



South Staffs Water

incorporating



South Staffs Water  
(incorporating Cambridge Water)

# Assurance plan consultation

Covering:

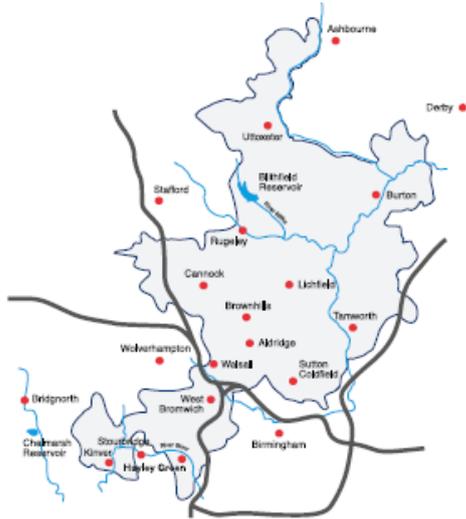
- Our assurance framework review
- Our risks, strengths and weaknesses
- Our draft assurance plan for 2019

November 2018



## About us

South Staffs Water, incorporating Cambridge Water, supplies clean water services to around 1.7 million people in parts of Staffordshire and the West Midlands; and in and around Cambridge.



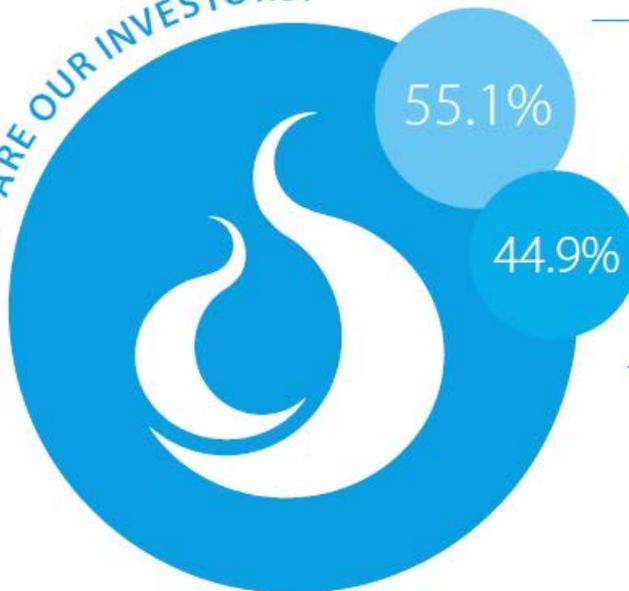
South Staffs region



Cambridge region

We are part of a larger group of companies, South Staffordshire Plc, which is in turn owned by infrastructure investors.

WHO ARE OUR INVESTORS?



Long-term pension scheme and institutional investors, advised by Arjun Infrastructure Partners which acquired a majority controlling interest in the Group from KKR in July 2018

Mitsubishi Corporation, a global integrated trading business, which acquired a 25% equity interest in the Group in March 2016 and now manages a 44.9% stake in the Group following a further 19.9% investment by Mitsubishi UFJ Lease & Finance Company in July 2018

All water companies in England and Wales are regulated by the Water Services Regulation Authority, known as Ofwat. Ofwat has a duty to ensure that water companies are able to efficiently finance their operations while acting in the interest of customers.

## About this document

Each year we publish a wide range of information for our stakeholders (regulators, customers and other bodies), about how we run our business and the service standards we achieve.

We want to demonstrate to our stakeholders that this information can be trusted to be accurate and complete. So, we have a wide range of assurance processes in place, including managerial review and using external independent third party assurers.

For each piece of information, we use a risk assessment to determine the level of assurance that is required. We do this because some data is more critical than other data, and it would not be cost efficient to use external assurance for all the data we publish.

As well as using our risk assessment, we also take on board any feedback we receive from our regulators or other stakeholders. This helps us to create an assurance plan for the coming year. Our assurance plan describes what areas of our reporting may be higher risk and what additional scrutiny or focus these areas should receive as a result. These are known as our 'targeted areas'.

This is a consultation on our assurance risk assessment and draft assurance plan. We will take on board all the feedback we receive and publish a final version of our assurance plan in March 2019.

Our economic regulator, Ofwat, assesses the quality of our data and assurance every year, bringing together our assurance across a range of publications and themes. It uses three categories of assurance to assess water companies and we are currently in the middle, or 'targeted', category.

This means we have demonstrated that we have good assurance processes in place but there might be some areas which require some improvement. Our aspiration is for our assurance to be classified by Ofwat in the top 'self assurance' category. To achieve this we need to demonstrate not only strong assurance practices but also that we are leading the water sector in our assurance.

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## Assurance and governance overview

This consultation sets out our risks, strengths and weaknesses assessment and our draft assurance plan for the period April 2019 to March 2020.

Its purpose is to demonstrate to our customers, regulators and other stakeholders:

- the process we have been through to understand our regulatory reporting risks; and
- the plan we propose to put in place to ensure those risks are controlled.

Setting out our principles and processes in this way enables us to demonstrate that **assurance** and **governance** are important to us, and that we are effectively planning for these activities to take place each year.

We want all our stakeholders to have confidence that the information we publish across all areas of our performance is accurate and well explained.

### What is assurance?

Assurance is the set of processes we follow to give our stakeholders confidence that the information we have published is:

- at the right level of accuracy;
- complete; and
- clear and easy to understand.

It is a layer of protection that ensures our published data is signed off by the people in our business who are responsible for transparency and trust. It is also a process that helps us identify areas where data needs to be improved so that we can be sure to report it accurately.

### What is governance?

Governance is about how our business is managed, from the Board level down to all areas of our service. Our operating licence has a number of conditions related to corporate governance that we must comply with. But, governance goes beyond just our licence conditions. Because we provide an essential public service, we must demonstrate that we operate to high standards of leadership, fairness and transparency. We must act in the best interests of our customers at all times. We must also make sure we continue to plan for the future so that the services we provide remain resilient and sustainable.

### How to have your say?

It is important to us that our assurance processes give our customers and wider stakeholders confidence in our reporting. So, we welcome any comments that anyone may have about this plan or any other aspect of our data or assurance.

If you wish to comment, please email [regulation@south-staffs-water.co.uk](mailto:regulation@south-staffs-water.co.uk). The deadline for responses is **31 January 2019**.

## 1. The regulatory framework for assurance

As a regulated water company, we operate within a complex set of regulatory mechanisms. For example, in 2014 Ofwat published its principles of Board leadership, transparency and governance. In 2015, it implemented a new broad framework for assurance and reporting called the Company Monitoring Framework. It is this regulatory framework that underpins our detailed processes for assurance and governance which we set out in this consultation.

Each year Ofwat publishes an assessment of water companies' assurance processes. The outcome of this assessment is a classification of companies into one of the three following categories:

- Self assurance:** a company in this category has demonstrated that it has strong, sector leading, assurance processes in place and no significant issues with any of its published data or with its behaviours. A company in this category has more freedoms on how it can manage its assurance.
- Targeted assurance:** a company in this category has demonstrated broadly that it has good assurance processes in place; but there may be some areas where the regulator has less confidence and where it therefore requires further detail on how the assurance of these areas will be improved in the future to protect customers. A company in this category is required to publish a more detailed assurance plan setting out how it intends to improve assurance in some areas, known as the targeted areas.
- Prescribed assurance:** a company in this category has not demonstrated adequate assurance capability or behaviours. This may lead to a reduction in the confidence of the regulator, external stakeholders or customers. A company in this category has to provide full detail on all aspects of its assurance and may be subject to regulatory intervention.

For its last assessment in November 2017, Ofwat assessed each company against eight themes which reflected a range of publications over the course of the year, including the assurance plan and the annual performance report. Ofwat assesses each of the eight themes as either exceeds expectations, meets expectations, minor concerns or serious concerns.

We received a **targeted assurance** classification, which was unchanged from the previous year. This means that there were some areas of our assurance that could have been improved, and that we did not demonstrate sufficient sector leading behaviours that would enable us to achieve the top category.

While we are pleased we did not incur any areas of serious concern and only one area of minor concern, we are disappointed not to have achieved the self-assured category. In six of

the eight themes we met Ofwat's expectations. One theme, casework, was not applicable to us this year.

The table below shows Ofwat's latest assessment of our assurance.

Theme	Ofwat's assessment
Financial monitoring framework	Minor concerns
Charges engagement assurance	Meets expectations
Outcomes	Meets expectations
Board leadership, transparency and governance	Meets expectations
Risk and compliance statement	Meets expectations
Assurance plan	Meets expectations
Data assurance summary	Meets expectations
Casework	Not applicable

The minor concerns related to the way some of our financial metrics are calculated, which did not fully meet Ofwat's expectations.

Normally, the next assessment would take place in November 2018, but Ofwat has chosen to defer this until January 2019 to align with its publication of the initial assessment of our business plan, which we submitted in September 2018.

## 2. Our assurance framework review

Our assurance framework defines the overall process we use to score assurance risk for any data set or publication. It is a risk-based process that considers 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 customers or wider stakeholders.

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 while 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. So we are not proposing to make any significant changes to our main framework document.

We would welcome stakeholders' views 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 we will be producing in the coming year.

Our assurance framework is available on our website at:

[www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/our-assurance-framework](http://www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/our-assurance-framework)

### 3. Outcomes progress review

This annual assurance review publication covers three completed years of performance against the outcomes we are delivering for our customers - for 2015/16, 2016/17 and 2017/18. We think three years into the five year cycle is a timely opportunity for us to review our outcomes performance to date. We welcome any comments on our plans for the remaining two years of the price control period (2015 to 2020).

Excellent water quality				
 Outcome	Mean zone compliance (%)			
	2015/16	2016/17	2017/18	
	99.884	99.982	99.943	
	99.970	99.970	100	<b>TARGET</b>

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 to our customers is safe to drink. These samples are tested against a range of strict water quality standards.

We failed our target in year one and incurred the maximum penalty. This performance was partly the result of rare sample failures that were outside our control. Our performance improved significantly in year two and we exceeded our target. In year three we again experienced some sample failures that were outside our control, resulting in a small penalty being incurred. We are dedicating a great deal of business focus to ensuring continued compliance with water quality standards, which is a fundamental component of our core service provision.

Acceptability of water to customers (Contacts per thousand population)				
 Outcome	2015/16	2016/17	2017/18	
	1.96	1.66	1.42	
	1.63	1.43	1.23	<b>TARGET</b>

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. This is mainly contact related to water that is discoloured or has an unusual taste or smell.

We have made significant progress in this measure since the start of the price control period, with a 15% reduction in the number of contacts we receive from customers about their water quality in year two, and a further 14% reduction in year three. We have worked hard to achieve this, examining the root causes of contact and mitigating these risks as far as possible.

We are still to achieve the performance commitment, which is on a reducing glide path, over the first three years. Continued business focus means we are forecasting to achieve the performance commitment by the end of the current price control period. From 2020 onwards, we have proposed an even more stretching target that will be delivered as a result of the work to upgrade our two water treatment works in our South Staffs region and a strategic mains cleaning programme.

## Secure and reliable supplies

 Outcome	Interruptions to supply (Average minutes and seconds per property)			TARGET
	2015/16	2016/17	2017/18	
	04:14	05:11	08:32	
10:00	10:00	10:00		

This performance commitment measures how often, on average, a customer’s water supply gets interrupted for more than three hours, either because of planned or unplanned work.

Supply interruptions can be volatile as customers can be adversely impacted by unforeseen events, such as burst mains. We do everything we can to prevent these – by investing in asset renewals, managing bursts effectively and building resilience and redundancy into our network. When these events do occur it is important for us to react quickly to restore service to affected customers, with strong communication so that customers know what is happening, and with the appropriate assistance to any customers who need it.

We outperformed our performance commitment in all three years. But our performance in year three was worse than in the previous two years as a result of large unplanned events occurring. We will continue to focus on this core component of service delivery to maintain a high standard. We are forecasting to outperform our commitment in the remaining years of the price control period and from 2020 onwards we will be setting an even more stretching target.

 Outcome	Asset health for pipes, pumping stations and reservoirs (Category)			TARGET
	2015/16	2016/17	2017/18	
	Stable	Stable	Stable	
Stable	Stable	Stable		

This performance commitment measures the long-term health of our infrastructure and non-infrastructure assets (pipes, 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.

Our asset health 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.

## An excellent customer experience to customers and the community



### Service incentive mechanism (Score)

2015/16	2016/17	2017/18	
86.3	84.4	87.0	
89.0	90.0	90.0	<b>TARGET</b>

This performance commitment measures satisfaction with our customer service. The measure is unique among our package of performance commitments as the survey programme is centrally coordinated by Ofwat. The measure is also comparative, meaning that our performance is judged against the scores of all water companies in England and Wales.

We are pleased to report that following a decline in performance in year two, we have performed within the upper quartile of the sector in year three. We achieved this by addressing the failures we made in year two and have implemented a detailed plan to improve our performance.

We will continue to deliver customer service improvements in this price control period and into the next, when a new measure, called the Customer Measure of Experience (C-Mex), will be used.



### Customer satisfaction (%)

2015/16	2016/17	2017/18	
98	99	97	
98	98	98	<b>TARGET</b>

This performance commitment measures our customers' overall level of satisfaction with our service, measured through a quarterly tracker survey.

We have met our performance commitment in the first two years of the period and only just missed it in year three. Surveys are based on a small sample of customers, so we would expect a little variation to occur occasionally. We are monitoring the surveys we carry out to identify any areas where we need to improve.



### Community engagement (Employee days)

2015/16	2016/17	2017/18	
257	222	425	
400	400	400	<b>TARGET</b>

This performance commitment measures the amount of time that our employees spend, with business support, in community based or charity activities.

We have always engaged in local community activities and been involved with local projects. We recognise that we have responsibilities to be good corporate citizens for the communities we serve. At the start of this price control period we formalised this with a performance commitment, targeting 400 employee-days of activity each year. We have sought to provide a range of opportunities for our employees to participate in, and this year we opened a local 'community hub' in our South Staffs region – a first in the sector. We have also expanded our outreach work, both in education and for vulnerable customer support.

We expect to achieve our performance commitment for the remaining years of the price control period, and beyond 2020 we will be directly measuring the education programme we deliver to our communities.

## Operations that are environmentally sustainable

	Leakage SST (Mega litres per day)			TARGET
	2015/16	2016/17	2017/18	
	69.88	69.85	72.41	
	70.50	70.50	70.50	

This performance commitment measures the volume of water we lose to leaks each year in our South Staffs operating region, including our own pipes and those owned by customers.

We met our performance commitment for leakage in the South Staffs region for the first two years of the price control, but we missed it in year three. This was mainly because of the impact of 'The Beast from the East', which occurred late in the financial reporting year. We are forecasting to recover this position for the remainder of the price control period, and from 2020 onwards we have set a stretching leakage commitment of a 25% reduction by 2025.

	Leakage CAM (Mega litres per day)			TARGET
	2015/16	2016/17	2017/18	
	13.24	14.32	14.39	
	13.50	13.50	13.50	

This performance commitment measures the volume of water we lose to leaks each year in our Cambridge operating region, including our own pipes and those owned by customers.

We met our performance commitment for leakage in the Cambridge region in year one however we have missed it in years two and three by just over 6%. This was the result of operational factors and we have engaged additional specialist resource to quickly drive Cambridge leakage back to target levels. Our missed target means that we have incurred a financial penalty for this measure. We are forecasting to recover this position for the remainder of the price control period, and from 2020 onwards we have set a stretching leakage commitment of a 15% reduction by 2025.

	Water efficiency (Litres per person per day)			TARGET
	2015/16	2016/17	2017/18	
	129.59	129.85	133.09	
	130.79	130.15	129.52	

This performance commitment measures the average volume of water that each person uses every day.

We have carried out a range of water efficiency initiatives over many years and across our customer base. This has included education programmes and providing water saving devices for the home. Customers can also choose to have a free water meter fitted, allowing them to save money by reducing the volume of water they use. This helps customers get control over their bills and also helps to lower water use in general, helping us manage our finite water resources.

We met our performance commitment in each of the first two years but we have missed it in year three. We will continue our water efficiency initiatives for the remainder of the price control period and from 2020 onwards we have set stretching water use targets for each of our operating regions.



Biodiversity (Hectares of land)			
	2015/16	2016/17	2017/18
	76	92	119
	76	91	106
			<b>TARGET</b>

This performance commitment measures the area of land that we actively manage with biodiversity improvement schemes.

Each year we carry out a wide range of local projects on our own land and working with local groups. We also work with local communities and have created the PEBBLE fund, which awards grants to local biodiversity and environmental initiatives. Information about this fund can be found on our website at [www.south-staffs-water.co.uk/environment/biodiversity/pebble-fund](http://www.south-staffs-water.co.uk/environment/biodiversity/pebble-fund). We also promote biodiversity benefits through our catchment management activities with local farmers.

We have met our targets in the first three years of the price control and are forecasting to also meet our targets in the remaining two years. From 2020 onwards we are planning to increase the area of land that benefits from these environmental programmes.



Carbon emissions (Tonnes of carbon saved)			
	2015/16	2016/17	2017/18
	178	285	550
	509	1320	2428
			<b>TARGET</b>

This performance commitment measures our real terms (that is, excluding the effects of emissions factors) reduction in carbon emissions from a 2014/15 baseline.

Our target by the end of the price control is a cumulative 5,210 tonnes reduction. We originally planned to achieve this 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.

We have not met our performance commitment in the first three years of this price control period, and on the savings we have achieved to date we are not likely to achieve our overall target cumulative position in year five. This is mainly the result of the changing economics of renewable energy installations. Our target for this price control period assumed a number of solar panel installations at our sites. But in January 2016 the UK Government changed the feed in tariff allowances, which were a very significant contributor to the cost-effectiveness of these schemes. With the reduced allowances, new solar schemes on our sites are far from cost beneficial.

It is now clear to us that while 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. We are still progressing pump efficiency and other energy saving initiatives.

We have proposed an alternative means of measuring our carbon target from 2020 onwards that will allow us to include the energy savings we make from reducing water demand, either through leakage or water use reductions.

## Fair customer bill and fair investor returns



### Surveys of value for money and affordability (%)

	2015/16	2016/17	2017/18	
	93	91	94	
	90	90	90	<b>TARGET</b>

This performance commitment measures our customers' satisfaction with value for money and affordability, measured through a quarterly tracker survey.

We have met our performance commitment in the first three years of the price control period and are confident we will continue to meet it for the remaining two years. Our bills are among the lowest in the sector, and from 2020 onwards we have proposed to keep bills stable in nominal terms. This is equivalent to an 11% real terms reduction over the five years from 2020 to 2025.



### Support for customers in debt (Number of customers)

	2015/16	2016/17	2017/18	
	19621	23895	29036	
	19600	22200	24800	<b>TARGET</b>

This performance commitment measures the number of customers we have helped with water debt problems each year.

We actively provide a range of support options for customers who are struggling to pay their water bills. This includes our long standing charitable trust and payment plan initiatives, as well as our Assure social tariff, which we launched in April 2016. Our social tariff has been extensively promoted and targeted at customers who need it most.

We have seen a strong increase in the number of customers taking up our support options and have exceeded our performance commitment in the first three years of the price control period. We are forecasting to outperform this commitment by the end of the five-year period, and to extend the support to more customers from 2020 onwards.

## 4. Assurance risk assessment

### Our risks, strengths and weaknesses exercise

We use a risk assessment process to determine how best to assure any piece of information or data. This is because different data may have different risks associated with its compilation or accuracy, and different consequences depending on what the data is used for.

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 (seven sub-factors):

- a. Complexity of the data sources;
  - b. Completeness of the data set;
  - c. Extent of manual intervention;
  - d. Complexity and maturity of the reporting rules;
  - e. Control activities already established;
  - f. Experience of our personnel;
  - g. Evidence of historical errors and last audit.
- 
- The diagram shows two groups of sub-factors. The first group, labeled 'Inherent likelihood', includes items a, b, c, and d. The second group, labeled 'Management controls', includes items e, f, and g. Brackets on the right side of the list group the items into these two categories.

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

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

Our full evaluation process, and the criteria we use, can be found on our website:

[www.south-staffs-water.co.uk/media/2071/assurance-framework-april-2017.pdf](http://www.south-staffs-water.co.uk/media/2071/assurance-framework-april-2017.pdf)

The tables on the following pages show the updated assurance risk scores for outcome delivery incentives<sup>1</sup> (table 1) and other information (table 2), for the coming year.

We also scored assurance risk for the component parts of our September 2018 business plan submission to Ofwat, using a simpler 'low, medium, high' scoring system. As the determination process is still ongoing, this risk assessment remains relevant and is shown in table 3. Ofwat will publish the outcome of its initial assessment of business plans in January 2019, and draft and final determinations may require additional assurance to be carried out.

We welcome any comments on our scoring and if there is any other information that we should risk assess.

1. Outcome delivery incentives (ODIs) 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>).

## Table 1: Risk scores for outcome delivery incentives

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	2	2	4	Low
ODI 2.2: Serviceability infra - >12hrs interruptions	The number of properties interrupted for more than 12 hours.	Annual	2	2	4	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	2	2	4	Low
ODI 2.2: Serviceability infra - DG2 Low Pressure	The number of properties suffering from persistent low pressure.	Annual	2	2	4	Low
ODI 2.3: Serviceability non-infra - WTW coliform	The coliform sample failure rate at treatment works.	Annual	1	2	2	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	2	2	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	1	1	Low
ODI 3.1: SIM	A measure of customer service performance.	Annual	2	3	6	Medium
ODI 3.2: Customer satisfaction surveys	The percentage of customers satisfied with our levels of service.	Annual	1	1	1	Low
ODI 3.3: Community engagement	The number of days we spend on activities within the community.	Annual	2	2	4	Low
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	3	6	Medium
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	1	1	1	Low
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
Future ODIs	ODIs that we are planning to implement in 2020.	Annual	3	3	9	High

## Table 2: Risk scores for other information

Data Item	Data Description	Frequency	Risk Score			
			Likelihood Score	Impact Score	Total Risk Score	Assurance Risk Category
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
Cost assessment data submission	Various financial and asset related data for feeding in to TOTEX process	Annual	2	3	6	Medium
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
New Development charging rules	New charging rules for developers apply from 1 April 2018	Annual	3	4	12	High
Gender Pay	Publication of pay differentials	Annual	2	3	6	Medium

## Table 3: PR19 business plan risk scores

Theme	Component	Risk Score
Customer and Stakeholder Engagement	Overall customer engagement approach	2
	Customer preferences	2
	Customer Willingness to Pay	3
	Customer Acceptability	3
	Stakeholder Engagement	2
Resilience plan	Does the plan support overall resilience in the round	2
Operational Resilience	Mitigation of risk to delivery as a result of unexpected disruption	2
Financial and corporate resilience	Financial strength and the robustness of systems and processes	2
Affordability plan	Affordability plan and evidence of customer involvement/consent	2
Vulnerability plan	Identification of vulnerable customers and plans to support them	2
Outcomes, performance commitments and ODIs	Translating customer preferences to Outcomes and Performance measures	3
	Setting Performance Commitment levels and the type and value of ODIs	3
	Individual PC and ODI justification	3
	Justification for overall ODI package and the possible range of impact on returns	3
Cost assessment	Totex programme and the robust of the cost benefit approach and optimisation	3
	Review of information required on rates and pension costs	2
	Review of developer service projections	3
	Review to ensure that the split of costs between price controls is in line with Ofwat guidance	3
	Regulatory Capital Value split between water resources and network+	2
	Assurance on any cost adjustment claim submitted	3
Direct Procurement	Assurance that the the criteria for assessing schemes for Direct Procurement is in line with guidance	3
Proposed Water resources bid assessment framework	Proposed Water resources bid assessment framework	2
Proposed AMP 7 performance reporting methodology	Proposed AMP 7 performance reporting methodology	2
PR19 Assurance Approach	PR19 Assurance Approach	2
Restated data	Assurance on any historic data previously reported that is restated	3
Simple forecasts	Any projections done on a simple basis, for example uplifted by inflation each year	2
New data / complex forecasts of data reported for previous years	Other Performance Metrics - Abstraction Incentive Mechanism (AIM) / Leakage	3
	Retail information covering bad debt and indexation	3
	Transitional Spending	3
	Water resources capacity	3
	PR19 summary information	3
Financial Modelling and decisions	Regulatory Capital Value at 1 April 2020	3
	Assurance of the 'financial levers' that Companies can use to profile bills between current and future bill payers	2
	Taxation calculation	2
	Independent assessment that the plan is financeable	3
	Stress testing of the plan to ensure that the company is viable over the long term	3
	Population of Ofwat's financial model which we have to submit with their Business Plan	2
	Checking of historic data to ensure it is consistent with previously published information	1
PR14 reconciliation	Reconciliation of performance in 2015-18 where data used has been previously reported	1
	Reconciliation of performance in 2018-20 where the data is based on forecast information	2
Statutory and regulatory obligations statement	Statutory and regulatory obligations statement	2

## Outcomes of the assessment process

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

It should be noted 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 have a 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

We submitted our business plan for the five years from 2020 to 2025 to Ofwat in September 2018. Our plan comprised many components, ranging from narrative on our proposals and performance, through to complex financial calculations that describe how our operations are financeable over the next five-year period.

Table 3 above shows the risk assessment we carried out to help determine the assurance that was needed on each major component of the plan. We used a simple 'low, medium, high' scoring system and took any guidance from Ofwat into account when determining our assurance requirements.

Our Board had extensive involvement and close oversight as we developed the business plan. We also engaged independent external assurance on the high-risk areas and where it was required by Ofwat's methodology. Our Board assurance statements and third party assurance statements were provided as part of our submission and are published on our website at: [www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/business-plan-2020-2025](http://www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/business-plan-2020-2025)

Ofwat will publish its initial assessment of our plan in January 2019. We will use our risk assessment and assurance processes if further assurance needs are identified as a result of Ofwat's assessment.

### High-risk data

The following high-risk areas have been identified:

i) Water resources management plans and drought plan

As with the business plan, this submission scores highly as it is very complex and bespoke. It also has a high impact on customers and regulatory compliance. We have engaged independent external assurance where appropriate and our Board had extensive involvement and close oversight of the submission.

ii) Developer charges

In April 2018 new developer charges rules came into effect. This brought some fundamental changes to how developers are charged. The main driver was the need to provide all types of new development customers (Self Lay Providers (SLPs), New Appointments and Variations (NAVs) and developers etc) with greater clarity and predictability around the fees they would be charged to connect to our network, and to ensure that all types of customer are treated consistently and fairly.

We have received feedback from both the Consumer Council for Water and Ofwat on our charging document which we will take into account when we set charges for 2019/20.

iii) Annual customer charges

Customer charges are naturally a high-risk area because 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 before publication. Historically, we have had no errors with our annual charges publications and stakeholders have not raised any concerns.

iv) Leakage ODIs

The leakage ODIs for each of our regions score highly because they involve manual intervention. This is because 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 usage data. Along with the other ODIs that have financial incentives, they score high on regulatory impact, making a high risk overall. All ODIs will continue to have Board sign off and be assured independently.

v) Leakage shadow reporting

The water sector 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 used to calculate leakage was reviewed in detail and changes made to ensure consistent reporting across the sector. 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 two years. We have assessed this additional shadow reporting as high risk and our Board will continue to closely monitor reporting in this area.

vi) Future ODIs

We have proposed a range of new performance commitments and outcome delivery incentives in our PR19 business plan, some of which will require new data collection processes to be put in place. We propose to make this a targeted area.

### Medium and low-risk data

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

## 5. Draft assurance plan for 2019/20

We have used our assurance risk assessment and any stakeholder feedback we have received to identify the following targeted areas for 2019/20:

**Targeted area A - PR19 business plan:** this is the submission to Ofwat setting out our plans for the five-year period from 2020 to 2025. It describes the funding we need and the service levels we intend to deliver to our customers. While we submitted our business plan in September 2018, the process will continue until December 2019 when Ofwat is scheduled to issue our final determination. We will be prepared to deliver any additional assurance that might be required as the regulatory process continues.

**Targeted area B - developer charges:** we need to demonstrate that our developer charges are calculated correctly, easy to understand and comply with Ofwat's charging rules. They should also be fair to all stakeholders.

**Targeted area C - annual customer charges:** it is important that our published charges are correct, otherwise it could lead to customers being charged incorrectly for the services they receive.

**Targeted area D - annual performance report:** this sets out all our regulatory, financial and performance related information in the year. It is used by a wide range of stakeholders including Ofwat, customer groups, investors and credit rating agencies. As a result it is critical that the data contained within it can be relied upon.

**Targeted area E - reporting of key metrics in a consistent way across the sector:** the sector has been working to design consistent methodologies for a number of key service measures including leakage, burst mains, supply interruptions and unplanned outage – which will all be performance commitments from 2020 onwards. It is important that we can demonstrate we comply with these new methodologies as quickly as possible so that stakeholders can assess comparative performance between companies.

**Targeted area F - preparations for 2020-2025:** we have identified two main areas where our future plans require us to consider how we can 'hit the ground running' in 2020. These are our future performance commitments, where we need to ensure we will have robust reporting around any new measures we are implementing; and our capital investment proposals to ensure we are ready to deliver the major investment schemes at our water treatment works.

**Targeted area G – making sure our publications are customer friendly:** we have been working hard to ensure that the documents we publish are customer friendly. Often, we still need to ensure that we provide the required amount of regulatory detail – which can be inconsistent with an easy-to-read customer-friendly format. That is why we want to make this a targeted area, to increase our focus on how we can improve.

Where an area is not designated as targeted, this means that we will still continue to carry out a strong and appropriate level of assurance, however we have not identified any specific risks or historical errors that cause it to be an area of focus for this assurance plan. The following pages describe our targeted areas in greater detail.

## Targeted area A - PR19 business plan

### What is the risk?

Our business plan for the price control period 2020 to 2025 describes in detail the funding we need and the service levels we will deliver to our customers and other stakeholders.

In January 2019, Ofwat will publish its initial assessment of our plan, followed by a draft and final determination, which it will publish by December 2019. This will set our service levels and price limits for the five years from 2020 to 2025.

We need to be prepared to engage with Ofwat as the assessment process progresses. This could mean providing clarifications or additional data, along with appropriate assurance. Or it could mean us making changes to our business plan, again with the required level of assurance that those changes allow us to continue delivering our services in a resilient way.

### What do we currently do?

As this is a once every five year event we do not have a regular process to follow and have specifically designed an assurance process to address the specific risks of PR19.

Since we submitted our business plan we have received some queries from Ofwat on the information and data we provided. We continue to make our resources available to answer any queries promptly and robustly. We have also made sure that any queries we receive are given the full attention of our Executive Team so that we can be sure we are learning the lessons from any areas the queries highlight.

### What are we planning to do?

We have maintained our internal and external assurance capability that we used during and for our business plan submission.

We will continue to update our Board as the assessment process continues.

We will learn from the queries raised and improve all reporting as a result.

The independent Customer Panel will also remain in place. We will continue to brief its members on the outcomes of Ofwat's assessment process and involve them in decisions we need to take where appropriate.

### What is the impact on our stakeholders?

Our stakeholders have played a key part in the development of our plan. They will continue to play a key part over the next year as we go through to our final determination and then move forward to delivery.

## Targeted area B - developer charges

### What is the risk?

Developers, Self Lay Providers (SLPs) and New Appointments and Variations (NAVs) need to be confident that they are being charged correctly and they are treated on a level playing field in relation to each other. If this does not happen, we could face a possible breach of competition rules and enforcement action.

### What do we currently do?

New charging rules came into effect on 1 April 2018. We published a developer charges document and an assurance statement demonstrating how we had complied with each charging rule. Before this we also published a consultation and held two developer forums to gather views on our approach.

### What are we planning to do?

Both Ofwat and the Consumer Council for Water have already given us useful feedback on our developer charges which we will consider as part of our 2019/20 charges. In particular:

- there are some technical references which smaller developers might struggle to understand;
- we do not include charges for certain types of work which make it difficult for stakeholders to be able to estimate the overall cost of a development;
- in order to improve transparency we should summarise the feedback from the developer forums and explain how we have taken those views into account;
- make the charges information on our website easy to access and understand.

### What is the impact on our stakeholders?

It is important that stakeholders have the information they need in a simple and transparent way so that they can make the right decisions when considering a development. They also need the confidence that we are treating them in the same way as we would any other stakeholder. Our plans aim to ensure that our 2019/20 developer charges achieve this.

## Targeted area C - annual customer charges

### What is the risk?

It is important that our published charges are correct; otherwise customers could be charged incorrectly for the services they receive.

### What do we currently do?

Our charges go through strong internal assurance and governance with Board sign off before they are published. We separately assure the model we use to create our charges.

Each year we engage with the Consumer Council for Water and water retailers when we set our charges. In particular, we focus on any areas that could mean bill changes for customers. We model the impact of our charges across a wide range of customer types and usage levels; this enables us to identify any groups of customers that may be adversely affected.

### What are we planning to do?

We think it is important that customers are aware of the dialogue we have had with other stakeholders when setting our charges. This is so we can demonstrate that our proposals have had an appropriate level of challenge. We will publish an overview of this when we publish our charges, setting out the areas discussed and how we have addressed any concerns raised.

### What is the impact on our stakeholders?

There is no direct impact on service levels from our charges setting. But there is a direct financial impact on customers.

## Targeted area D - annual performance report

### What is the risk?

The annual performance report sets out all of our regulatory, financial and performance related information for the year. It is used by a wide range of stakeholders including Ofwat, customer groups, investors and credit rating agencies. So it is critical that the data contained within it can be relied upon.

### What do we currently do?

We currently use our statutory auditor Deloitte to externally audit our financial reporting. Last year, we also carried out additional assurance on our return on regulated equity calculation and on a new financial flows table in response to Ofwat's Company Monitoring Framework assessment in November 2017. This was carried out by Jacobs.

For the last three years we have also produced a summary version of our annual performance report. This mainly covers our high level financial metrics, group structure and outcomes performance. We will continue to publish this summary version as it is more accessible for customers than our full annual performance report.

### What are we planning to do?

For 2019/20 we will continue to ensure that our annual performance report is in line with regulatory expectations. However, we also will look to enhance what we publish by identifying other areas of innovation and best practice to help stakeholder understanding.

### What is the impact on our stakeholders?

There is no direct impact on service levels from our annual performance report. But it contains critical regulatory information that affects the transparency of our financial reporting.

## Targeted area E - reporting of key metrics in a consistent way

### What is the risk?

For the past two years the water sector has been working collectively to understand any issues of reporting consistency between companies on four core service measures, including leakage. A research project was commissioned to identify ways to improve consistency in reporting by designing common reporting methodologies. Companies were asked to identify the degree of compliance with these methodologies and to report 'shadow' numbers using the new methodologies.

### What do we currently do?

Leakage reporting is a complex area which uses many different data sources and analytical models. Leakage has been reported for many years. As a result, we have historically had strong assurance procedures around our reporting. The new methodology makes some changes to the underlying data requirements and models but the assurance principles will remain the same, or be strengthened. We have traditionally used external assurance for leakage reporting, and will continue to do so. Leakage is and will remain one of our core service levels and will form part of our package of performance commitments over the period 2020 to 2025.

Although there are some differences which we will work to address, the reporting of mains bursts, interruptions to supply and unplanned outages are not considered to be targeted areas.

### What are we planning to do?

Particularly against the new leakage methodology, some of our data and systems are not fully compliant and need further development; this is the case for all companies. We are actively working towards full compliance by April 2020, which is when the next price control period starts. It is appropriate that this is a targeted area to ensure our focus going forward.

### What is the impact on our stakeholders?

Leakage is one of our core service levels and is part of our current package of performance commitments over the period 2015 to 2020. The shadow reporting does not impact on the current reporting as we are able to continue to report in the manner we have historically until 2020.

Going forward, we will also calculate shadow leakage until 2020 at which point the shadow reporting will become live reporting. We will need to ensure we effectively communicate this transition and its impacts to customers and other stakeholders.

## Targeted area F - preparations for 2020-2025

### What is the risk?

Our business plan sets out our proposed service levels and investment needs for the five years from 2020 to 2025. For our service levels, we are proposing to deliver stretching targets and implement a number of new performance measures. For our investment needs, we have two capital projects that are above the typical size of project that we have delivered recently.

It is important that we can begin to prepare for these things in advance, so that we avoid any delays and ensure we deliver these for our customers benefit.

### What do we currently do?

This is a new area relating to the delivery of future commitments.

### What are we planning to do?

We have already begun internal engagement delivering our commitments for 2020 to 2025. We will implement shadow reporting of our new performance commitments as soon as possible so that we can fully understand any data or process concerns. Our capital projects were subjected to extensive pre-design and scoping for our business plan submission. We will now build on this, and begin to engage with delivery partners as soon as we have certainty in the form of our determination from Ofwat.

We will look closely at how we communicate these developments externally, either through our annual performance report or some other means.

### What is the impact on our stakeholders?

Stakeholders have been both instrumental and supportive of the development of our service levels and investment proposals. It is important that we communicate our plans and our performance to demonstrate that we are delivering in the areas that customers value the most.

## Targeted area G – making sure our publications are customer friendly

### What is the risk?

We publish a great deal of information, much of which is aimed mainly at regulatory stakeholders. But we also publish many publications that are aimed at customers or which customers would find interesting that help us to communicate our business vision, short or long-term plans, our activity or objectives. We want to explore how to improve these communications to customers while also satisfying all of the technical requirements our regulators need.

### What do we currently do?

We have focused a lot of attention on this area in the past three years. For example, we have improved our website in both regions and have created summary versions of key publications, such as the annual performance report and water resource management plans. We also produced a video that summarises our business plan.

We now make active use of social media and are working hard to improve the frequency, consistency and content of messages we share with stakeholders. As one of the smaller water companies in the sector, we have to balance the resources we have available as our regulatory and operational requirements also continue to need to be delivered.

### What are we planning to do?

We are continuing to develop our website with focused information that customers will find more accessible. We are supplementing this where possible with other communication channels such as our social media feeds. We will look at how we can include more summary information in our very technical publications, as we have for our annual performance report, and will also look in more detail at ways to share performance information so that customers can relate to it more easily.

### What is the impact on our stakeholders?

We think that any efforts we make to improve our publications for customers will also have positive effects for other regulators. This means we will take a closer look at how documents flow, the language we use, and how we display technical information.

## 6. Assurance timescales for 2019/20

Below we set out a high-level summary of our assurance programme over the year 2019/20.

<b>2018</b>	<b>November</b>	- Publication of our risks, strengths and weaknesses and draft assurance plan for the financial year 2019/20.	This publication
<b>2019</b>	<b>January</b>	- Ofwat will publish their initial assessment of our business plan, which will include our revised assurance categorisation.	Due January 2019
	<b>April</b>	- Publication of our final assurance plan for 2019/20, taking into account any feedback we have received.	Due April 2019
	<b>May and June</b>	- Assurance of our Annual Performance Report, including financial tables, performance commitments and cost assessment tables.	Publication July 2019
	<b>September 2019 to January 2020</b>	- Assurance of our Annual Charges, taking into account our allowed price limits from our PR19 final determination.	Due January 2020



