



South Staffs Water

incorporating



Assurance Plan 2017

April 2017

Introduction

This document sets out the assurance processes that we propose to follow for the 2016/17 annual reporting process following our stakeholder consultation which took place between November 2016 and January 2017; this also takes into account Ofwat's Company Monitoring Framework review in November 2016.

What is assurance?

Water is a vital public service which we all rely upon. It is critically important that our customers, and our wider set of stakeholders and regulators, can trust that the information we publish is accurate and well explained, across all of our areas of performance.

Assurance is the set of processes that we follow to give other people or organisations confidence that the information we have published is at the right level of accuracy, is complete, and is clear and easy to understand. It is a layer of protection that ensures that our published data is signed off by the people in our organisation who are responsible for transparency and trust. It is also a process that helps us identify areas where data needs to be improved to ensure that we can report accurately.

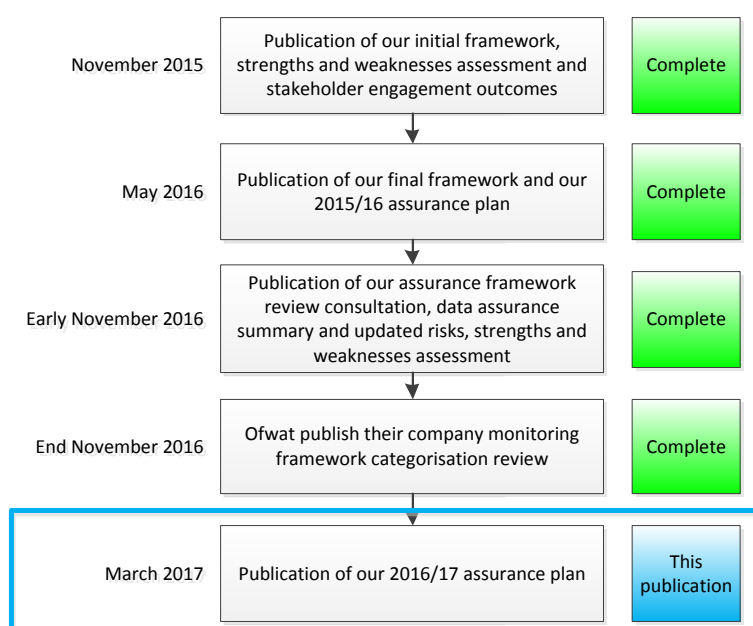
How to have your say?

It is important to us that our assurance gives our customers and wider stakeholders' confidence in our reporting. We therefore welcome any comments our customers or wider stakeholders may have regarding this plan or any other aspect of our data or assurance.

If you wish to comment, please email regulation@south-staffs-water.co.uk.

Overall timescales?

The flowchart below shows our high level programme of work since we first consulted on our assurance framework in November 2015. The blue box indicates where we are now in the process.



Stakeholder Responses to Our November 2016 Risks, Strengths and Weaknesses Update Consultation

In early November 2016 we published an assurance framework review consultation which included a summary of our assurance in the previous year, and our updated risks, strengths and weaknesses assessment. This consultation concluded on 6th January 2017 and responses are summarised below:

Consumer Council for Water (CCW)

CCW - "Generally the document is very clearly written. In terms of content of the publication my only observation would be that the order in which the data sources are reviewed, which I think is chronological order of the date of submission, means that some comparatively minor submissions appear prominent by being the first mentioned."

Ease of reading and navigation is one of the aims of our documentation; we have amended this consultation document so that the order of the data assurance summary followed the importance of the submission rather than in chronological order, and we will maintain this format next year.

CCW – "it might be helpful in the ODI table to be a bit clearer about event might be which the likelihood refers to."

We have amended our consultation document to include an extract from our assurance framework document to ensure clarity around how the likelihood and consequence elements of data assurance were being assessed.

CCW – "In part 2, it would be of benefit to explain that the retail market will open for all businesses, public sector bodies and charities in England in April 2017 to add context to the summary on wholesaler and end user charges."

We made this amendment in the final released version of our consultation document.

CCW – "In part 2, as you will be producing a new draft drought plan and consulting on it in 2017 this should be included in the summary, particularly as it is mentioned in part 3."

We made this amendment in the final released version of our consultation document.

CCW – "In part 2, some sections include links to documents and others do not. Where the information is in the public domain you should be consistent and include links to the available information."

We made this amendment to ensure that hyperlinks were embedded for all publically available information that we referenced.

CCW – "In part 3, it would be of benefit to explain what ODIs are in the last paragraph on page 8."

We added a footnote to the page to describe what ODIs are and to provide a link to the relevant page of our website to allow access to further information.

Drinking Water Inspectorate (DWI)
No comments received.
Environment Agency (EA)
No comments received.
Ofwat
No direct comments received; although Ofwat reviewed our risks, strengths and weaknesses document as part of its Company Monitoring Framework assessment in November 2016 (details of this review are in the next section of this document).

Ofwat's Company Monitoring Framework Review in November 2016

At the end of November 2016, Ofwat published its first assessment of our assurance processes¹ as directed by its Company Monitoring Framework methodology. Ofwat scored us against several criteria looking broadly across our assurance, governance and communication. This assessment included many positive endorsements, but we recognise that there are several areas where the opportunity exists for continued improvement. Our overall results for each of Ofwat's scoring criteria are shown below:

Our view	Assessment
Minor concerns	Financial monitoring framework
Meets expectations	Charges schemes assurance
Meets expectations	Financial information
Meets expectations	Final 2010-15 reconciliation data submission
Meets expectations	Outcomes
Minor concerns	Compliance with principles of board leadership, transparency and governance
Minor concerns	Risk & compliance statement
Meets expectations	Assurance plan
Minor concerns	Targeted reviews
Exceeds expectations	Data assurance summary
Not applicable	Evidence from casework activities

There were no areas where Ofwat assessed us as having 'serious concerns', and we had one area where Ofwat assessed us as 'exceeding expectations'; this was for the thorough data assurance summary which we published in November 2016. We plan to continue with the format of our overall assurance framework and publication of our data assurance summary in November of each year.

1. <http://www.ofwat.gov.uk/wp-content/uploads/2016/11/Individual-company-report-SSC-1.pdf>

Where Ofwat has made observations in its review, **we propose to adopt these as our targeted areas for this assurance plan**. As well as the specific examples Ofwat has used, we have also considered how the concerns can be applied broadly across our entire assurance, governance and communications activity. For some of Ofwat's concerns we have already re-published revised data in our July 2016 annual performance report document, available on our website². The table below details Ofwat's main comments and our plans for action:

Financial monitoring framework
<p>Ofwat - "Our review identified a number of errors which required the data to be resubmitted. These were due to the company disclosing net debt based on company debt covenants which was not in line with Ofwat guidance. In addition the company did not fully disclose dividends paid up to its parent company to enable them to pay interest on loans. Other than these issues we found that the company had largely followed our guidance, we have therefore assessed this as minor concerns."</p> <p>We have already published a corrected version of our July 2016 annual performance report document on our website², where we have clearly shown the data that has been amended alongside the data as presented initially. The updated information is on pages 77 and 94 of this document.</p> <p>We will ensure that our net debt and dividend disclosures are thorough and in line with Ofwat's guidance in our July 2017 annual performance report publication.</p> <p>We will also be establishing internal procedures to ensure that critical elements of our reporting comply with Ofwat's guidance.</p>
Outcomes
<p>Ofwat - "An area for further improvement is the publication of a statement or report from the Company's technical assessor, Monson Engineering. This would provide customers and other stakeholders with additional assurance that the assessment of the Company's performance has been reviewed, and the data, methodologies, processes and supporting evidence have been challenged."</p> <p>We agree with Ofwat's observation and for our July 2017 reporting we will require our technical assessor to provide an additional report suitable for publication on our website covering the above themes.</p> <p>We will also consider the benefits to stakeholder trust and confidence of publishing associated internal and external audit reports (or statements) alongside future published information. This will be particularly relevant during the PR19 process.</p>

2. <https://www.south-staffs-water.co.uk/media/1875/ssc-annual-report-2015-16.pdf>

Compliance with principles of Board leadership, transparency and governance

Ofwat - "The information provided in the company's annual reporting has demonstrated that it has met most of our board leadership transparency and governance principles. However its remuneration reports and corporate governance reports are lacking in detail and it has not provided an explanation of its group structure (which is particularly important as it had a significant change in shareholding in the reporting year). This lack of transparency can undermine the confidence of stakeholders in the governance of the company."

We will be publishing further details of our parent group structure on our website and in the 2017 APR, as we recognise that this transparency is important to consumer trust. Whilst a great deal of information is already available across our parent company website and in group annual reports, we recognise that this information was not available on our specific Company websites for South Staffs Water and Cambridge Water, or in our regulated annual report.

We will be reviewing examples of best practice in how remuneration and corporate governance reports can be structured, and the detail that is appropriate to promote stakeholder confidence.

Risk and compliance statement

Ofwat - "The company has provided a statement that its board 'can confirm that there are sufficient processes and internal systems of control to meet the statutory, license and regulatory obligations'. It has also provided confirmation that it is complying with certain, specific obligations. However it has not provided a statement that it is complying with all its relevant statutory, licence and regulatory obligations as required. Although not fully meeting our expectations the statement that has been provided is appropriately signed to demonstrate endorsement by the whole board."

The Board is committed to its obligation to ensure that the Company has sufficient internal controls to meet all of its statutory obligations in full. We will be looking at examples of best practice in this area in order that our risk and compliance statement can contain more detail in the future and demonstrate endorsement by the whole Board.

The Board will also consider the extent to which further signatories are needed on its published statements in order to improve stakeholder confidence.

Targeted reviews

Ofwat - "The tax reconciliation note published in the company's annual performance report is a very brief narrative that quantifies the variance between PR14 final determination and the reported current tax charge. The table format accompanying narrative could have been clearer. The company acted on the recommendations of the CEPA report following our targeted review of sludge and water resources but it did not disclose this transparently in its published cost allocation methodology statement."

We will look at best practice examples of how we can be more transparent on our communication of our tax affairs to our stakeholders, as we recognise that corporate tax has been prominent in the media recently. We will also adopt the latest requirements set out in the 2016 Finance Bill, requiring companies to publish details of tax strategies.

We have been open and transparent with Ofwat whenever targeted reviews have occurred and will ensure that this approach also applies for any published information.

In summary, the targeted areas we will adopt are as follows:

- Appropriate disclosure of debt and dividends;
- Ensuring that critical elements of our financial reporting are in line with Ofwat guidance;
- Publication of more detail on our ODI assurance carried out by our technical assessor;
- Further information on our parent group structure to be published and accessible to stakeholders;
- Examination of best practice for published remuneration and corporate governance information;
- Examination of best practice for our Board's risk and compliance statement; and
- Examination of best practice for reporting of tax affairs.

Additional Targeted Areas

In the coming 12 month period there are some new submissions, as well as some new requirements for year-end reporting. As well as the targeted areas above that we propose to adopt from Ofwat's Company Monitoring Framework review, we also propose to adopt the following additional submissions as targeted areas as they represent significant submissions this year.

Cost assessment data return – 15th July 2017

We first completed a cost assessment data return in August 2016 following a period of involvement in Ofwat's Cost Assessment Working Group. We have continued to participate in this group, which is helpful in understanding the needs of the cost assessment data return and its importance to the PR19 process.

As at the date of publication of this document, the final data requirements for the cost assessment data return for 2016/17 (submission July 2017) are not yet available, however our continued involvement with the process means that we have a reasonable expectation of what data will be required and any definition changes from last year's data return.

Within our assurance framework we have scored the cost assessment data return as medium risk. We historically have collected all of the required data and our internal data owners are familiar with the definitions and data sources. For these reasons we judged that assurance using our parent group's independent internal audit function was appropriate last year and we propose to continue with that approach. There were no issues in the August 2016 submission that indicate we need to consider stronger assurance.

Nevertheless, given the importance of this data to PR19 we consider it appropriate to approach it as a targeted area, and ensure that we communicate our assurance outcomes for this piece of work.

RCV allocation – January 2018

At PR19 Ofwat will separate the price controls for wholesale water into two components, water resources and network plus. We are required to separate our Regulatory Capital Value (RCV), which we earn a return from, into these components in an appropriate manner.

It is important to the success of this price control separation that our RCV separation is carried out robustly, using the appropriate methodology and with the appropriate level of

assurance to give stakeholders confidence in our approach and that customer charges will not be adversely impacted. There are a range of methodologies available to separate our RCV and we will consider the benefits and disbenefits of these in the context of the data available to us. We will be meeting with Ofwat in May 2017 to discuss our proposed approach, which will include how we plan to undertake assurance and Board sign off, with final submission of our proposed RCV in January 2018.

Charges for new connection services – Autumn 2017

In December 2016 Ofwat published new charging rules for new connection services. This will be implemented in April 2018, requiring us to define our methodology and charges in advance of this.

The changes to the new connection charges are potentially significant and therefore we will need to consult with our customers and other stakeholders on our proposed methodology and charges well in advance of publication, during 2017. We believe it is in the interests of customers and other stakeholders that we adopt this consultation process as a targeted area for this year; this will maintain our focus and transparency for this piece of work.

New APR tables – July 2017

In the 2016/17 APR to be submitted in July 2017, there is a range of new data requirements which follow refinements from the 2015/16 process carried out in July 2016. The new information tables and our overall position on assurance are as follows:

Table 3B – asset health sub-measure reporting

We reported this information last year to Ofwat on a one off basis and it now forms a formal part of the APR. We already include the asset health sub-measure assurance in our ODI assurance work, therefore no change to our process is needed to facilitate this additional table. As a new table in the APR we will approach it as a targeted area and ensure our assurance outcomes are communicated as part of the APR.

Table 3C – Abstraction Incentive Mechanism (AIM)

The data that underpins the AIM calculation methodology is business as usual abstraction data and trigger point data that is used routinely within our operations. Therefore under our assurance framework risk scoring we have assessed this as a low risk and propose to use our independent internal audit function as our assurance vehicle. As the table is new this year however, we will approach it as a targeted area and ensure our assurance outcomes are communicated as part of the APR.

Table 3D – more granular Service Incentive Mechanism (SIM) reporting

This new table captures additional SIM information that underpins the high level measure. We already collate the sub-measure data internally and SIM (and its components) are already externally assured. As the table is new this year we will approach it as a targeted area and ensure our assurance outcomes are communicated as part of the APR.

Customer Communication and Our Website

The APR

The APR data in the Ofwat prescribed tabular format, and our detailed presentation of tables alongside the statutory accounts, is not presented in a way that customers can easily use. We will therefore publish a separate customer facing report alongside our formal APR (on the same date). We will link to this customer facing report from the main page of our website, as a news item. This will then provide a further link through to the Ofwat tables. This is the approach that we followed for the 2016 APR; our standalone customer facing report³ was well received.

Building on last year's customer facing APR report³, we intend this year to include additional information. Firstly, we intend to include a customer friendly accounts overview, incorporating items that customers view as important such as tax and dividends. Secondly, we also intend to include some benchmarking information on our performance. This was not possible last year as industry data was not available at the time of publication. This year we will be able to utilise the Discover Water⁴ dashboard to include some high level benchmarking information against our 2016/17 performance. We will need to find the right balance between creating a concise document and giving customers appropriate benchmarking information.

Our Website

Over 2016/17 we have continued to make improvements to our websites for both operating regions.

We have recently implemented a performance summary on our website⁵ that provides customers with monthly performance data on a range of metrics. This is built into an infographic type, interactive display. We think it is important to share how we are performing with our customers more than once per year, and this new website information is how we are doing that. The metrics on our website link through to other areas of the site providing the customer with more detail on our operations.

We will publish monthly updates to this data, although due to this frequency we will not be able to fully assure this data prior to publication for each month. The data does however come from established business systems and processes, and so we do not expect significant issues. For its purpose, to give customers an indication of our performance on a regular basis, we think that we have the right balance and it is better to get regular data out to customers than to not do this because it may not be 100% accurate.

We would welcome any further stakeholder comments on our implementation. At the moment, this new information is only available on the South Staffs region website due to platform constraints on our Cambridge region website. We are in the process of moving the Cambridge Water website to the same software platform as our South Staffs region website which we will complete in the 2017/18 year.

3. <https://www.south-staffs-water.co.uk/media/1874/annual-performance-report-2015-16.pdf>

4. <http://www.discoverwater.co.uk/>

5. <https://www.south-staffs-water.co.uk/about-us/our-business/monthly-performance>

Glossary of Terms

Abstraction Incentive Mechanism (AIM)

We take water from the environment which we then treat, and supply to our customers at their homes and businesses. As an environmentally responsible business we need to look at ways to reduce the amount of water we take in environmentally sensitive areas. This is done through several mechanisms in conjunction with the Environment Agency. The AIM is one of these mechanisms which incentivises us to reduce water abstractions at certain locations under specific conditions.

Annual Performance Report (APR)

The set of data that we publish in July each year covering the regulatory reporting requirements for the previous financial year.

Asset Health

Asset health is a measure of how the physical assets that we operate currently perform and will perform in the future, to ensure that we deliver a reliable and safe supply of drinking water to our customers. We measure this using a basket of key performance indicators, which we report on as part of our Outcomes.

Outcome Delivery Incentives (ODIs)

At our last price review we implemented a range of key performance indicators that measure our service performance. These measures are incentivised financially meaning that if we underperform a specified target we may be penalised and if we outperform we may earn an additional amount of revenue linked to the performance improvement.

Price Review 'PR19'

Every five years we undergo a business planning process known as a price review (PR). This is the process where we submit our plans to our regulator, Ofwat, in order to determine the funding allowances for the following five year period. The next price review is taking place in 2019; this is abbreviated to 'PR19'.

Regulatory Capital Value (RCV)

The water industry regulatory model specifies that investor returns are earned through a percentage return on our RCV. The RCV is a financial representation of the assets that we own, for example the pipes in the ground, and our reservoirs and treatment works.

Service Incentive Mechanism (SIM)

Ofwat, our industry regulator, measures customer service performance using a basket of performance indicators collectively known as SIM. The mechanism comprises data from companies on how their customer service and operational delivery functions are performing, as well as direct surveys of customers' views on the company which serves them.

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