

# Regulatory Reporting and Assurance Approach

30 November 2021

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



severn dee

## Introduction from our Managing Director, James Jesic



**At Hafren Dyfrdwy, our absolute priority is to deliver for customers and improve services in areas that matter most to them, whilst also delivering benefits to our local communities in everything we do.**

The Welsh Government has set a clear and bold ambition in its Water Strategy for Wales and the sustainability principles and goals set out in the Well-being of Future Generations (Wales) Act. We are in full support of this and understand the urgency of responding and adapting to climate change and the scale of the long-term environmental challenges we face as a sector. As we enter the second year of AMP7, we have made good progress in delivering our bold ambitions to make positive contributions to the environment, deliver tangible improvements for our customers, while ensuring bills remain affordable.

As a purposeful Company with public interest at the heart of what we do, we recognise that it is vitally important the data included in all our publications provides customers and stakeholders with transparent insight into our performance and is critical for directing future improvements across the sector.

We have an established, rigorous and robust assurance and performance reporting framework in place. The assurance approach we use comes from best practice identified across many organisations and industries ensuring that managers, senior managers and Directors are responsible for delivering high quality data through robust processes and methodologies.

Our compliance, assurance and governance processes are designed to ensure we are open and transparent with our customers and stakeholders about the processes we follow with our publications ensuring an appropriate level of confidence that our submissions have been well prepared and are consistent with our robust internal processes.

We always welcome feedback on how we are focusing our assurance to best meet our customers' needs. If you would like to share your views on this plan, you can contact us via email or in writing at:

[compliance.assurance@severntrent.co.uk](mailto:compliance.assurance@severntrent.co.uk)

or at Group Compliance Team, Group Compliance and Assurance, General Counsel, Severn Trent Centre, 2 St John's Street, Coventry, CV1 2LZ

## Content

<b>Introduction from our Managing Director, James Jesic .....</b>	<b>2</b>
<b>1. About this document.....</b>	<b>4</b>
<b>2. About Us .....</b>	<b>6</b>
2.1 Our Culture, Purpose and Values.....	7
<b>3. How engagement with our stakeholders has influenced our plan .....</b>	<b>8</b>
<b>4. Effective governance led by our board.....</b>	<b>11</b>
<b>5. Our Assurance framework for regulatory reporting .....</b>	<b>13</b>
5.1 Robust Assurance .....	13
5.2 Ownership and accountability .....	14
5.3 Transparency and public accountability .....	15
<b>6. Our internal assessment to understand our risk.....</b>	<b>16</b>
6.1 Mid-year risk assessment.....	16
6.2 Year-end declarations .....	17
6.3 Changes to Licence to Operate in 2021/22 .....	17
6.4 Enterprise Risk Management (ERM).....	17
6.5 Emerging risk.....	18
6.6 High profile industry issues .....	18
6.7 Obligations identified by internal assessment.....	18
6.8 Obligations identified through wider engagement and insight.....	19
<b>7. Our proposed Assurance Plan 2021/22 .....</b>	<b>20</b>

# 1. About this document

We want to ensure that customers and wider stakeholders can trust the information that we publish.

We believe informing our customers and wider stakeholders about our performance is important, in



order to improve the engagement we have already established with them, and to continue to deliver transparently and build trust around our performance reporting. For that reason, we are publishing our approach to Regulatory Reporting and Assurance and welcome feedback on our approach.

In this document, we explain how we will approach and undertake our assurance for the 2021/22 reporting year. The data included in our publications provides customers and stakeholders with a transparent and credible insight into our performance. With that in mind, the robust assurance process we apply to the information and data we publish is vital to ensuring that it can be trusted by all.

The document is structured as follows:

**Section 2** – presents an introduction to Hafren Dyfrdwy.

**Section 3** – outlines how we take account of customers' and stakeholders' views in shaping and planning our Assurance approach.

**Sections 4 and 5** – provide detail on our established governance processes and robust Assurance framework, which we apply to our regulatory reporting.

**Section 6** – covers the internal and external assessments we undertake, such as our

Licence to Operate and ERM processes, horizon scanning, identification of industry wide trends and engagement with stakeholders, to understand areas of risk that could affect our reporting and used to inform our Assurance approach.

**Section 7** – presents our proposed Assurance Plan for 2021/22 based on our internal risk assessment using our Licence to Operate and Enterprise Risk Management systems and in accordance with regulatory guidance and sector best practice.

After publication of this document, should there be any material adjustments to our Assurance Plan, we will republish the Plan.

We complete our year-end Licence to Operate assessments in April each year. This enables responsible managers, senior management and Directors to review our duties and obligations and confirm if we have any non-compliances that need to be reported to the regulator. If there are any

instances of non-compliance, we are open and transparent and report them in our Annual Performance Report (APR), published in July each year, as part of our Board's signed Risk and Compliance Statement. Additionally, we track and manage any actions through to completion and report progress through the relevant Steering Groups and Committees.

## 2. About Us

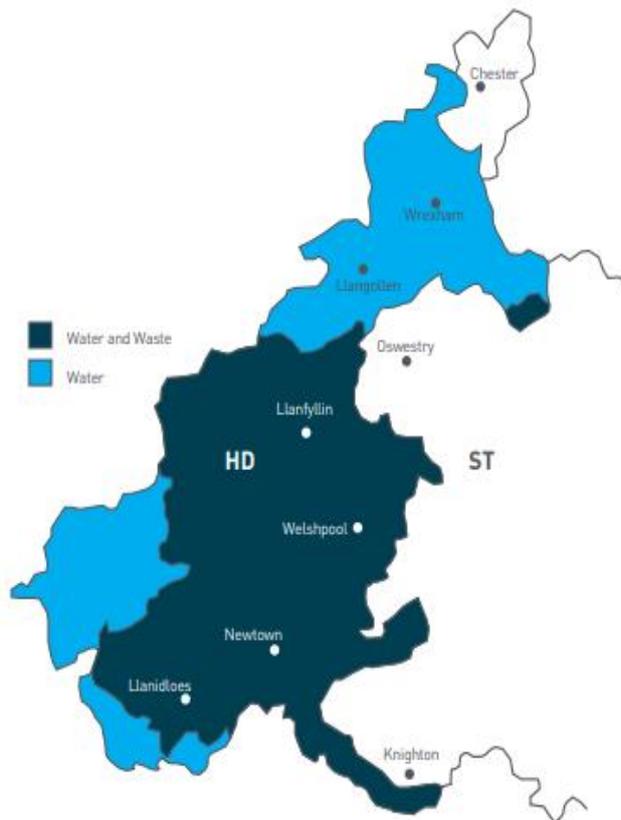
**We're one of the 11 regulated water and sewerage companies in England and Wales. We provide water and wastewater services to customers in North East Wales, from Wrexham and Bretton in the north to Llanidloes and Knighton in the south.**

The Company was launched as Hafren Dyfrdwy on 1 July 2018 for customers in Wales who were previously in Severn Trent Water Limited and Dee Valley Water Limited. Hafren Dyfrdwy is Welsh for 'Severn Dee' and represents the two major rivers in the Welsh region that we proudly serve, and we provide both water and wastewater services to customers in Wales.

Whether it's the quality of our drinking water or the regulatory performance information we publish on our website, we want to make sure that our customers can trust us to deliver what matters to them most. Providing accurate, clear and understandable information which can be trusted by our stakeholders is important to us.

### Ownership

Hafren Dyfrdwy is a subsidiary of Severn Trent Water Limited, which is the principal subsidiary of Severn Trent Plc



**108,000**

Household and businesses

**61 million**

Litres of drinking water supplied each day

**18 million**

Litres of drinking water supplied each day

## **2.1 Our Culture, Purpose and Values**

Our governance is underpinned by a culture of integrity and openness, where inclusion and diversity are valued. Our Code of Conduct, Doing the Right Thing, helps us to put our values into practice.

We are united by a clear social purpose, and we believe that this enables us to deliver better outcomes for all stakeholders: our customers, our employees, the society we live in and the environment we depend on.

### 3. How engagement with our stakeholders has influenced our plan

**To understand which areas matter most to our customers and stakeholders, we used our established stakeholder engagement approach to inform this plan.**

Our business model means we have significant impacts on a variety of stakeholders. We therefore proactively identify stakeholders to engage with, based on the likelihood and consequence of our activities to have a positive or negative impact on them.

We engage with stakeholders on an ongoing basis to understand these impacts and their views on our Company. This process is part of our corporate governance. We aim to report clearly on how we have taken the views of our stakeholders into account, the impact of our decisions on them and any actions we have taken as a consequence. **You can read more on our overall stakeholder engagement plan in our Annual Report and Accounts publication.**

We maintain continual contact with our stakeholders and, where relevant, engage with them on major business decisions in order to discuss future plans, and take their views into account to understand what is important to them. Key themes identified through out AMP6 and AMP7 business plan engagement remain relevant and will be included in our 2021/22 assurance plan.

**Table 1: Listening to customers and stakeholders as we shape our Reporting and Assurance**

Stakeholder	How have we engaged with them	How has this shaped our plan
<b>Customers</b>	<p>We ensure that customers can contact us 24/7. We also undertake quarterly tracking of customer perceptions against key indicators including trust and satisfaction.</p> <p>Our latest plan PR19, involved extensive customer engagement and we keep customers informed on the progress of our AMP7 business plan via key publications such as the Annual Performance Report (APR).</p> <p>We continue to engage with Community Foundation Wales, Powys County Council and Wrexham County Borough Council to identify organisations in need of support as a result of COVID-19.</p> <p>For household customers we undertake telephone surveys conducted by Beaufort Research based in Cardiff. There are four field work waves per year – 200 interviews per wave, so 800 per year. The survey gathers data on KPIs such as customer satisfaction, trustworthiness, likelihood to recommend, familiarity, affordability and value for money (a reputational Outcome Delivery Incentives (ODI). It also asks customers what they would like us to do better or differently and for perceptions of our image and their awareness of our financial assistance schemes and priority services register.</p>	<p>We know from our research that customers want their water company to be trustworthy, completely transparent and to act with integrity. They want to be able to find the information and data they want easily. They want us to report regularly against all of our targets and ambitions.</p> <p>We ensure our APR, which provides data on our performance and focus areas on an annual basis is a key part of our assurance focus.</p> <p>Our assurance plan puts specific focus on the themes that our customers have told us matter most to them.</p>

Stakeholder	How have we engaged with them	How has this shaped our plan
	<p>We also gather customer sentiment and issues of importance indirectly through media monitoring and social-media tracking. The key themes that matter most to customers were:</p> <ul style="list-style-type: none"> <li>• Customer service and performance</li> <li>• Leakage and supply reliability</li> <li>• Affordability and value for money</li> <li>• Assistance in times of need</li> <li>• Responsible investment</li> </ul>	
<b>Regulators</b>	<p>The policy framework for the water sector in Wales is set by the Welsh Government. We seek to engage constructively and proportionately to achieve the best outcomes for customers and the environment. Below the policy framework, our industry is regulated by Ofwat and others.</p> <p>We work closely with our regulators to shape our industry to help ensure the right outcomes for customers and the environment.</p> <p>We also engage regularly through meetings, email, calls and consultation responses with the regulator, Government officials and elected representatives on water and environment-related issues.</p> <p>This includes the review of wider industry requirements and developments through our horizon scanning activities.</p>	<p><b>Ofwat</b> - Our plans reflect the feedback we receive through ongoing engagement with Ofwat. Prior to the cessation of the Company Monitoring Framework (CMF) assessments by Ofwat, we received feedback for areas of focus and improvement. We have incorporated this feedback into our reporting process.</p> <p><b>NRW/DWI</b> – As a socially responsible company with a strong focus on environmental performance, we have included additional environmental data and submissions as part of our assurance plan in section 7. Similarly, we have focussed assurance on all submissions linked with Water Quality and Compliance Risk Index ('CRI').</p>
<b>CCW</b>	<p>Regular meetings are held with The Consumer Council for Water (CCWater) at management level. CCW also attend Board meetings where appropriate.</p> <p>We meet with CCW regularly to discuss topics such as complaints, performance outcomes and service improvements</p> <p>Where required prior to publishing material we consult with CCW. For example: publication of our interim and final scheme of charges, which outline our charges for the forthcoming year.</p>	<p>We take account of feedback from CCW to ensure our performance is transparent and easily accessible for customers.</p> <p>On charges, CCW recognises the steps we take to mitigate bill increases for customers. We are reviewing the steps we can take to publicise the support we offer customers who struggle to pay, learning from best practice where we can.</p>
<b>Colleagues</b>	<p>We place emphasis on direct employee engagement through our Managing Director including employee roadshows, leadership events and employee communications.</p> <p>Our annual employee engagement survey gathers employee perceptions and management place a strong emphasis on responding to, and acting on, the outputs of the survey.</p> <p>We introduced additional questions on diversity and inclusion in 2020 to allow us to better understand views in this area.</p>	<p>Doing the Right Thing, our Code of Conduct, helps us put our socially purposeful values into practice. Our Values and Code of Conduct embody the principles by which we operate and provide a consistent framework for responsible business.</p> <p>Our colleagues are responsible for producing business plans (e.g. Water Resources Management Plan (WMP19), Drought Management Plan).</p>

Stakeholder	How have we engaged with them	How has this shaped our plan
	<p>Employees are also invited to attend the 'Ask Our Board' events.</p>	<p>To support colleagues as they produce plans, for input into the Licence to Operate and assurance process (first and second line), a mix of workshops, e-learning tools and guidance material are used.</p> <p>Should they need to, our workforce can raise concerns through their line manager, senior management and through our confidential and independent whistleblowing helpline, 'Safecall'. All investigations are carried out independently with findings being reported directly to Board.</p>

---

## 4. Effective governance led by our board.

**We have a well-established governance framework in place, which is led by our Board. Our Board are fully committed to Ofwat’s principles for Board leadership, transparency and governance with its emphasis on the importance of strong leadership and the special responsibilities attached to regulated monopoly companies, who provide an essential public service.**

As a subsidiary of a FTSE100 Company, Hafren Dyfrdwy Cyfyngedig has chosen to apply the principles of the 2018 UK Corporate Governance Code (the 2018 Code’) to its governance arrangements where appropriate and reasonably practicable to ensure the highest standards of governance.

The Board is supported by the Severn Trent Plc Governance Framework, which is set out below. The Governance Framework comprises the Board, Executive Committee and their respective Committees.

In line with the 2018 Code, the Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their respective Terms of Reference. The Board regularly reviews the Terms of Reference of each Committee. The Governance Framework is also subject to periodic review to ensure that it remains appropriate.

More specifically on reporting, the Severn Trent Plc Disclosure Committee oversees the Group’s reporting obligations under the Companies Act 2006, the 2018 Code, the UKLA Listing Rules, Disclosure Guidance and Transparency Rules and the Company’s annual and continuing regulatory reporting requirements, considering the materiality, accuracy, reliability and timeliness of information disclosed, and assessment of assurance received. A key part of our Audit and Risk Committee’s role is to assist the Board by establishing, reviewing and monitoring the Company’s internal control framework, including the internal and external audit and assurance processes and outputs.

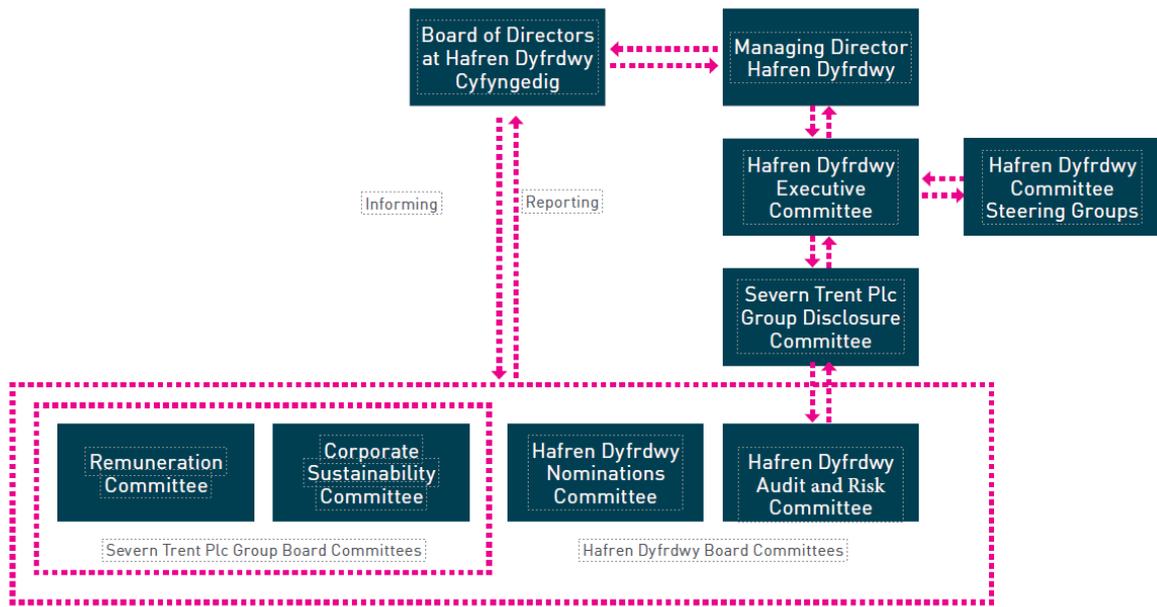
To support the Board, and to verify the statements it is required to make directly against assurance evidence provided to it, the Group Compliance and Assurance team provide a forward plan of regulatory submissions in advance with any required Board assurance statements. With each statement, we note the evidence that will be provided, so that Board can satisfy itself that the statement can be endorsed. This approach enables the Audit and Risk Committee to scrutinise the approach and intended assurance with sufficient time to adjust the approach if needed.

**We provide a detailed overview of our Governance Framework, the Committees that report to our Board and the reviews that are undertaken in our Board, governance and compliance chapter in our APR.**

Hafren Dyfrdwy is an operating subsidiary of the FTSE100 company Severn Trent Plc.

We provide a detailed overview of our governance framework, the Committees that report to our Board and the reviews that are undertaken in our, Board, governance and compliance chapter in our APR

**Our Governance Framework.**

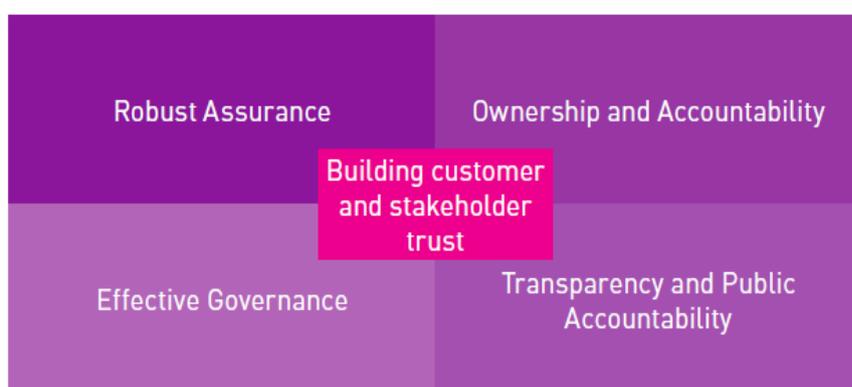


## 5. Our Assurance framework for regulatory reporting

To support our Governance Framework, we also have an established, rigorous and robust assurance and reporting framework. The assurance processes we use builds on sector wide best practice and ensures that managers, senior managers and Directors are responsible for delivering high quality data. Our Assurance Plan for this financial year, 2021/22, builds on the high standard processes we have developed and implemented in previous years to provide accurate data.

Our established framework is underpinned by four main principles, which provides consistency and clarity for our people, and allows flexibility for our assurance processes to build and evolve with our Company and the environment we operate in.

### *Our assurance principles.*



- **Robust Assurance** – we operate a three lines of assurance model, targeted at areas of greatest risk.
- **Ownership and Accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- **Effective Governance** – provided by our Board, Audit and Risk Committee, Executive Disclosure Committee and Executive Committee.
- **Transparency and Public Accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.

### 5.1 Robust Assurance

We operate a three lines of assurance model. Using a risk-based approach provides an effective programme of assurance which considers areas that we know are of prime importance to our customers and regulators; or may have a significant financial value, alongside the likelihood of reporting issues or regulatory change. Areas that are higher risk receive the full three lines of assurance while other areas, where the risk is lower, maybe targeted with first or second-line only. This approach ensures we can continually reassess our assurance activity as risk is reduced in certain areas, where mature and stable process exist, and increased where new risks are emerging, resulting in a proportionate and appropriate assurance spend.

## Our three lines of assurance

First line activities are embedded within the teams that are responsible for reporting the data so that colleagues, with the right expertise are conducting in depth quality checks at the time the data is produced.

Second line activities are performed by a separate team that does not report into the same senior manager to ensure a level of independent checking is conducted. For elements of our APR, additional second line reviews are undertaken within the same directorate to ensure that we maintain a strong level of expertise and understanding of the source data.

Third line activities are carried out by internal or external providers depending on the specialisation required. The expertise can be divided into the following categories:

- **Engineering/Technical** - where assurance requires an expert engineering / water industry technical background.
- **Regulatory** - where challenge is required around the methodology used and assumptions against our regulatory requirements.
- **Data integrity and consistency** - understanding the flow of data from source through to our final publications ensuring no data transposition errors are made.
- **Financial** - used for areas requiring specific financial expertise, such as pensions and tax.
- **Model integrity** - where a complex financial model is used and requires specialist external expertise to test and challenge.

The majority of our third line assurance is provided by the following:

- **Jacobs** - typically review non-financial operational performance processes and data. Also responsible for cost allocation activities and financial reporting processes.
- **Deloitte** - our financial auditors who mainly examine our statutory accounts.
- **Internal Audit** - used for financial data, process and other ad-hoc assurance.

## 5.2 Ownership and accountability

We have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided through our Licence to Operate process (described in detail in section 6), which every year assigns ownership of all of our statutory and legal obligations in our appointed business to managers, senior managers and Directors.

Overall accountability for the preparation and production of the APR (which includes reporting of performance against Performance Commitments and associated Outcome Delivery Incentives - ODIs) rests with the Chief Financial Officer. The outcome of the assurance undertaken is reviewed by the Audit and Risk Committee.



### **5.3 Transparency and public accountability**

As a public service, we want to be transparent about how we balance the needs of our customers and our strategic plans as a business.

We evolve and update our reporting to make sure that it not only complies with our regulatory obligations but also responds to our customers' and stakeholders' feedback. We outline our performance each year within our APR and hold ourselves to account where we do not meet our commitments.

## 6. Our internal assessment to understand our risk

**As well as ensuring we account for our customers' and stakeholders' views, we use the wealth of expertise within the business to assess all of our statutory and regulatory obligations relating to provision of water and wastewater. This covers the use of self-assessment through our Licence to Operate process and effectively managing risk via our 'Enterprise Risk Management' system.**

Our Licence to Operate process is an internal control system and a key part of our Governance Framework designed to ensure compliance against all of our regulatory obligations and duties. We monitor over 90 obligations underpinned by over 2,000 reporting lines. Each duty and obligation within our licence condition is mapped to a business area in the assurance map, to provide oversight of the compliance risk score. Responsible managers and strategic leaders are invited to complete a self-assessment twice a year. Our total risk exposure is then assessed based on the combined score of the likelihood of a non-compliance and the score for the impact of a non-compliance. This creates a simple way to compare one risk factor to another. Our highest areas of risk receive targeted focus in our Assurance Plan. Where we have noted departures (as disclosed in our APR), we have additional focus on assurance.

Licence to Operate is a two-stage process that operates through the mid and year-end of the annual regulatory cycle.

### 6.1 Mid-year risk assessment

In September each year, we ask our responsible managers to complete a risk assessment of their regulatory and statutory obligations. This involves assessing the following five categories as either low, medium low, medium high or high risk, which we use to indicate likelihood:

- **Purpose** – Does the responsible manager understand the purpose of the duty and what their obligations are?
- **Process** – Has the responsible manager ensured that there is an adequate process in place to comply with our obligation and is this documented?
- **RACI** – Is it clear which employees are responsible for which part of the process?
- **Competency** – Are employees suitably trained and is there a clear skill matrix defined?
- **Controls** – Are there measures in place to monitor performance and is regular quality checking undertaken?

Once this assessment is complete, the Compliance Team assess the impact of non-compliance in this area using six factors:

- **Customer service impact** – What would be the impact on customers of non-compliance?
- **Competition compliance** – Does the duty or obligation interact with competition law?
- **Impact on the environment** – what would be the impact on the environment of non-compliance?
- **Health and Safety** – could someone be hurt or made unwell as a result of non-compliance?
- **Regulatory impact** – is this a measure of prime importance to our regulators? Is it a key industry measure?
- **Financial impact** – could non-compliance result in financial fines?

By combining the likelihood assessment with the impact assessment, we are able to understand the areas of compliance risk that require either management action or our Assurance Plan needs to target additional focus. This allows us the opportunity to put action plans in place prior to our year-end reporting of performance. For further verification, we also review these risks against our ERM register to ensure there has been a consistent assessment of risk across the two processes.

## **6.2 Year-end declarations**

Prior to publication of our annual regulatory reports, we ask our responsible managers to declare whether they have been compliant or non-compliant with their obligations. If they have been non-compliant, we ask them to complete a 'departures' form, which details what issue has occurred during the reporting year and what action will be taken to prevent it in future.

As part of the mid-year and year-end declarations, we also ask all responsible and senior managers to make a conflict of interest declaration in line with our RAG5 obligations, to ensure that they are transparent about any potential conflicts across their areas of responsibility. This also gives us the ability to create role-specific training and guidance where required.

All departures are then reviewed by the accountable senior manager and Director who assess the level of materiality. Departures assessed as material are included in our annual Compliance Statement, which is published in July each year alongside our regulatory reporting. This document is reviewed and scrutinised by Executive Disclosure Committee and Audit and Risk Committee, before it is endorsed by our Board, prior to publication ensuring that all levels of the business are made aware of any significant risks or issues.

All departure assessments are tracked on the departures form to ensure that we maintain a visible audit trail of all areas of potential non-compliance.

## **6.3 Changes to Licence to Operate in 2021/22**

We review our Licence to Operate process on an ongoing basis ensuring that any changes in our operating model or changes to our statutory obligations are reflected.

This year we have added in the IR35 obligation to reflect the changes in employment legislation and water trading obligations relating to bulk supplies.

To support homeworking, where appropriate to align with COVID-19 guidelines, we have housed our Licence to Operate system on Microsoft Teams and have held workshops and interactive sessions on a range of virtual platforms.

## **6.4 Enterprise Risk Management (ERM)**

Risk is all about uncertainty and our goal is to identify risk, minimise the threats and maximise the opportunities for the benefit of our customers, environment, employees and supply partners. We use an established ERM process to assess and manage our significant risks. The process is controlled by the Central ERM team and underpinned by a standardised methodology to ensure consistency. Criteria are used to consider the likelihood of occurrence and potential financial and

reputational impacts. ERM champions and co-ordinators operate throughout the business, with support and challenge from the ERM team, continually identifying and assessing risks in their business units and reporting on a quarterly basis. Last year we also established a Strategic Risk Forum, independent from the ERM Team, to help provide a strategic lens when reviewing our existing and emerging risks.

## 6.5 Emerging risk

We continually identify and monitor emerging risks through our network of ERM co-ordinators, ERM champions and risk owners and through cross-functional workshops at all levels of the organisation using tools such as horizon scanning and PESTLE analysis. We define emerging risks as upcoming events, which present uncertainty but are difficult to assess at the present time. Emerging risk management ensures these risks are identified and helps to ascertain whether we are adequately prepared for the potential opportunities and threats they pose.

## 6.6 High profile industry issues

Industry wide issues are an emerging landscape and can often receive significant media coverage. We also take into consideration challenges that other water companies like us have faced or continue to face to understand what we can learn and improve on. These issues will often be at the forefront of customers' and stakeholders' minds, so it's important we are transparent with our performance in these areas of growing interest. We also seek to learn from companies outside the sector as well and find that this can provide us with valuable insight on both, risks and future opportunities.

## 6.7 Obligations identified by internal assessment

In this year's internal risk assessment, the following areas were noted as either high or medium high risk and form areas of focus within our assurance plan:

### PR19 Performance Commitments

In recognition of the potential impact our Performance Commitments have on our customers, the environment and market confidence, our customer ODIs continue to feature in our assurance plans as part of the Annual Performance Report. Customer ODIs remain a high priority for our stakeholders and customers because:

- Our Performance Commitments reflect the areas of service that our customers have told us are most important to them – we have an obligation to accurately report if we are meeting our commitments;
  - Where we recognise we need further work to comply with convergence guidelines for common Performance Commitments for example: leakage.
-

### Bioresources Market Data

In our APR 2021, we declared a departure at year-end, relating to Bioresources Market Monitoring data. Whilst the materiality was low, in line with our risk-based assurance process this will be an area of added focus in our Assurance Plan.

### Cost allocation / RAG 5

While we operate robust cost allocation processes, this is an area that impacts both regulated water companies and non-regulated companies within Severn Trent Plc Group. Thus, it remains a focus for our third line assurance. As part of our review, we carefully consider learnings from recent investigations in this area. As a result, we have considered the findings of Ofwat's investigation into Wessex Water's compliance with the RAG5 pricing regulations, highlighting potential risks relating to interactions between regulated and non-regulated business functions.

### Bulk supply

In our APR 2021, we declared a departure at year-end relating to data on Bulk Supplies. We have a number of controls in place to ensure that we effectively comply with our reporting requirements. Upon receipt of more accurate logger data, we undertook a reconciliation of data for bulk supplies submitted through the APR and bulk supply register. This identified improvements relating to the data reported in 2020/21 and 2021/2022 relating to bulk supplies between HD and STW. In line with our risk-based assurance approach, this process will receive three line of assurance.

As appropriate, action plans have been put in place to address all departures and reduce the level of risk associated.

## 6.8 Obligations identified through wider engagement and insight

Our Group Compliance and Assurance Team also provides further oversight of our Assurance Plan to ensure that we include areas that may not necessarily score high on our internal risk assessment at present, but that we know are subject to, or could be subject to, regulatory change or emphasis by virtue of a Board Assurance Statement being required by our regulators, customers or other stakeholders.

Below is an overview of additional areas where we target our assurance activities. We have detailed the assurance relating to these focus areas in (detailed in section 7).

### Target Areas of assurance.

- Annual Performance Report
- Annual Reports and Accounts
- Wholesale charges
- Bioresources Market Information
- Drinking Water Inspectorate ('DWI') and Natural Resource Wales ('NRW') submissions
- Network and Information Systems Regulations ('NIS-R')
- Water Resource Management Plan ('WRMP'), Drought Plan and Drainage Wastewater Plan ('DWMP')

## 7. Our proposed Assurance Plan 2021/22

**Following both our external and internal engagement, we consider the following areas, or components of these areas, should be categorised as either high or medium high risk and therefore should be subject to a greater level of assurance.**

We publish documents throughout the year that give important information to our customers and other stakeholders. They also show our regulators that we are meeting our obligations and complying with regulations. We individually risk assess our publications to make sure we apply the right levels of assurance to each in accordance with our Assurance Framework. Our Assurance Plan is grouped into two areas, **core assurance** activities and **focus assurance** activities.

Our core assurance activities are published documents, which form part of our core regulatory reporting cycle. These documents are subject to our risk based three lines of assurance and governance processes. Our focus assurance activities are shaped by the customer engagement (detailed in section 3) our internal assessments (detailed in section 6) and environmental themes which are highlighted in both assessments.

Both areas of assurance activities are interlinked with the themes presented throughout this document. We use the below key to highlight the areas of influence:

 Customer and stakeholder priority – we are transparent with areas that are important to our customers

 Environment – A focus on environmental performance, sustainable solutions for today and the future

 Licence to Operate/Internal Assessment/Industry Issue – Information relation to regulatory compliance



### Annual Performance Report ('APR')

This report is the principal way that we will document our annual performance and hold ourselves publicly accountable. It is important that we present information in a fair and balanced way and make it accessible to our broad range of customers and stakeholders.

In addition, some of our Performance Commitments have a financial reward or penalty associated so customer bills can be directly affected by our performance.

#### PLANNED ASSURANCE:

- On an annual basis all performance data is subject to assurance. In addition, using a risk-based approach, some of our measures are also subject to half year assurance to get early sight of any potential risk areas, which we can address prior to year-end.
- Data and methodology are subject to three lines of assurance, where applicable with our financial auditor performing third line assurance for financial reporting, and our regulatory technical auditor or Internal Audit performing third line assurance for non-financial data.



## Annual Report and Accounts ('ARA')

We have a statutory obligation to ensure that our financial accounts are prepared in accordance with the relevant financial reporting framework and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company.

### PLANNED ASSURANCE:

- The methodology and data is subject to three lines of assurance with our financial auditor performing third line assurance.
- The methodology and data of our Return on Regulatory Equity ('RoRE') calculations is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.



## CCW ('Consumer Council for Water') reporting

CCWater are the statutory customer representative body for our industry. We want to ensure the information we provide to it is accurate. Most of this data comes directly from our performance reporting.

### PLANNED ASSURANCE:

- Where information is derived from Performance Commitment data, assurance is as noted above.
- Where information is not derived from Performance Commitment data, first and second line assurance is performed.



## Charges - Charges including draft wholesale charges, final charges and access prices

We want to make sure that what we charge our customers is correct. We have established assurance processes to ensure we are compliant with Ofwat's charging rules. The charges process is split into two parts:

- Draft - Since the non-household retail market opened, we have been required to publish draft wholesale charges in October to give retailers early sight of charges for the next financial year. Access prices are also reviewed at this stage.
- Final - In January, companies are required to publish all of their proposed charges for the next financial year i.e. non-household and household, retail and wholesale and non-primary charges.

### PLANNED ASSURANCE:

- The methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Model assurance undertaken by specialists, Numeritas.
- An assurance statement signed by our Board demonstrating Board oversight and scrutiny. Engagement with customers and CCWater to ensure bill impacts are understood (particularly where these are greater than 5%).



## New Connection Charges

Our developer services customers want the ability to accurately predict what their costs will be when they build and connect a property to our network. Therefore, it's important that we publish our annual charges for new connections and that they are accurate, easy to understand and cost reflective.

- Final – In February companies are required to publish their New Connection charges for the next financial year.

Furthermore, new connections charges are subject to competition law and it is an area of focus for Ofwat. To ensure we meet these requirements, we have put in place a comprehensive risk-based set of third line assurance checks.

### PLANNED ASSURANCE:

- The data and methodology are subject to our three lines of assurance model.
  - Engagement with developer services customers.
- 



## Bulk supply reporting

On an annual basis we are required to submit the volumetric and financial values associated to all Bulk supplies both imports and exports. The financial information relating to this data is also reported in the Annual Performance report.

### PLANNED ASSURANCE:

- The data and methodology are assessed in line with our assurance model based on risk and will receive first, second and third line assurance.
- 



## NRW ('Natural Resource Wales') and DWI ('Drinking Water Inspectorate') reporting

We take our responsibilities in relation to safeguarding the environment, providing water that is safe to drink and taking waste away very seriously. It is important that information we share with the NRW and / or DWI is accurate and reflective of our performance. If we fail to meet our environmental commitments or drinking water standards, we can receive financial penalties. We provide our planned submissions to the Executive Disclosure Committee for oversight and apply the same rigour on any ad hoc requests from the regulator.

We have also taken into consideration the themes that are of importance to our customers, environmental issues, and internal / industry-wide assessment. These all link to the areas highlighted throughout this document.

### PLANNED ASSURANCE:

- Submissions are subject to three lines of assurance on a risk-based approach.
-



## Water Quality

Water quality is a priority for our customers. Our water quality improvement programme continued to deliver a further 35% decrease in drinking water quality complaints last year. We have plans in place to drive further improvements this year.

### PLANNED ASSURANCE:

- Where data is provided to DWI as part of our Performance Commitments, the data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.
- Other areas, including our drinking water safety plan, are also assessed in line with our three lines of assurance model.



## Strategic Water Resources Plan – Interconnector

Long term resilience is of critical importance and will benefit customers nationally in light of the risk of supply shortages in the next 20 years. Ofwat is supporting schemes to provide long term resilience to water supplies in the South East. We are exploring potential schemes.

### PLANNED ASSURANCE:

- Submissions are subject to three lines of assurance on a risk-based approach.
- The scheme will receive Board oversight, and a statement of assurance will be provided.



## NIS-R (Network & Information Systems Regulations)

We treat the security of our networks and information systems as a priority and have a road map improvement programme in place. There are 39 contributing outcomes and we will be providing a view on our current status, our planned delivery and supporting commentary.

### PLANNED ASSURANCE:

- The data and commentary is assessed and subject to our three lines of assurance model based on risk with a third party technical auditor performing third line assurance where required



## Cost Allocation

Cost allocation and a focus on boundary realignment is important to our customers and wider stakeholders, demonstrated in the feedback to our previous draft assurance plans so we continue to focus assurance in this area.

Cost allocation activities within our finance team are part of our established third line assurance annual processes. While we have made a big improvement in this area, we continue to ensure that our processes are thoroughly documented and reviewed at Senior level within both Hafren Dyfrdwy and other entities in the Severn Trent Group.

### PLANNED ASSURANCE:

Cost allocation data and methodology is subject to three lines of assurance with our regulatory technical auditor performing third line assurance.

- Our updated RAG5 Compliance Framework is subject to three lines of assurance with an external auditor completing third line assurance.
  - Our RAG5 Steering Committee are responsible for overseeing RAG5 compliance.
  - RAG5 is monitored through established controls including Licence to Operate and ERM.
- 



## DWMP (Drainage and Wastewater Management Plan)

Unlike water resources, there is no statutory requirement for water and waste companies to produce long term strategic drainage and wastewater plans, therefore historically companies have made their own plans with only broad guidance. Water companies, are now required to publish their plans on an AMP basis similar to the WRMP.

### PLANNED ASSURANCE:

- We are producing our submission in line with the framework set out by the regulator
  - Submissions are subject to three lines of assurance on a risk-based approach.
-