



**Dee Valley  
Water**

Your local water company

# Compliance Statement

2016/17

## **RISK AND COMPLIANCE STATEMENT**

**For the year ended 31 March 2017**

### **1 INTRODUCTION**

The purpose of this statement is to describe how Dee Valley Water Limited complies with relevant statutory, licence and regulatory obligations and to confirm whether we are taking appropriate steps to manage and / or mitigate our risks. The statement covers the period from 1 April 2016 to 31 March 2017.

### **2 BOARD GOVERNANCE**

In February 2017, Dee Valley Water Plc became part of Severn Trent Plc. At this time a new board structure and governance arrangements were introduced.

A process has begun, but not yet concluded, to introduce the standards of risk management, internal control and regulatory compliance monitoring used within Severn Trent Plc to Dee Valley Water Plc.

This statement has therefore been completed on the basis of:

- documented evidence (primarily the approved minutes of the Board and Audit Committee of Dee Valley Water Group Plc) relating to the period prior to Dee Valley entering into Severn Trent Plc ownership;
- new controls introduced following that date; and
- the outcome of assurance activities undertaken during the course of the year.

Where there are known material departures to this statement, and to the extent possible, other matters that the introduction of new controls have identified as presenting a notable risk of being a material departure, they are set out in Annex 1.

### **3 MANAGING STATUTORY AND REGULATORY COMPLIANCE**

Whilst the Board recognises it has overall responsibility for the system of risk management, and for reviewing its effectiveness, such a system is designed to manage rather than eliminate the risk of failure, and can only provide reasonable and not absolute guarantees.<sup>1</sup>

During the year, statutory compliance risk was noted and discussed in line with the corporate risk register and as part of the development of the 2016/17 statement of risks, strengths and weaknesses required by Ofwat's company monitoring framework.

At the close of the year, an additional control in line with the approach undertaken within Severn Trent Plc was introduced. This included an internal self-assessment which is designed to identify any potential risks and issues that would have prevented compliance with our statutory and regulatory obligations. The outcome of this assessment has in part informed the material departures set out in Annex 1.

This approach will be further implemented over the coming year as we integrate Dee Valley Water fully into the Severn Trent compliance framework.

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<sup>1</sup> As set out by the Financial Reporting Council, Corporate Governance, Guidance for Directors on Risk Management, Internal Control and Related Financial and Business Reporting, September 2014 <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/Guidance-on-Risk-Management,-Internal-Control-and.pdf>

#### **4 MEETING CUSTOMER EXPECTATIONS**

We recognise that Dee Valley Water is seen as part of the local community and consider that we not only have a good understanding of our customers' expectations but also actively strive to meet those expectations. For example:

- Customer satisfaction surveys have reflected the high standard of customer experience our teams have strived to provide, and in 2016/17 we improved our already strong performance on Ofwat's Service Incentive Mechanism.
- Drinking water quality compliance was 99.99% - which we believe will be one of the best levels of compliance in the industry – and we have continued to outperform our targets on discoloured water contacts.

A full assessment of the company's performance, including where performance commitments have not been met, has been considered by the Board, and is set out in our Annual Performance Report.

#### **5 ASSURANCE OF PERFORMANCE REPORTING**

We have established processes in place to assure performance against the commitments we made in our 2015-20 business plan (and reported in section 3 of our Annual Performance Report). The data in this section has been audited by our Technical Information Assuror, Black & Veatch. The outcome has been transparently reported to, and reviewed by, the relevant Executive Directors and the Severn Trent Plc Audit Committee.

In addition, the company has applied the assurance processes used for its Annual Performance Report to the cost assessment tables requested by Ofwat this year. Given that this is a transitional year, and in light of the immaturity of some reporting procedures underpinning the submission, careful consideration has been given to the confidence grade applied to ensure transparency about the degree of accuracy with which the data is provided.

The Severn Trent approach to assurance is being implemented across a broader number of areas (e.g. WRMP) over the coming year as we integrate Dee Valley Water fully. This will be covered in our assurance plans for 2017/18.

#### **6 RISK MANAGEMENT**

The company's risks have been identified and managed through a corporate risk management process. Risks have been recorded on a risk register which details the nature of the risk, an assessment of the probability of it materialising and the potential impact using standardised procedures. Mitigation is assessed as part of this process.

The Executive Directors have kept risks under review and the risk management process has been scrutinised by the Dee Valley Water Group Plc Audit Committee. The Board has also monitored performance indicators at its meetings.

The Severn Trent Plc Enterprise Risk Management system is being implemented and will further strengthen processes to manage and mitigate risks.

#### **7 BOARD STATEMENT**

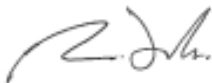
In forming our statement we have taken into consideration the above, and the basis of the sources of evidence set out in section 2, and are not aware of any material areas to be noted other than those in Annex 1. Therefore the Board of Dee Valley Water Plc considers:

- We have a full understanding of and we comply with our statutory, licence and regulatory obligations in all material respects.
- We have taken appropriate steps to understand and meet customer expectations.
- We have sufficient processes and internal systems of control to fully meet our obligations
- We have appropriate systems and processes in place to identify, manage and review our risks.
- We are taking appropriate steps to manage and mitigate our risks.

Notwithstanding the above, the Board continues to strengthen the process and systems of internal control and risk management, and that in so doing additional exceptions may arise that we will disclose.

I certify that this statement is endorsed by the Board of Dee Valley Water Plc.

Signed by and on behalf of the Board:



Andrew Duff  
Chairman  
Dee Valley Water Plc



John Coghlan  
Non-Executive Director  
Dee Valley Water Plc



Liv Garfield  
Chief Executive  
Dee Valley Water Plc

## Annex 1

**Known and potential departures to the statement**

Known material departures to this statement, and to the extent possible, other matters that the introduction of new controls have identified as presenting a notable risk of being a material departure:

Description of duty / obligation	Purpose of duty / obligations	Reason for noting
<p><b>Sufficiency of processes to meet obligations</b></p> <p><b>Licence conditions B and E</b></p>	<p>Charges scheme</p>	<p>This year a new model was introduced to calculate tariffs under Dee Valley's previous ownership. While assurance was undertaken to check inputs and outputs into the model, during a retrospective review following transfer to Severn Trent, we found that the scope of assurance was not as broad as that used within Severn Trent Plc. In particular, we did not find evidence of tests against Ofwat's charging rules.</p> <p>We recognise this creates additional risk in relation to these rules. We are revising our assurance processes for this year's charges scheme to include a new tariffs model and a broader scope for assurance to target this risk area.</p>
<p><b>Sufficiency of processes to meet obligations</b></p>	<p>Cost assessment tables (relating to financial information)</p>	<p>This year's submission requires expenditure to be reported to a higher degree of granularity than in previous years. Upon the change of ownership to Severn Trent, we found that existing processes within Dee Valley were not able to robustly report this information to such a high degree of disaggregation. We have also found some minor inconsistencies between previous submissions to Ofwat which we have not, as yet, been able to reconcile to our own satisfaction.</p> <p>Following confirmation of Ofwat's requirements, we have worked hard to find alternative methods to provide this information. However, because we have relied on extrapolation and assumptions in some cases, we have given a number of returns a low confidence grade of DX or similar. We recognise that this creates a risk that the accuracy of the financial data provided may not yet be sufficient for the purposes which Ofwat wishes to use it.</p> <p>We are now working to understand how new processes can be introduced with the aim of wherever possible improving accuracy ready for next year.</p>
<p><b>Water Act 2014 - Schedule 2 (WIA91 S66DE)</b></p>	<p>Network access for third party to input water into the network</p>	<p>A network access code was not published on the website. This has now been rectified. As noted above, the tariff scheme is under review.</p>

<b>Reservoirs Act 1975 – section 6 / 22(1)</b>	To appoint a Construction Engineer to design and supervise a construction or alteration	We identified that the appointment of a Construction Engineer had not been made at a reservoir. We made the correct appointment during February 2017 and discussed with Natural Resource Wales accordingly who in turn have issued us with a Warning Notice for the period prior to 22 February 2017.
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