



South Staffs Water

incorporating



South Staffs Water
(incorporating Cambridge Water)

Assurance plan 2019/20

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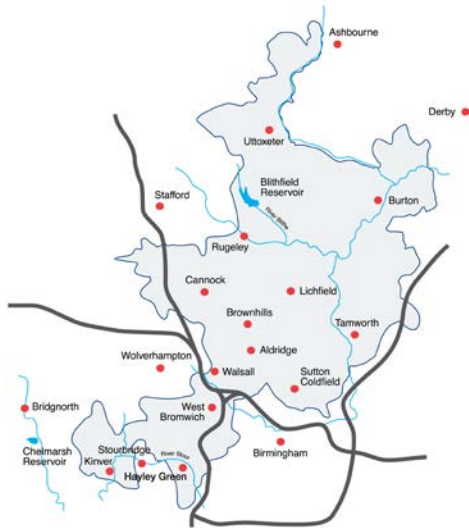
- Our assurance framework review
- Our risks, strengths and weaknesses
- Our targeted areas for 2019/20

April 2019



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.



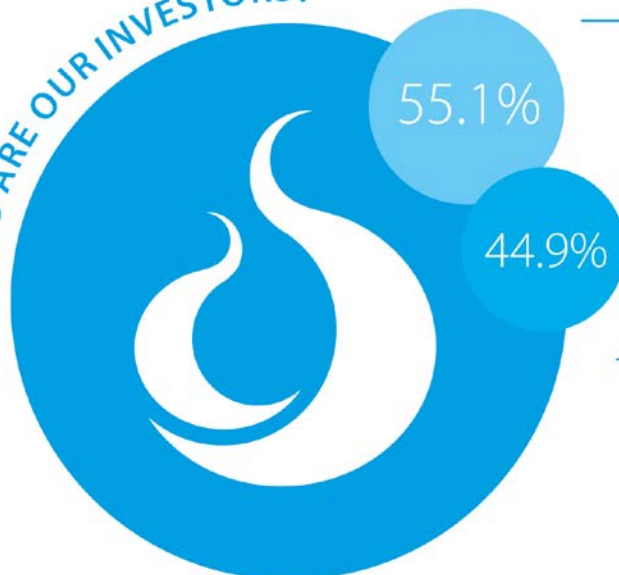
South Staffs region



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 need additional scrutiny or focus. These are known as our 'targeted areas' and are set out in section 5 of this document.

Our economic regulator, Ofwat, also assesses the quality of our data and assurance every year. 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 are 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.

This is our final assurance plan for the 2019/20 reporting year. We have taken on board all the feedback we received following our stakeholder consultations and from Ofwat's latest assessment of our assurance.

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Assurance and governance overview

This document sets out our 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.

1. The regulatory framework for assurance

As a regulated water company, we operate within a complex set of regulatory mechanisms. In 2015, Ofwat 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 January 2019, Ofwat assessed each company against twelve themes which reflected a range of publications over the course of the year, including the September 2018 business plan submission and the July 2018 annual performance report. Ofwat assesses each of the 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.

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

| Theme | Ofwat’s assessment |
|---------------------------------|----------------------|
| Financial monitoring framework | Meets expectations |
| Charges engagement | Serious concerns |
| Outcomes | Exceeds expectations |
| Water resources management plan | Minor concerns |
| Long term viability statement | Meets expectations |
| Financial flows | Meets expectations |
| Risk and compliance | Meets expectations |
| Assurance plan | Meets expectations |
| Cost assessment | Minor concerns |
| Casework | Not applicable |
| PR19 data consistency | Minor concerns |
| PR19 data quality | Meets expectations |

We are disappointed to have incurred minor concerns in three areas and serious concerns in one area.

Our serious concerns score, for our charges engagement, related to our developer charges publication where some charges were not adequately specified and the worked examples were not well explained. On the 1st February we published our 2019-20 developer charges scheme where we fully addressed these issues.

We scored minor concerns for our water resources management plan because of unclear representation of the supply forecast associated with our levels of service. We have fully rectified this issue in our final water resources management plan, which will be published once we receive clearance to do so from Defra.

We also scored minor concerns for our PR19 data consistency, due to minor issues reconciling PR19 data tables with previous submissions, and also due to omissions in the affordability and vulnerability assessment.

We are pleased to have achieved exceeds expectations for the outcomes assessment area, due to our monthly reporting dashboard available on our websites and also our summary annual performance report which is a more customer friendly, slimmed down version of our much more complex regulatory submission each year. We believe in continuing to provide customer friendly summaries of very complex documents where it is beneficial to do so and we will continue to develop our monthly reporting dashboard. As we move into the next price review period, when the new performance commitments take effect, we will further develop our monthly dashboard to include these new metrics.

2. Feedback from stakeholders

Following our consultation on our risks, strengths and weaknesses and our draft assurance plan, which ran from November 2018 to January 2019, we had feedback from several stakeholders. We would like to thank those respondents for their time in reviewing and responding, and we have incorporated their feedback into this final plan where appropriate.

The table below shows the changes we have made following stakeholder feedback.

| Feedback | Description of change |
|--|---|
| Both the EA and our Customer Panel fed back on how our water resources management plan features in our assurance plan. | We have incorporated the water resources management plan into our targeted area F, preparations for 2020-2025, as along with our business plan, the water resources management plan is an important strategic process that dictates our future direction. |
| The EA challenged our scoring of annual abstraction data returns. | We originally scored abstraction data returns as a category 2 impact however we have listened to the feedback from the EA that this data is important to licence compliance, and have therefore lifted the impact score to 3. |
| CCWater suggested we could further incorporate their's and our Customer Panel's role in a number of key publications and data. | We have added additional references to CCWater and to our Customer Panel in the areas of annual charges, outcomes and creating customer friendly publications. |
| CCWater suggested we should further incorporate our monthly customer dashboard into our plan. | We have added additional reference to our customer dashboard in targeted area G – making sure our publications are customer friendly. |

3. 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.

Our assurance framework is available on our website at:

<https://www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/our-assurance-framework>

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 the purpose of the data.

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 and are scored from 1 (low risk) to 4 (critical risk):

The **likelihood** that the data may contain an error (seven 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; | | |
| e. | Control activities already established; | } | Management controls |
| 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 (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:

<https://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 incentives¹ (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 Business plan process is still ongoing, this risk assessment remains relevant and is shown in table 3. Ofwat published the outcome of its initial assessment of business plans in January 2019, and draft and final determinations (in July and December respectively) may require additional assurance to be carried out.

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/business-plan-2015-2020/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 | 3 | 6 | Medium |
| 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

Ofwat published its initial assessment of our plan in January 2019 and we responded to this in April 2019 with an updated business plan submission. As a result of Ofwat's IAP we identified an error in one of our cost assessment data lines where we were not compliant with the data definition. We corrected this data with Ofwat, however as a result of this issue we have adopted a further targeted area to ensure our operational data reported is fully robust.

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 took into account in our 1st February published charges schemes.

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. We also liaise extensively with the customer protection body – the Consumer Council for Water – on charges.

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. Due to its importance, 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. Assurance plan targeted areas for 2019/20

We have used our assurance risk assessment and the 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. We submitted our business plan in September 2018 and our response to Ofwat's initial assessment in April 2019. The process continues until December 2019 when Ofwat will 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 and easy to understand, otherwise it could lead to customers being charged incorrectly or having difficulty understanding their charges.

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. We are also mindful of the new Board Leadership, Transparency and Governance (BLTG) objectives published by Ofwat and intend to demonstrate in our reporting that we already comply with the necessary provisions.

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 be prepared to deliver from 2020. These are our future performance commitments, where we need to ensure we will have robust reporting around any new measures; and our investment proposals to ensure we are ready to deliver the major improvement projects 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.

Targeted area H – making sure our cost assessment data is robust: following Ofwat’s initial assessment of plans we identified an error in reporting in one cost assessment data line. We restated this to Ofwat in our April submission however we will ensure all of these lines are fully robust in the 2018/9 APR (published in July 2019) by utilising additional assurance on this area.

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 published its initial assessment of our plan. This will be followed by a draft determination in July 2019 and a final determination in December 2019 which 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. It could also mean 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.

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. In particular, there is a requirement for companies to update their Business Plan information submitted to replace forecast data for the 2018-19 year with actual data. This needs to be submitted to Ofwat by the 15 July 2019.

We will also respond to any queries raised by Ofwat from our April submission and consider whether there is a need to improve reporting as a result. We will also continue to update our Board as the Business plan process continues.

The independent Customer Panel will also remain in place. They were extensively involved in our business plan April submission and we will continue to brief its members on the outcomes of Ofwat's draft and final determinations, 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 provided feedback on our 2018/19 developer charges which we have taken account of for our 2019/20 charges published 1st February 2019. We have paid particular attention to:

- technical references which smaller developers might struggle to understand;
- transparency of all of our charge types and rates so that developers are able to estimate the overall cost of connections on a development;
- summarising the feedback we receive from stakeholders and developer forums in order to explain how we have taken those views into account;
- ensuring the charges information on our website is easy to access and understand.

We will hold the next developer forum in summer 2019 and seek feedback on our latest charges document. Any further areas of improvement identified will be incorporated in our 2020-21 charges publication.

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 developer charges achieve this.

Targeted area C - annual customer charges

What is the risk?

It is important that our published charges are correct and easy to understand, otherwise it could lead to customers being charged incorrectly or having difficulty understanding their charges.

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, who are a statutory consultee. We also engage with water retailers on our wholesale charges. 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?

The charges process is critical information for customers and other stakeholders and our plans ensure that the information is accurate and easy to find and understand.

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, who also assure our performance commitments, outcome delivery incentives and other non-financial data in our report.

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.

We are also intending to report against the new Board Leadership, Transparency and Governance (BLTG) objectives that Ofwat consulted on in 2018 (<https://www.ofwat.gov.uk/wp-content/uploads/2019/01/Board-leadership-transparency-and-governance-principles-2019.pdf>).

There are two provisions which will require new disclosure:

- The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose.
- There is an annual evaluation of the performance of the board.

Although full reporting against these new objectives is not required until the 2019/20 reporting year, we intend to set out in our 2018/19 annual performance report how we are already complying with these principles.

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 and service level 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?

We have been fully involved in the water industry's drive to improve consistency for several key service level metrics over the past three years. We have actively participated in industry workshops which sought to improve definitions and provide commonality between companies where there were differing interpretations of requirements.

The area where we have most improvements to make, in common with the majority of other companies, is leakage reporting. Leakage is a complex area which uses many different data sources and analytical models. Leakage has been reported for many years and 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 our 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.

We have only minor or limited improvements to make for the other shadow measures - mains bursts, interruptions to supply and unplanned outages. We will continue to assess our level of compliance with the common definitions in our regulatory reporting.

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.

In May 2019 we will submit our 2018/19 unplanned outage shadow value to Ofwat. This early submission is required because all companies will be using this new measure as a performance commitment from 2020 onwards, and it is important that the measure is reported consistently.

What is the impact on our stakeholders?

The shadow measures predominately represent core service levels which for the most part are already 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.

The shadow measures will continue to be reported until 2020 at which point they become live performance commitments. 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. Our water resources management plan covers the activities we need to undertake to ensure a sustainable supply of water and to protect the environment over the long term. For our service levels, we are proposing to deliver stretching targets and implement a number of new performance measures. These new commitments have been designed through an extensive customer engagement programme and through consultation with stakeholders and our Customer Panel.

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 (on our business plan) and Defra (on our water resources management plan).

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. We will continue to monitor best practice in this area and liaise with customer bodies, such as the Consumer Council for Water and our Customer Panel, to get the best outcome for customers.

In particular, we will continue to develop our monthly reporting dashboard and as we move into delivery of our investment and service delivery programme from 2020 onwards we will add to our dashboard to ensure customers are kept informed about how we are performing. We will also continue to utilise our community hub which allows us to be in direct contact with our more vulnerable and harder to reach customers.

What is the impact on our stakeholders?

We think that any efforts we make to improve our publications and dissemination of information 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, how we display technical information, as well as how we reach vulnerable customers.

Targeted area H – making sure our cost assessment data is robust

What is the risk?

Ofwat collects a range of operational information about our assets which is used to help determine cost allowances at price reviews. Much of the data is longstanding however over time definitions can be altered to ensure that the information collected remains relevant to how companies operate and is able to be utilised appropriately and consistently for all companies, by Ofwat. We need to ensure that this data is robust and compliant with the definitions.

What do we currently do?

There has been a great deal of focus on the operational information that Ofwat collects over the past three years leading up to the business plan submission, and we have undertaken extensive reviews and additional data collection exercises, with assurance, to meet the reporting requirements. Unfortunately, following Ofwat's initial assessment of plans in January 2019, we identified one data item, the number of booster stations, that we had not reported correctly due to a genuine misunderstanding of the data definition. We restated our historic and future data to Ofwat, along with additional assurance, in our April revised business plan.

What are we planning to do?

We will implement additional checks and external assurance on our cost assessment data to ensure that the data we report is fully compliant with the latest set of definitions. The data is next reported in July 2019 as part of the 2018/19 annual performance report. Our assurance processes will take place over May and June 2019 using our external assurance partner, Jacobs. We are confident that the error in our September business plan was unique and that the rest of the data lines relating to cost assessment are compliant.

What is the impact on our stakeholders?

It is important that our cost assessment data is fully robust and compliant with the latest definitions, as it has impacts on ours and other companies cost allowances assessed by Ofwat at business plans.

6. Assurance timescales for 2019/20

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

| | | | |
|-------------|---------------------|---|------------------------|
| 2019 | January | - Ofwat published their initial assessment of our business plan and our revised assurance categorisation. | Completed January 2019 |
| | April | - Publication of our final assurance plan for 2019/20. | This publication |
| | May and June | - Assurance of our Annual Performance Report, including financial tables, performance commitments and cost assessment tables. | Publication July 2019 |
| | July | - Ofwat publish our draft determination – we will undertake any additional assurance required at that time. | Due July 2019 |
| | December | - Ofwat publish our final determination. | Due December 2019 |
| 2020 | January | - Assurance of our annual charges, taking into account our allowed price limits from our PR19 final determination. | Due January 2020 |

