in-year performance on a range of metrics. Other than internal quality control we do not carry out any additional assurance on this information as it published monthly and is intended to give customers a flavour of our activity rather than to be accurate regulatory data. We are currently trialling this in the South Staffs region before rollout to our Cambridge region. <https://www.south-staffs-water.co.uk/about-us/our-business/our-performance-dashboard>

#### **Wholesale and end user charges – January, February and September 2017**

Each year we produce wholesale and end user charges that are compliant with our price control revenue allowances. As in previous years we have used a model developed and assured by Frontier Economics. We also undertake independent internal assurance on the data which feeds into the model. The Board are fully engaged with the annual charges process and a comprehensive Board assurance statement is published which includes the key principles on which our charges are set.

We engage with CCWater during the development of annual charges and report to them any incidence effects.

Our charges publications can be found at these links: <https://www.south-staffs-water.co.uk/publications/your-charges> and <http://www.cambridge-water.co.uk/customers/charges-scheme>.

In April 2016 we also implemented our social tariff following a period of research, customer engagement and CCWater engagement. Our social tariff gained a customer acceptance of 80%. The Board were fully engaged on this process and signed off the implementation. Our social tariff uptake continues to increase following our extensive promotion activity. Information for customers on our social tariff can be found here: <https://www.south-staffs-water.co.uk/household/my-bills-and-payments/my-bill-explained/other-charges-and-tariffs/assure-tariff>.

We have undertaken the same assurance approach for the 2018/19 indicative wholesale charges published on 29th September 2017. This year we have proactively consulted with licensed retailers operating in the new business market, as the indicative charges publication is primarily intended for that group of customers. Final wholesale charges will be published in January 2017 and will be updated using the latest information available including the November 2017 RPI.

#### **EA annual return – July 2017**

Each year we report our progress on Water Resource Management Plan scheme implementation to the EA, along with our actual water consumption values for the reporting year. We comply in full with the reporting guidance issued by the EA. We make submissions for each region of operation. Our assurance on this return operates alongside the assurance of the main APR.

We received a letter of review from the Environment Agency. No significant issues were raised however there were nine points of note and we are required to address these in the 2018 annual return.

The final reports have also been placed on our website for general access (<https://www.south-staffs-water.co.uk/publications/environment>).

The next Water Resource Management Plan (WRMP19) is to be submitted to Defra by 1<sup>st</sup> December 2017 in draft form. Public consultation will commence in 2018. The updated Drought Plan was submitted to Defra in spring 2017 and public consultation on this draft has just completed (October 6th 2017). The final Drought Plan revised is likely to be published early 2018.

#### **Cost assessment data submission – July 2017**

On the 14th July we submitted a data set to Ofwat that will be used, along with data from other water companies, to develop wholesale and retail cost models for the next price review (PR19). The data submitted this year was primarily the same as that submitted in August 2016 albeit extended to include the six year period from 2011/12 through to 2016/17.

The industry and Ofwat have been working together to improve the data consistency and definitions. We have been fully engaged in the Ofwat led working group that developed the data set requirements and refined definitions after the August 2016 submission. This has helped ensure that our understanding of the definitions was consistent with the rest of the industry and with Ofwat.

We recognised the importance of the data set to the PR19 process and highlighted the cost assessment as a targeted area in our April 2017 assurance plan. We engaged independent internal audit to check through the data sources and calculation methodologies, and we supplied a full commentary alongside the submission.

#### **Drinking Water Inspectorate annual return – February 2017**

Over the reporting year we have extensive ongoing engagement with the DWI across a range of day to day processes, regular data submissions and end of year data submissions.

The data submission in February 2017 covered the calendar year 2016 and provided data on customer contact rates to the DWI which is used, alongside regulatory sample data provided throughout the year, to monitor and report on our compliance. The DWI's Drinking Water 2016 report was published in July 2017 (<http://www.dwi.gov.uk/about/annual-report/2016/index.html>).

The DWI have recently begun trialling a new water quality composite measure, the Compliance Risk Index (CRI). We will support DWI as appropriate by ensuring that data we supply and our interactions are high quality.

### **Other submissions and publications**

#### **CCWater annual update – July 2017**

We supply CWater with final, audited, year end data at the same time as we publish our APR. The data we submit being the final year end update to the quarterly reporting information that we send throughout the year but which does not get audited until June each year. The data we submit to CWater at the year end is robust as it is the same data that we publish in the APR.

#### **Open Water Programme and market opening – April 2017**

In April 2017 a fully competitive retail market opened for business customers, enabling business customers to choose and switch their supplier of retail services. We have been working with Ofwat and the other project stakeholders since 2015 to put in place the changes to our systems and processes that will enable us to interface with the new market. We successfully completed all of the assurance milestones required of us and went live with the market in April 2017 as planned.

#### **Carbon Reduction Commitment Scheme – July 2017**

The CRC Energy Efficiency Scheme is a UK government scheme designed to improve energy efficiency and cut carbon dioxide emissions in private and public sector organisations that are high energy users. The Environment Agency administers the scheme for the UK and regulates the scheme in England.

In each compliance year, we collate and report information about our energy supplies in order to buy and surrender the appropriate carbon emission allowances. We inform the EA about changes to the organisation that could affect our registration and we also keep the appropriate records about our energy supplies and organisation in an evidence pack. To ensure accuracy and consistency we

engaged independent internal audit to check through the data sources and calculation methodologies.

Each autumn, the Environment Agency publishes a table showing the emissions data submitted by CRC participants in its Annual Report Publication (<https://www.gov.uk/guidance/crc-energy-efficiency-scheme-annual-report-publication>).

#### **Consultation on charging rules for new connection services– October 2017**

In December 2016, Ofwat published updated charging rules for new connection services. This was in response to stakeholders concerns that charges are currently too complex, uncertain and unfair.

In October 2017 we published a consultation document setting out proposed changes to our charges for 2018/19 (<https://www.south-staffs-water.co.uk/media/2074/developer-charging-reform-consultation.pdf>).

We have also held a developer forum event in each of our operating regions in order to gather more detailed feedback. This, along with responses to our consultation, will help us to finalise our proposed charges that will be published at the start of February 2018.

## Part 3 – Outcomes Progress Review

As of the time of this annual assurance review publication we have two completed years of Outcomes performance, for 2015/16 (AMP6 year 1) and 2016/17 (AMP6 year 2). This publication provides a timely opportunity for us to review our Outcomes performance to date and consult on our plans for the remaining three years of the price control period.

Performance Commitment Name	Unit	Year 1	Year 2
Mean zone compliance	%	99.884	99.982
	<i>Target</i>	<i>99.970</i>	<i>99.970</i>
<b>Commentary</b>			
<p>This performance commitment measures our regulatory compliance for water quality. We take around 20,000 water quality compliance samples each year from our network of source, treatment, storage and distribution assets to ensure that the water we deliver is safe to drink.</p> <p>We failed our target in year 1 and incurred the maximum penalty. This performance was partly due to sample failures which were rare and outside of our control. Our performance in year 2 improved substantially and we are dedicating a great deal of business focus on ensuring continued compliance with water quality standards which is a fundamental component of our core service provision.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Acceptability of water to customers	Contacts per thousand population	1.96	1.66
	<i>Target</i>	<i>1.63</i>	<i>1.43</i>
<b>Commentary</b>			
<p>This performance commitment measures how acceptable our water is to our customers, by recording the amount of contact (calls and complaints) we get about our water quality. Primarily this is contact related to discoloured water, or an unusual taste or smell.</p> <p>We have made significant progress improvement from year 1 to year 2 of the price control period, with a 15% reduction in the number of contacts we receive from customers about their water quality. We have worked hard to achieve this, examining the root causes of contact and mitigating these risks as far as possible.</p> <p>We are still to achieve the performance commitment, which is on a reducing glidepath, over the first three years. In year 1 we incurred a penalty and in year 2 we were within the penalty deadband. We are on track to deliver performance close to the commitment in year 3 (albeit with a small penalty as the deadbands were removed in year 3) and continued business focus on this means we hope to achieve our performance commitment during the price control period.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Interruptions to supply	Average minutes and seconds per property	04:14	05:11
<i>Target</i>		<i>10:00</i>	<i>10:00</i>
<p><b>Commentary</b></p> <p>This performance commitment measures how often, on average, a customer's water supply gets interrupted for more than 3 hours, from either planned or unplanned work.</p> <p>Historically we have been a very good performer in supply interruptions, as a company being at upper quartile performance when compared to the industry. In year 2 we did experience a slight decline in performance due to unforeseen network events. Unplanned events are always a possibility and whilst we do everything we can to prevent them – by investing in asset renewals, managing bursts effectively and building in resilience and redundancy to our system – they can still occur. It is equally important that when these events do occur that we can react quickly and ensure that customers' water supplies are restored as quickly as possible, with strong communication and assistance for those customers affected.</p> <p>We have achieved our performance commitment and incurred the maximum reward in both years. We plan to continue to focus on this core component of service delivery and to maintain a high standard, outperforming our commitment in the remaining years of the price control period.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Asset health infrastructure	Category	Stable	Stable
<i>Target</i>		<i>Stable</i>	<i>Stable</i>
<p><b>Commentary</b></p> <p>This performance commitment measures the long term health of our infrastructure assets (primarily pipes). Asset health is important because the assets we own and operate need to continue to be reliable into the future, and customers and stakeholders need to have confidence that we are carrying out the appropriate level of maintenance activity.</p> <p>Our asset health for infrastructure assets is stable – this means that our assets are in a condition which will enable them to continue to deliver their intended function now and in the future.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Asset health non-infrastructure	Category	Stable	Stable
<i>Target</i>		<i>Stable</i>	<i>Stable</i>
<p><b>Commentary</b></p> <p>This performance commitment measures the long term health of our non-infrastructure assets (pumping stations, treatment works and storage reservoirs). Asset health is important because the assets we own and operate need to continue to be reliable into the future, and customers and stakeholders need to have confidence that we are carrying out the appropriate level of maintenance activity.</p> <p>Our asset health for non-infrastructure assets is stable – this means that our assets are in a condition which will enable them to continue to deliver their intended function now and in the future.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Service incentive mechanism	Score	86.3	84.4
	<i>Target</i>	89.0	90.0
<b>Commentary</b>			
<p>This performance commitment measures satisfaction with our customer service. The measure is unique amongst our package of performance commitments as the survey programme is centrally coordinated by the water industry regulator, Ofwat. The measure is also comparative, meaning that our ultimate performance is judged not as a simple score but against the scores of all water companies in England and Wales.</p> <p>Our performance against this measure has declined in year 2 compared to year 1. At our last price review in 2014 there were some significant retail challenges, which required us to cut our costs between 2015 to 2020. For this reason, we have implemented a lot of changes relatively quickly, some of which have negatively impacted on the customer experience. We have endeavoured to address these concerns quickly, but it does mean that 2016/17 saw an overall increase in customer complaints and a decline in our performance from our previous industry leading levels.</p> <p>We have mitigated the negative effects of the changes we implemented, but we know there is still more to do. We have developed and are implementing a detailed plan, to help us regain our previous industry leading position in customer service performance.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Customer satisfaction	%	98	99
	<i>Target</i>	98	98
<b>Commentary</b>			
<p>This performance commitment measures our customers' overall level of satisfaction with our service.</p> <p>We have met our performance commitment in the first two years of the period.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Community engagement	Employee days	256.5	222.0
	<i>Target</i>	400.0	400.0
<b>Commentary</b>			
<p>This performance commitment measures the amount of time that our employees spend, with business support, in community or charity activities.</p> <p>We have always engaged in local community activities and been involved with local community projects. We recognise that we have responsibilities to be good corporate citizens for the communities that we serve. At PR14 we formalised this with a performance commitment, targeting 400 employee-days of activity per year. In practice this target has been difficult to achieve. As a company we have actively sought to provide a range of opportunities for our employees to participate, and supported employees that have their own initiatives. The projects we have engaged with have added a great deal of value to those communities.</p> <p>Our performance commitment was originally based on approximately 1 day per employee, in practice we have achieved just over half this rate. Since 2015 we have also had to reduce our headcount in response to financial and retail challenges in our final determination. We are actively seeking to identify opportunities for employees and we are working on building our relationships with larger local charitable groups to try to increase the volume and frequency of opportunities across the year. However, it is looking unlikely that the five year target will be achieved. We would welcome views on how our community engagement could be better delivered and whether there are alternative approaches instead of the use of employee volunteering.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Leakage SST	Mega litres per day	69.88	69.85
	<i>Target</i>	<i>70.50</i>	<i>70.50</i>
<b>Commentary</b>			
<p>This performance commitment measures the amount of water we lose to leaks each year in our South Staffs operating region, including our own pipes and those owned by customers.</p> <p>We have met our performance commitment for leakage in the South Staffs region for the first two years of the price control, and we will continue to ensure appropriate focus and resources on leakage management for the remainder of the period and beyond.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Leakage CAM	Mega litres per day	13.24	14.32
	<i>Target</i>	<i>13.50</i>	<i>13.50</i>
<b>Commentary</b>			
<p>This performance commitment measures the amount of water we lose to leaks each year in our Cambridge operating region, including our own pipes and those owned by customers.</p> <p>We met our performance commitment in year 1 but we missed it in year 2 by just over 6%. This was due to a range of operational factors and we have engaged additional specialist leakage resource to drive Cambridge leakage back to target levels quickly. Our missed target means that we have incurred a financial penalty for this measure.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Water efficiency	Litres per person per day	129.59	129.85
	<i>Target</i>	<i>130.79</i>	<i>130.15</i>
<b>Commentary</b>			
<p>This performance commitment measures the average amount of water that each person uses each day.</p> <p>We have undertaken a range of water efficiency initiatives over many years and across our customer base. This has included education programmes and provision of water saving devices for the home. Customers can also opt for a free water meter allowing them to directly save money by reducing the amount of water they consume. This helps customers and also helps us lower water use in general, helping to manage our finite water resources.</p> <p>We have therefore met our performance commitment in each of the first two years. We will continue our water efficiency initiatives for the remainder of the price control period.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Biodiversity	Hectares of land	76.2	91.6
	<i>Target</i>	<i>76.0</i>	<i>91.0</i>
<b>Commentary</b>			
<p>This performance commitment measures the area of land that we actively manage with biodiversity improvement schemes.</p> <p>Each year we undertake a wide range of local projects on our own land and working with local groups. We work with local communities and have created a new fund, PEBBLE, which awards grants to local biodiversity and environmental initiatives. Information about our PEBBLE fund can be found on our website at <a href="https://www.south-staffs-water.co.uk/environment/biodiversity/pebble-fund">https://www.south-staffs-water.co.uk/environment/biodiversity/pebble-fund</a>. We also promote biodiversity benefits through our catchment management activities with local farmers.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Carbon emissions	Tonnes of carbon saved	178	285
	<i>Target</i>	509	1320
<b>Commentary</b>			
<p>This performance commitment measures our real terms (i.e excluding the effects of emissions factors) reduction in carbon emissions since a 2014/15 baseline.</p> <p>Our target at the end of year 5 is a cumulative 5,210 tonnes reduction which we planned to achieve through a range of energy efficiency projects incorporating our business as usual pump maintenance programme as well as new initiatives on economic renewable energy generation and energy saving studies.</p> <p>In the first two years of this price control period we have not met our performance commitment, and on the savings we have achieved to date we are not likely to achieve our overall target cumulative position in year five.</p> <p>This is primarily due to the changing economics of renewable energy installations. Our PR14 target assumed a number of solar panel installations at our sites. However in January 2016 the government changed the feed in tariff allowances. These allowances were a very significant contributor to the cost effectiveness of these schemes and with the reduced allowances new solar schemes on our sites are far from cost beneficial.</p> <p>It is now clear to us that whilst the originally planned solar installations remain non-cost beneficial we cannot find sufficient savings across the rest of our initiatives to meet the challenging target we set ourselves. Further, we do not believe it would be a sensible use of customer funding to implement non-cost beneficial installations.</p> <p>We are still progressing pump efficiency and other energy saving initiatives.</p> <p>We would welcome stakeholder views on this subject.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Surveys of value for money and affordability	%	93	91
	<i>Target</i>	90	90
<b>Commentary</b>			
<p>This performance commitment measures our customers' satisfaction with value for money and affordability, derived from surveys carried out on our behalf.</p> <p>We have met our performance commitment in the first two years of the period.</p>			

Performance Commitment Name	Unit	Year 1	Year 2
Support for customers in debt	Number of customers	19621	23895
	<i>Target</i>	19600	22200
<b>Commentary</b>			
<p>This performance commitment measures the number of customers that we have helped with water debt problems each year.</p> <p>We actively provide a range of support options for customers who are struggling to pay their bill. This includes our long standing charitable trust and payment plan initiatives, as well as our new social tariff, Assure, that started in April 2016. Our social tariff has been actively promoted and targeted to customers who need it most, and we have seen a strong uptake.</p> <p>We have met our performance commitment in the first two years and plan to continue to meet or exceed this for the remainder of the price control period.</p>			

## Part 4 – Scoring of assurance risk

Since November 2015 when we first applied our framework and scored a wide range of data sets and publications for assurance risk, we have continued to keep a live scoring system to capture new assurance risks. Some of the data sets were one off submissions however many of them repeat each year. In November 2015 and again in November 2016 we presented this assessment as a risk matrix and we felt that the format worked well for stakeholders to see at a glance where the high and critical risk areas were. In January 2016 Ofwat commented that our risks, strengths and weaknesses exercise was comprehensive and the scope of information considered was wide. We have sought to maintain this throughout the year and in updating our scoring for the forthcoming year.

The risk assessment has been conducted alongside the senior manager who has responsibility for each data set. The overall outcomes of the risk assessment exercise have been fed back to the Executive Team and to the Board who has signed off the assessment.

We score assurance risk by looking across several factors that influence the **likelihood** that the data may contain an error; and the **impact** that inaccurate, incomplete or late data may have on the recipient or other parties. The factors we consider are shown below:

The **likelihood** that the data may contain an error (7 sub factors):

- |  |   |                     |
|--|---|---------------------|
| a. Complexity of the data sources;                 | } | Inherent likelihood |
| b. Completeness of the data set;                   |   |                     |
| c. Extent of manual intervention;                  |   |                     |
| d. Complexity and maturity of the reporting rules; | } | Management controls |
| e. Control activities already established;         |   |                     |
| f. Experience of our personnel;                    |   |                     |
| g. Evidence of historical errors and last audit.   |   |                     |

The **impact** that inaccurate, incomplete or late data will have on the recipient or other parties (4 sub factors):

- a. Customers;
- b. Competition;
- c. Financial;
- d. Compliance and regulation.

In last year's Risks, Strengths and Weaknesses publication we discussed our highest risk areas, setting out the reasons they scored highly and what assurance activities we would be undertaking. We have repeated this exercise for this year. The tables on the following two pages show the updated assurance risk scores for Outcome Delivery Incentives<sup>1</sup> (ODIs) (first table) and other information (second table), for the coming year. Following the tables is our assessment of our higher risk areas.

1. Outcome Delivery Incentives are performance metrics that formed part of our regulatory determination in 2014 covering the period 2015-2020. The ODIs cover a range of customer focused service levels and link through to financial incentives for under or over performance. Our website contains more information about our ODIs (<https://www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/our-business-plan/our-outcomes-and-odis>).

## Risk matrix (ODIs)

Data Item	Data Description	Frequency	Risk Score			
			Likelihood Score	Impact Score	Total Risk Score	Assurance Risk Category
ODI 1.1: Mean zone compliance	The overall compliance rate for water quality samples.	Annual	1	3	3	Low
ODI 1.2: Acceptability of water to customers	The overall customer contact rate for water quality concerns.	Annual	2	3	6	Medium
ODI 2.1: Supply interruptions	The average duration of interruption per property.	Annual	2	3	6	Medium
ODI 2.2: Serviceability infra - Bursts	The number of burst mains per year.	Annual	3	2	6	Medium
ODI 2.2: Serviceability infra - >12hrs interruptions	The number of properties interrupted for more than 12 hours.	Annual	3	1	3	Low
ODI 2.2: Serviceability infra - TIM index	The sample compliance rate for turbidity, iron and manganese samples.	Annual	1	2	2	Low
ODI 2.2: Serviceability infra - Discol Contact	The number of contacts reporting discolouration.	Annual	3	2	6	Medium
ODI 2.2: Serviceability infra - DG2 Low Pressure	The number of properties suffering from persistent low pressure.	Annual	2	3	6	Medium
ODI 2.3: Serviceability non-infra - WTW coliform	The coliform sample failure rate at treatment works.	Annual	1	3	3	Low
ODI 2.3: Serviceability non-infra - SR coliforms	The number of service reservoirs with more than 5% of samples failing for coliforms.	Annual	1	3	3	Low
ODI 2.3: Serviceability non-infra - WTW turbidity	The number of treatment works with more than 5% of samples failing for turbidity.	Annual	1	2	2	Low
ODI 2.3: Serviceability non-infra - Enforcements	The number of enforcement actions for microbiological parameters from the DWI.	Annual	1	4	4	Low
ODI 2.3: Serviceability non-infra - Unplanned maintenance	The number of unplanned maintenance work orders we complete on our above ground assets each year.	Annual	1	2	2	Low
ODI 3.1: SIM	A measure of customer service performance.	Annual	3	3	9	High
ODI 3.2: Customer satisfaction surveys	The percentage of customers satisfied with our levels of service.	Annual	3	2	6	Medium
ODI 3.3: Community engagement	The number of days we spend on activities within the community.	Annual	3	2	6	Medium
ODI 4.1: Leakage SST	The leakage level in the South Staffs region.	Annual	3	3	9	High
ODI 4.2: Leakage CAM	The leakage level in the Cambridge region.	Annual	3	3	9	High
ODI 4.3: Water efficiency	The average litres of water used per person per year in our regions.	Annual	2	2	4	Low
ODI 4.4: Biodiversity	The area of land that we actively manage for biodiversity projects.	Annual	2	2	4	Low
ODI 4.5: Carbon emissions	The amount of carbon emissions saved from our 2014/15 baseline.	Annual	3	2	6	Medium
ODI 5.1: VFM and affordability	The percentage of customers satisfied with our value for money and affordability.	Annual	3	2	6	Medium
ODI 5.2: Support for customers in debt	The number of customers that we have helped with debt support and social tariffs.	Annual	2	3	6	Medium

## Risk matrix (other publications)

Data Item	Data Description	Frequency	Risk Score			Assurance Risk Category
			Likelihood Score	Impact Score	Total Risk Score	
Annual charges	The publication of our wholesale and retail annual charges.	Annual	3	4	12	High
CCWater quarterly return	The quarterly data return to CCWater on customer service performance and complaints handling.	Quarterly	2	2	4	Low
Annual review of FWRMP, inc SOSI, table 7, table 10, table 1	The annual review on progress of the five year water resources management plan.	Annual	3	2	6	Medium
Abstraction returns	The volumes of water abstracted from our sources.	Annual	2	2	4	Low
CRC / Carbon accounting return	The annual assessment of carbon emissions.	Annual	3	2	6	Medium
NEP progress, inc fisheries, resources, quality and catchment management	The progress we have made on NEP projects agreed at the PR14 business plan.	Annual	3	2	6	Medium
Energy savings opportunity scheme	A submission on the mandatory UK programme introduced under the EU Energy Efficiency Directive.	4 yearly	4	2	8	Medium
Water resources management plan	The five yearly assessment of water resource position and demand forecasting.	5 yearly	3	3	9	High
Drought plan	The five yearly assessment of drought resilience.	5 yearly	3	4	12	High
Annual data tables	The annual submission of our sampling programme for the year ahead.	Annual	2	2	4	Low
Monthly compliance data returns	The compliance sample results from our regulatory sampling programme, sent monthly.	Monthly	1	2	2	Low
Event reporting data	The reporting of network events that have occurred, on an ad hoc basis.	Ad hoc	2	2	4	Low
Audit data	Data requested by the DWI during any audit.	Ad hoc	2	2	4	Low
Customer contact data	The customer contact we have received on a range of water quality themes.	Annual	3	2	6	Medium
Regulation 28 submissions	The water safety plan risk assessments of our assets.	up to Monthly	2	2	4	Low
Annual performance reporting (financial elements), excluding cost allocation data	The annual reporting of end of year financial data.	Annual	2	4	8	Medium
Cost allocation	The data on segregation of wholesale and retail costs.	Annual	3	4	12	High
Business plan tables (note as the BP is approached we will assess each table individually).	The five yearly price review process containing multiple data submissions.	5 yearly	4	4	16	Critical
Dev services league tables data	The performance metrics for developer services performance.	Monthly	3	2	6	Medium
October update of access prices	The annual update of access prices for retail combined supplies.	Annual	2	2	4	Low
14/15 Blind year true up tables	Submission of blind year 14/15 true up tables to Ofwat, 29th Feb.	One off	2	3	6	Medium
Special agreement register annual update	Annual return to Ofwat detailed our special agreements and bulk supplies	Annual	2	2	4	Low
RBMP impact assessment data submission	Cost data for schemes feeding the River Basin Management Plan impact assessment	One off	4	1	4	Low
PR16 NHH review	Process of separation of existing default tariffs into Ofwat's uniform structure, including moving key account management costs and altering the net margin based on Frontier's study.	One off	2	4	8	Medium
Cost assessment data submission	Various financial and asset related data for feeding in to TOTEX process	Annual	2	3	6	Medium
RCV separation	Separation of the RCV for PR19	One off	4	3	12	High
Leakage shadow reporting	Shadow reporting of leakage to Ofwat by 31st August 2017 for 2016/17 year data. Along with completion of RAG table.	Annual	4	3	12	High
Supply interruptions shadow reporting	Shadow reporting of supply interruptions to Ofwat by 31st August 2017 for 2016/17 year data. Along with completion of RAG table.	Annual	1	3	3	Low

## *Outcomes of the assessment process*

For the purposes of discussion of results and outcomes we have focussed on high and critical risk areas.

Please note that an area identified as critical or high risk does not mean that any data we have published is in any way incorrect. Referring to our assessment criteria, it means that the data could be complex, infrequently produced, with extrapolation or assumptions, or high impact on customers, competition, finance or regulation. Where an area is critical or high risk this guides the level of assurance that is required for that data set. We are confident that we have historically had strong management controls, assurance and sign off processes in place for published data.

### *Critical risk data*

The following critical risk areas have been identified:

i) Business plan tables

It is expected that this data would score critical as it is highly bespoke, relatively infrequently produced and has significant impact for all four impact themes. Historically business plan data has been independently audited and signed off by the Board, and for this critical risk data we will continue to follow this approach. We will set out our assurance plan for the business plan tables in our next assurance plan, published by April 2018. More detail is contained within section 5 of this document.

### *High risk data*

The following high risk areas have been identified:

i) Water resource management plan and drought plan

As per the business plan tables, it is expected that this submission scores highly as it is again highly bespoke, relatively infrequently produced and has a high impact on customers and regulatory compliance. We have historically independently audited our methodologies during the submission process and we will continue with an independent audit and Board sign off approach.

ii) Cost allocation

At PR14 Ofwat stated that our cost allocation assurance was not sufficient and highlighted this as one of the reasons that we were initially placed in the targeted category under the company monitoring framework. We received feedback from Ofwat on why the assurance had fallen short of expectations and we have since engaged our financial auditor, Deloitte, to undertake additional agreed upon procedures in our annual performance reporting. Deloitte reported no concerns with our cost allocation approach. We have not changed the risk score because cost allocation is a complex area with continually evolving guidance. We will need to continue to provide strong assurance and Board sign off for cost allocation in future years and also within the business plan submission for PR19.

iii) Annual charges

Charges are naturally a high risk area as any errors could be significant to customers. We use a charges model that was developed externally, shared between

three other companies and has been independently assured. We will continue to use independent internal assurance to audit the data input processes into the model and obtain Board sign off prior to publication. Historically we have had no errors with our annual charges publications and stakeholders have not raised any concerns.

iv) ODI 3.1 SIM

This ODI scores high for the extent of manual intervention, since the performance metric is reliant on many separate data sources, such as the customer survey data and our own customer contact rates. Along with the other ODIs which are financially incentivised it scores high on regulatory impact, making a high risk overall. All of the ODIs will continue to be independently assured along with Board sign off.

v) ODIs 4.1 leakage SST and 4.2 leakage CAM

These ODIs both score high for the extent of manual intervention since the operational leakage level tracked throughout the year is subject to end of year adjustments from the overall level of distribution input and final customer consumption data. Along with the other ODIs which are financially incentivised it scores high on regulatory impact, making a high risk overall. All of the ODIs will continue to be independently assured along with Board sign off.

vi) RCV separation for PR19

At the PR19 price review Ofwat will be separating the wholesale price control into two distinct areas – water resources and network+. To allow this separation, we need to separate our regulatory capital value (RCV) into these separate price controls. There are a variety of ways in which we can undertake this separation and we have already been engaging with Ofwat on our proposals. Our proposed separation is submitted to Ofwat in January 2018. As an important component of the price review, we have scored this as high risk, primarily due to it being a new one off requirement with impacts on the price control process.

vii) Leakage shadow reporting

In 2017 the water industry has been working collaboratively through its trade body, Water UK, and in close consultation with regulatory stakeholders, to improve the consistency of leakage reporting. The methodology that companies were using to calculate leakage was reviewed in detail and changes made to ensure consistent reporting across companies. This is important because leakage is one of the most significant performance benchmarking areas and of strong interest to customers and stakeholders. In common with all water companies, we have some improvements to make to our leakage reporting which will be delivered over the next three years. Therefore we have assessed this additional shadow reporting as high risk. Our Board will continue to closely monitor our reporting in this area.

### Medium and low risk data

The bulk of the data is classified as medium or low risk. In most cases a medium score is due to an inherent complexity to a data set or submission that directly causes that score to occur, however our risk assessment also highlights areas where internal processes can be improved.

# Part 5 – PR19 and Water Resource Management

## Plan assurance

### PR19 business plan

Price reviews occur every five years with the next review in 2019 covering the period 2020 to 2025. The price review is the process by which we set our allowed revenues, returns and investments over the next five year period. The process is managed by our regulator, Ofwat. As a monopoly provider of a public service, the price review is an important process that ensures customers are protected and that we have sufficient financing to continue to provide essential water services into the future. The PR19 business plan is submitted to Ofwat in September 2018.

A price review is a complex regulatory submission, comprising a great deal of regulatory, financial, engineering and customer focussed information that needs to be robustly reported. We therefore undertake a range of assurance processes on the business plan as it is developed internally and for the submissions to Ofwat.

We are in the process of procuring an independent assurance partner for PR19. The successful party will be assuring technical level information and providing strategic oversight where appropriate. The assurer will report to our Board and also to our Customer Panel where required (our Customer Panel, as an independent body, are also free to commission their own assurance on any area they deem appropriate). Our assurance provider will provide assurance statements or reports that we will use to evidence the assurance procedures we have carried out on various parts of the plan.

PR19 is a key area of risk over the next year of reporting. It is clear therefore, at this early stage, that PR19 assurance needs to be a targeted area for us for the coming year. Our next assurance plan, published by April 2018, will therefore incorporate further detail on our PR19 assurance plan.

### Water Resources Management Plan

Water Resources Management Plans occur every five years on a similar timescale to the price review process. The Water Resources Management Plan is a complex regulatory submission that we undertake to ensure the continued availability and sustainability of our water sources, taking into account a wide range of future assumptions and scenarios. Our draft water resources management plan is submitted in December 2017 to DEFRA, and published for public consultation once approval is given, by DEFRA, following a short review period.

In developing the plan we have had a strong focus throughout on the views of customers and stakeholders. We ran public focus groups on a range of long term themes and our Customer Panel has been involved throughout the process.

We have procured an external consultant to provide independent assurance of our draft water resources management plan. Throughout the development of the plan, we have also engaged closely with the Environment Agency to elicit early views on our approach and identify any issues. We have an internal steering group comprising directors and senior managers, and regular updates on progress made to the Board.

Following the public consultation period on the draft plan, a final plan is developed. Further assurance will be carried out as this progresses including how we have considered any representations on our draft plan and how we have made any amendments.

## Part 5 – Stakeholder engagement and future targeted areas

We value strong relationships with our regulatory and technical stakeholders, and we would welcome any views on our data assurance processes, in particular whether there are any areas on which we need to focus additional assurance activity over the next year. We will incorporate any comments or feedback we receive in our assurance plan to be published by April 2018.

In November, Ofwat will undertake a review of our assurance processes in their annual company monitoring framework publication. This will involve a re-assessment of our assurance categorisation if appropriate to do so. We are currently in the middle tier ‘targeted’ category. We will take account of any change to our categorisation, and any comments made about our assurance processes or data, in the assurance plan we publish by April 2018. Following Ofwat’s publication we will also undertake any further engagement with stakeholders if necessary.

## Part 6 – Overall timescales

The flowchart below shows our high level programme of work since we first consulted on our assurance framework in November 2015. The blue box indicates where we are now in the process.

