

# Risk and compliance statement

# 2018

July 2018

**RHAGOROL O'R TAP**  
**WONDERFUL ON TAP**

**HAFREN**  
**DYFRDWY**  
severn dee

# 1 Introduction

In February 2017, Dee Valley Water became part of the Severn Trent group. Earlier this year, Ofwat approval was received to align the boundaries of Severn Trent and Dee Valley Water to the national boundaries of Wales and England. In line with this approval, we launched our new name, Hafren Dyfrdwy on 1 July 2018. Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve. We want to make our services as amazing as the water itself so we've come together to create something which will ensure all our customers in Wales can enjoy wonderful water for generations to come.

The purpose of this statement is to describe how we complied 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 2017 to 31 March 2018, as such, we are reporting performance for the previous Dee Valley Water business which supplied 62 million litres of drinking water each day to around 126,000 customers in northeast Wales, Cheshire and the surrounding areas.

# 2 Board Governance

Over the last year, our governance structure has continued to evolve and recruitment of three independent non-executive directors for Hafren Dyfrdwy has taken place. We have also implemented the recognised standards of risk management, internal control and regulatory compliance monitoring used across the Severn Trent group.

This statement has therefore been reviewed and completed with the recently established new independent Hafren Dyfrdwy Board on the basis of 1) the new controls that were introduced in, and evolved since, February 2017 as part of the Severn Trent Plc governance arrangements, and 2) the outcome of assurance activities undertaken during the course of the last year.

The Board's role is to understand and meet its obligations to the Company's stakeholders within a framework of practical and effective controls which enable risk to be assessed and managed. The Board approves the Company's strategic objectives and ensure that sufficient resources are available to enable it to meet those objectives, and monitors and reviews the operating and financial performance of the Company. It has responsibility and accountability for the long term success of the Company. We comply with the UK Corporate Governance Code, and we continue to adhere to the principles set out in Ofwat's 'updated assessment of monopoly water companies' governance arrangements' published in June 2015.

The Company operates an established governance and assurance process which enables a rigorous internal system of review. Strong personal and collective ownership is critical for ensuring the accuracy of information we produce, driving improvements and holding ourselves to account. Regular internal performance reporting to our Executive Committee and Board, and half-yearly performance reporting to the Customer Challenge Group reinforces this culture of ownership and accountability. Every year we refresh our compliance framework to ensure that individual accountabilities are assigned to our regulatory and statutory obligations.

The assurance process follows the approach below:

1. Internal sign off by data owners, senior managers and the accountable executive committee member.
2. Internal and external assurance activities.

3. Sign off by the Group Disclosure Committee; the Severn Trent Plc Board's Committee oversees the Company's compliance with its disclosure obligations and considers the materiality, accuracy, reliability and timeliness of information disclosed.
4. Sign off by the Group Audit Committee; The Severn Trent Plc Board's Audit Committee assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, the assessment and effectiveness of internal controls and risk management systems, and the effectiveness of the Company's internal and external auditors.
5. Sign off by the Board of Hafren Dyfrdwy.

In addition to the above lines of assurance, the Customer Challenge Group provides independent external challenge of both our performance against our commitments and the information we provide on it<sup>1</sup>. This approach provides stakeholders with the trust and confidence required that the Company operates transparently, with integrity, and complies with its legal obligations.

Our three lines of assurance model ensures that there is clear separation of accountabilities between those responsible for delivery of a performance commitment or a regulatory/statutory obligation and those responsible for ensuring the integrity of that data. This delineation is mirrored in our governance arrangements. This year we will continue to publically hold ourselves to account with the publication of a new annual performance report (which will incorporate Ofwat's reporting requirements).

Full details of our current governance arrangements including our company structure can be found published on our website<sup>2</sup> and in our annual report and accounts.

## 3 Statutory and Regulatory Obligations

The Board recognises it has overall responsibility for the system of risk management, and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure, and can only provide reasonable not absolute guarantees.<sup>3</sup>

During the year, we developed our 2017/18 statement of risks, strengths and weaknesses through our 'Licence to Operate' framework, which considers our statutory and regulatory obligations as an appointed business under Ofwat's Company Monitoring Framework. We also asked our Customer Challenge Group including CCWater to review our 2017/18 plans and comment on whether we had appropriately identified the important areas from our customers' perspective prior to final publication in February 2018 on our website<sup>4</sup>. Finally, our corporate risk register has continued to be managed as part of our business as usual activity.

The Hafren Dyfrdwy Board holds ultimate responsibility for our system of internal control which it reviews annually in May. It is assisted in this regard by the Board's Audit Committee, which assesses the design and effectiveness of internal controls and risk mitigation strategies, supported by our Internal Audit team. As part of this, Internal Audit complete an annual cycle of formal reviews agreed by the Audit Committee which cover the material business risks and key processes of the company. A number of these formal reviews address aspects of

<sup>1</sup> CCG minutes are published <https://www.hdcymru.co.uk/about-us/customer-challenge-group/>

<sup>2</sup> <https://www.hdcymru.co.uk/regulatory-library/regulatory-library/>

<sup>3</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>

<sup>4</sup> <https://www.hdcymru.co.uk/regulatory-library/regulatory-library/>

the overall framework for compliance with our statutory and regulatory obligations. The audit findings and recommended actions arising from these formal reviews are shared both with management and with the Audit Committee, which reports its findings to the Board.

As a 'prescribed' assurance company we undertake significant external assurance through our independent technical assurers Black & Veatch and Jacobs. The scope and findings of their assurance is reported to the Audit Committee and Board.

The company's performance, including where commitments have not been met, is set out in its Annual Performance Report and the accompanying assurance summary outlines the assurance that has been undertaken on our performance reporting.

The Board has considered any potential departures from the statutory and regulatory obligations explained above. Departures are set out in annex 1.

## 4 Customer Expectations

We recognise that Dee Valley Water was seen as part of the local community and consider that we not only continue to have a good understanding of our customers' expectations but also actively strive to meet those expectations. We are now under a new name of Hafren Dyfrdwy, which will result in a change for some of the customers that we serve due to boundary revisions. We recognise this and have developed our communications to customers to support them through this change.

Throughout 2017/18 we carried out an extensive customer engagement programme in Wales to inform our PR19 plan, as well as continuing the journey, started by Dee Valley, to track customer sentiment, through our customer tracker. Our Customer Challenge Group has continued to play a vital role in challenging our customer engagement, and ensuring it fits the needs of our customers in Wales.

As set out in our assurance plan, we have used our three lines of assurance framework across our regulatory reporting including our customer ODIs. This process provides a transparent mechanism by which we can demonstrate to our customers whether the performance they have received from us is subject to a reward or penalty. We believe the customer ODIs provide strong incentives for us to innovate and become more efficient, protecting our customers against instances of under-delivery and where merited, rewarding us for outperformance in areas where customers are willing to pay more to receive more of what they want. Black & Veatch, our external assurers, examined our reporting on customer ODIs. A summary of their results can be found in section 6: Assurance of Performance Reporting below and in our 2017/18 Assurance Summary.

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, which is published on our website<sup>5</sup>.

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<sup>5</sup> <https://www.hdcymru.co.uk/regulatory-library/regulatory-library/>

## 5 Risk Management

All of the Company's risks are identified and managed through a continuous corporate risk management process.

During the year the process to adopt the well-established Severn Trent Plc Enterprise Risk Management (ERM) approach has commenced in order to strengthen the Company's processes to manage and mitigate risks. The Board has overall accountability for ensuring that risk is effectively managed across the Group. The Board's mandate includes defining risk appetite and monitoring risk exposure to ensure significant risks are aligned with the overall strategy of the Group. The management of risk is embedded in our everyday business activities, with employees encouraged to play their part.

On behalf of the Board, the Audit Committee of Severn Trent Plc assesses the effectiveness of the Group's ERM process and internal controls to identify, assess, mitigate and manage risk. Internal Audit supports the Audit Committee in evaluating the design and effectiveness of internal controls and risk mitigation strategies implemented by management.

Across the Group, we manage risks within the overall governance framework which includes clear accountabilities, delegated authority limits and reward policies. These are designed to provide employees with an holistic view of effective risk management.

Within Hafren Dyfrdwy Limited, our approach reflects our status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK. The nature of our business is such that there are some significant inherent risks, as shown in the 'Principal Risks' section of the Hafren Dyfrdwy annual report and accounts. We aim to have a strong control framework in place to enable us to understand and manage these risks in accordance with our risk tolerance and appetite.

## 6 Assurance of Performance Reporting

Overall accountability for the preparation and production of the Annual Performance Report (which includes reporting of performance against performance commitments and associated ODIs) rests with the Director of Strategy and Regulation, supported by the Head of Financial Control, Head of Regulatory Oversight and Head of Compliance.

We have established processes 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 external independent technical information assurer, Black & Veatch. The outcome has been reported to, and reviewed by, the relevant Executive Directors, the Severn Trent Plc Audit Committee and the Hafren Dyfrdwy Board.

The assurance activity for 2017/18 has been improved to cover a broader scope of assurance aligned to the areas that our customers and their representatives have said matter most to them.

The 'three lines of assurance' model which distinguishes between first line processes and controls, second line oversight, and third line independent assurance has been implemented across the company. We use this model for our regulatory returns so that we have a level of assurance that these submissions have been well-prepared - consistent with our governance processes. Full details of the assurance undertaken this year can be found in the 2017/18 assurance summary published on our website.

## 7 Board Statement

In forming our statement we have taken into consideration the above and the departures listed in annex 1 and taking these into account the Board of Hafren Dyfrdwy considers:

- We have a full understanding of and we comply with our statutory, licence and regulatory obligations in all material respects except where indicated in annex 1.
- 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 Hafren Dyfrdwy.

Signed by and on behalf of the Board:



John Coghlan

Chairman



M. Mehmet

Mohammed Mehmet

Non-executive Director



Liv Garfield

Chief Executive

## Annex 1 – Obligations – Departures from the statement

Description of duty / obligation	Purpose of duty / obligations	Disclosure
Unplanned Outage	Shadow PC for AMP7	Unplanned outage is a new measure and improvements are being made to ensure we can capture and record our data to align with the new methodology published in March 2018. Therefore we are submitting a nil return for 2017/18.
Drought	Shadow PC for AMP7	Previous guidance was published by EA/NRW on reporting this measure as part of the WRMP, but for companies operating wholly or mainly in Wales, the guidance specifically exempted us from the requirement to produce the 1 in 200 year drought scenario. Recent guidance has requested the reporting of this information. We are reviewing our processes and systems to produce this information in future years and are submitting a nil return for 17/18.
Leakage (in respect of prior years)	Performance commitment	In 2016/17 we reported that leakage had increased but remained within expected levels for the performance commitment. However, total leakage, as measured in million litres per day, was higher than assumed in the Water Resource Management Plan (11.31 Ml/d compared to 10.17 Ml/d). Having assessed the position, we have concluded that the performance commitment in the 2014 Final Determination was based on household properties only, while Dee Valley Water had been reporting actual performance based on all properties (household and non-household). While this is not certain, we have discussed our findings with the assurers, Black & Veatch, and the Customer Challenge Group. We believe that our customers are best protected by taking a cautious approach and restating actual performance to be based on household properties only.