



South Staffs Water



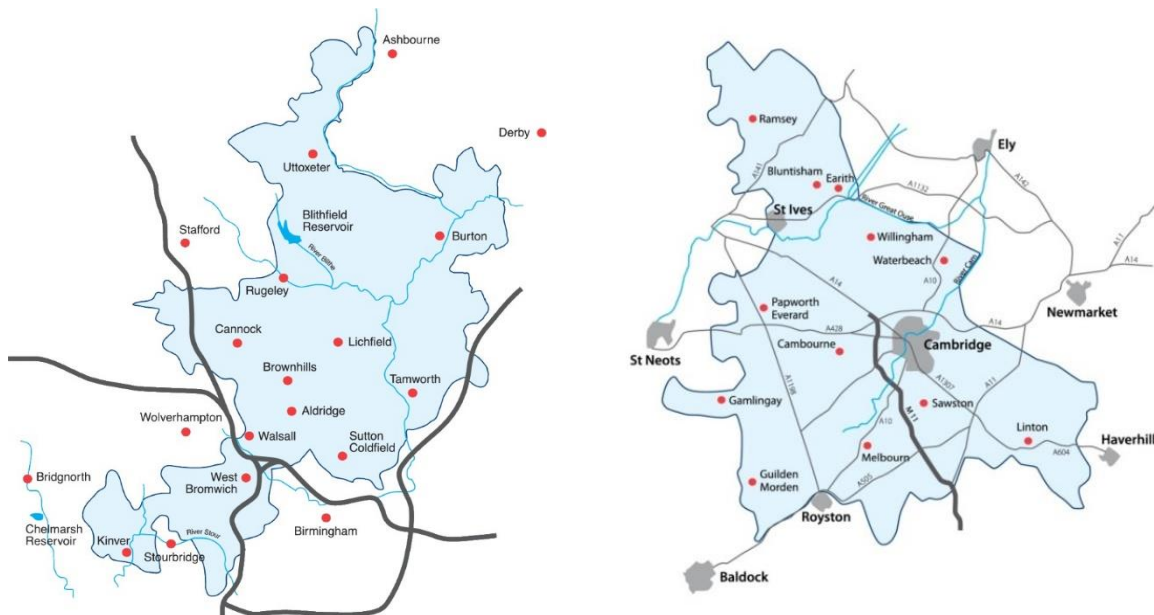
Cambridge Water

## Draft Assurance Plan 2023/24

November 2022

## About us

South Staffs Water, incorporating Cambridge Water, supplies clean water services to around 1.7 million people in parts of Staffordshire and the West Midlands; and in and around Cambridge.



We are part of a larger group of companies, South Staffordshire Plc, which is in turn owned by long-term pension scheme and institutional investors, Arjun Infrastructure Partners.

All water companies in England and Wales are regulated by the Water Services Regulation Authority, known as Ofwat. Ofwat has a duty to ensure that water companies are able to efficiently finance their operations while acting in the interest of customers.

## About this document

Each year we publish a wide range of information for our stakeholders (regulators, customers and other bodies), about how we run our business and the service standards we achieve. It is important that this information can be trusted to be accurate and complete, so we carry out a range of assurance processes to give customers, regulators and other stakeholders confidence that the information is robust.

This document sets out our assurance plan for the period April 2023 to March 2024. Its purpose is to demonstrate to our customers, regulators and other stakeholders:

- the process we have been through to understand our regulatory reporting risks; and
- the plan we propose to put in place to ensure those risks are controlled.

Setting out our principles and processes in this way enables us to demonstrate that **assurance** and **governance** are important to us, and that we are effectively planning for these activities to take place each year. We want all our stakeholders to have confidence that the information we publish across all areas of our performance is accurate and well explained.

### What is assurance?

Assurance is the set of processes we follow to give our stakeholders confidence that the information we have published is:

- at the right level of accuracy;
- complete; and
- clear and easy to understand.

It is a layer of protection that ensures our published data is signed off by the people in our business who are responsible for transparency and trust. It is also a process that helps us identify areas where data needs to be improved so that we can be sure to report it accurately.

### What is governance?

Governance is about how our business is managed, from the Board level down to all areas of our service. Our operating licence has a number of conditions related to corporate governance that we must comply with. But, governance goes beyond just our licence conditions. Because we provide an essential public service, we must demonstrate that we operate to high standards of leadership, fairness and transparency. We must act in the best interests of our customers at all times. We must also make sure we continue to plan for the future so that the services we provide remain resilient and sustainable.

### How to have your say?

It is important to us that our assurance processes give our customers and wider stakeholders the confidence in our reporting. So, we welcome any comments that anyone may have about this plan or any other aspect of our data or assurance.

If you wish to comment, please email [regulation@south-staffs-water.co.uk](mailto:regulation@south-staffs-water.co.uk). The deadline for responses is 31 January 2023. We will publish our final assurance plan by April 2023.

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## 1. The regulatory framework for assurance

Assurance has been a key part of the regulatory framework under which we operate for many years. We have published standalone documents describing our assurance processes since 2015, when Ofwat introduced its Company Monitoring Framework. This framework was intended to incentivise water companies to take a risk-based approach to assurance and take more ownership of its assurance processes across the whole company. As part of Ofwat's framework, Ofwat reviewed companies' assurance processes by assessing key areas of assurance and reported on this annually.

Although Ofwat has now discontinued its annual review process, the principles of the Company Monitoring Framework still stand. We will continue to take a risk-based approach to our assurance and publish information about our assurance plans each year, so that stakeholders can understand how we deliver assurance and why, and have the opportunity to make comments to us about any areas of assurance that they believe need to be strengthened.

We will also continue to set ourselves 'targeted areas'. These were introduced in Ofwat's framework and are intended to ensure that areas of higher risk or significant change are given appropriate focus during assurance activity. We will continue to use targeted areas, as we have in this plan, to help us focus our assurance activity and improve transparency to stakeholders.

Ofwat has introduced a requirement for companies to provide a statement, signed by, or on behalf of the Board, stating that the data and information which the Company has provided to Ofwat in the reporting year and/or which they have published in their role as water undertaker was accurate and complete and setting out any exceptions to this which should be clearly explained. This statement can be found on pages 45 to 46 of our Annual Performance Report<sup>1</sup>. This assurance plan is a fundamental part of the main factors our Board considers for it be able to make such a statement.

<sup>1</sup> <https://www.south-staffs-water.co.uk/media/4043/annual-performance-report-2022-final.pdf>

## 2. Updates from 2022/23 assurance plan

Assurance is an ongoing activity where we look to continually improve, and we publish our plan annually for the forthcoming year. The following updates have been made from our plan last year:

Update	Description of update
Risk scoring	Each year for our draft plan we review and update the risk scoring for each of our assurance areas. We then evaluate our high and medium risks in further detail. Our updated scores and evaluation can be found in section 4 of this document, including a new table for areas of PR24 assurance.
Revisions and additions to our targeted areas	<p>Our targeted areas are the higher risk areas we have identified which need additional assurance and governance focus. We review these targeted areas annually.</p> <p>This year we expanded our PR24 targeted area ahead of our business plan submission in October 2023. We have also separated the long-term delivery strategy as a targeted area as this is a new requirement and is highly critical for the PR24 framework.</p> <p>Last year we had a targeted area covering Covid-19. For the coming year we will monitor this within the performance commitments and APR targeted area as the pandemic has less significant impact.</p> <p>We have combined customer and developer charges as their timelines and assurance principles are aligned.</p> <p>We have retained the remaining targeted areas which continue to be relevant for assurance and governance focus, although we have updated the priorities for the coming year.</p>

### 3. Assurance risk assessment process

#### 3.1 Our risk assessment methodology

We use a risk assessment process to determine the minimum level of assurance for a piece of information or data. This is because different data may have different risks associated with its compilation or accuracy, and different consequences depending the purpose of the data.

We score assurance risk by looking across several factors that influence the **likelihood** that the data may contain an error; and the **impact** that inaccurate, incomplete or late data may have on the recipient or other parties. The factors we consider are shown below and are scored from 1 (low risk) to 4 (critical risk):

The **likelihood** that the data may contain an error (seven sub-factors):

- |    |   |   |                     |
|----|---|---|---------------------|
| a. | Complexity of the data sources;                 | } | Inherent likelihood |
| b. | Completeness of the data set;                   |   |                     |
| c. | Extent of manual intervention;                  |   |                     |
| d. | Complexity and maturity of the reporting rules; |   |                     |
| e. | Control activities already established;         | } | Management controls |
| f. | Experience of our personnel;                    |   |                     |
| g. | Evidence of historical errors and last audit.   |   |                     |

The **impact** that inaccurate, incomplete or late data will have on the recipient or other parties (four sub-factors):

- a. Customers;
- b. Competition;
- c. Financial;
- d. Compliance with all regulatory requirements.

The tables on the following two pages show the detailed scoring criteria for likelihood and impact respectively.

**Figure 1: Assessment criteria for scoring the likelihood element\*:**

Score	Complexity of data sources	Completeness of the data set	Extent of manual intervention	Complexity and maturity of the reporting rules	Control activities already established	Experience of our personnel	Evidence of historical errors and last audit.
4	Reliance on data from outside of the organisation which has no assurance provided.	A one off data request, or compilation of the data less often than 5 year intervals.	A significant proportion of the data set is manually collated or manually processed, after its initial input into the source system.	Complex rule set that has been issued or significantly altered within the last 12 months.	There are no existing control activities or control activities have not been assessed.	The data is being collated by personnel with no previous experience of data set and no method statement available to explain prior approach.	Significant issues were identified at the last audit or any time since.
3	Reliance on data from outside of the organisation which has assurance provided.	There is significant extrapolation from a smaller data set.	A moderate proportion of the data set is manually collated or manually processed, after its initial input into the source system.	The rule set requires significant interpretation, judgement or assumptions.	Control activities have been assessed but been in place for less than 12 months.	The data is being collated by personnel with previous experience of data set but no method statements are available to explain prior approach.	Moderate issues were identified at the last audit or any time since.
2	Data is required from two or more corporate systems.	There is some extrapolation from a smaller data set.	A low proportion of the data set is manually collated or manually processed, after its initial input into the source system.	The rule set requires some interpretation, judgement or assumptions.	Control activities have been assessed and been in place for more than 12 months but less than 2 years.	The data is being collated by personnel with no previous experience of data set but method statements are available to explain prior approach.	Minor issues were identified at the last audit or any time since.
1	Score of 1 applies when none of the above criteria apply.						

\* We take the highest score across all assessment categories for the purpose of assessing assurance risk.



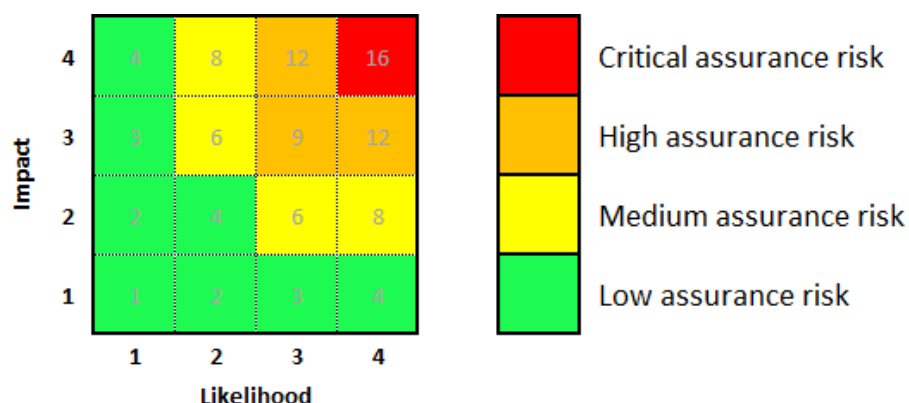
**Figure 2: Assessment criteria for scoring the impact element\*:**

Score	Customers	Competition	Financial	Compliance and regulation
4	A significant impact on a large number of customers.	High impact on the operation of the market or the ability to demonstrate compliance with the Competition Act or level playing field.	An error or omission that could potentially give rise to a major financial impact, equivalent to greater than $\pm 5\%$ of the annual baseline TOTEX allowance.	A significant impact on compliance with license, any other statute or environmental permit.  <b>or</b> A significant impact on data that is used within comparative regulation, for example costs and performance metrics.
3	A moderate impact on a large number of customers.  <b>or</b> A significant impact on a small number of customers.	Moderate impact on the operation of the market or the ability to demonstrate compliance with the Competition Act or level playing field.	An error or omission that could potentially give rise to a moderate financial impact, equivalent to greater than $\pm 2\%$ but less than $\pm 5\%$ of the annual baseline TOTEX allowance.	A moderate impact on compliance with license or any other statute.  <b>or</b> A moderate impact on data that is used within comparative regulation, for example costs and performance metrics.
2	A moderate impact on any number of customers.	Low impact on the operation of the market or the ability to demonstrate compliance with the Competition Act or level playing field.	An error or omission that could potentially give rise to a low financial impact, equivalent to greater than $\pm 1\%$ but less than $\pm 2\%$ of the annual baseline TOTEX allowance.	A low impact on compliance with license or any other statute.  <b>or</b> A low impact on data that is used within comparative regulation, for example costs and performance metrics.
1	Score of 1 applies when none of the above criteria apply.			

\* We take the highest score across all assessment categories for the purpose of assessing assurance risk.

We calculate an assurance risk score by multiplying the maximum scores from the likelihood assessment and the impact assessment, giving a maximum score of 16. The score obtained allows us to assign a category as follows:

**Figure 3: Risk score categories:**



We then use this score to derive the minimum level of assurance required as follows:

**Figure 4: Minimum standards of assurance:**

Category	Low assurance risk	Medium assurance risk	High assurance risk	Critical assurance risk
Planning	Methodology statement is required for all data			
Audit	Second person review	Independent internal assurance	Third party assurance	Third party assurance
Sign off	Manager sign off	Senior manager sign off	Director sign off	Board sign off

Note that in many instances we increase the level of assurance from the minimum standards, for example where there is a higher regulatory or customer expectation. In practice this means many low and medium risk areas are also subject to third party assurance, and because of their inclusion within the APR, are also subject to Board sign off. We will ensure that if the extent of third party assurance on low and medium risk areas falls in future, that we undertake some dip sampling to give stakeholders and customers confidence that these lower risk areas are still robust.

**Figure 5: Roles and responsibilities:**

The table below shows the different options for assurance, when it applies, who is responsible, and its scope.

Activity	When applies	Who is responsible	Scope
<b>Planning</b>			
Methodology statement	All assurance categories	Person(s) or team managing or compiling the submission	Explains process to produce the submission and should include details of: systems, responsibilities, timing, methodologies, calculations etc.  Details the plan to complete the submission, including details of timetable, responsibilities, sign off and governance meetings as relevant.
<b>Audit</b>			
Second person review	Low assurance category	Person with reasonable understanding of requirements  Separate from person who compiled the data	Must check the submission in detail and any associated commentary. Confirm adherence to and adequacy of the methodology statement. Confirm accuracy of data through checking inputs, including any management assumptions and reviewing evidence to support entries or statements.
Internal audit	Medium assurance category and high assurance category as appropriate	An independent internal assurance provider, eg a Group internal audit function or a subject matter expert not directly involved in the return	Responsible for providing independent evidence of verification of data and to define a level of confidence that can be placed on the overall reported data.  Reported/documentated through formal governance channels.
External audit	High assurance category and critical assurance category	Audit carried out by a third party outside the company or group  Independent registered audit organisations or independent experts	Responsible for providing independent evidence of verification of data and to define a level of confidence that can be placed on the overall reported data.  Formal report produced.
<b>Sign off</b>			
Manager sign off	Low assurance category	Accountable manager	Detailed review of data and the narrative by a manager.
Senior manager sign off	Medium assurance category	Accountable senior manager	Detailed review of data and the narrative by a senior manager.  Complete and sign a record of evidence attesting to confidence in the accuracy of the submission.

Director sign off	High assurance category	A single board level director of a business function	Must complete and sign a record of evidence attesting to accuracy of the submission.  Derives an overall confidence assessment for the submission.
Board sign off	High assurance category and critical assurance category as appropriate	Company Board	Board reviews summary of submission and assurance activities followed, as presented by a relevant Director.  Approval of submission must be minuted to enable completion of a record of evidence attesting to accuracy.

### 3.2 Role of our Board

The Board of Directors recognise the responsibilities that come from providing a public service and is therefore fully committed to maintaining high standards of leadership, transparency and governance.

We continue to apply the principles of our Corporate Governance Code on board leadership, transparency and governance. Although we are not a public listed company, the Board recognises that they should act, where applicable, as if we were. Our code has drawn on principles of the UK Code that may be applicable to a privately owned regulated company.

In conjunction with the Board's Audit Committee, the Board as a whole is responsible for the Company's systems of internal control, evaluating and managing significant risks to the Company. The role and responsibilities of the Audit Committee include:

- Monitoring the integrity of financial statements and reviewing significant financial reporting judgements contained therein;
- Reviewing the Company's internal financial controls;
- Monitoring and reviewing the effectiveness of the Company's Internal Audit function;
- Monitoring and reviewing compliance with drinking water quality standards and environmental permits.

The work of the Audit Committee specifically covers business risks, the work of Internal Audit and the external auditor.

## 4. Outcomes of our risk assessment

The following tables show our risk scoring for a variety of data that we regularly produce or publish. We have organised the scoring into three groups:

Table 1: Performance commitments operating between 2020 and 2025.

Table 2: A wide range of other submission and data covering several regulators.

Table 3: PR24 and LTDS submission and data

**Table 1: Risk scores for performance commitments for 2020 to 2025**

Data Item	Data Description	Frequency	Risk Score			
			Likelihood Score	Impact Score	Total Risk Score	Assurance Risk Category
PC D1 water quality compliance	Water quality compliance risk index	Annual	1	3	3	Low
PC D2 water supply interruptions	Average duration of interruption per property	Annual	2	3	6	Medium
PC C1 leakage South Staffs region	Leakage level in the South Staffs region.	Annual	2	3	6	Medium
PC C2 leakage Cambridge region	Leakage level in the Cambridge region.	Annual	2	3	6	Medium
PC C3 per capita consumption South Staffs region	Average litres of water used per person per year the South Staffs region	Annual	2	3	6	Medium
PC C4 per capita consumption Cambridge region	Average litres of water used per person per year the Cambridge region	Annual	2	3	6	Medium
PC D4 mains repairs	Number of burst mains per year	Annual	2	3	6	Medium
PC D5 unplanned outage	Percentage of unplanned outage out of our total production capacity	Annual	4	3	12	High
PC D3 risk of severe restrictions in a drought	Percentage of customers at risk from severe restrictions in a drought scenario	Annual	1	3	3	Low
PC B4 priority services for customers in vulnerable	Percentage of customers registered on our PSR out of the total number of customers	Annual	1	3	3	Low
PC A1 CMEX	Ofwats measure of customer service performance.	Annual	3	3	9	High
PC A2 DMEX	Ofwats measure of developer service performance	Annual	3	3	9	High
PC A3 retailer measure of experience	Wholesaler performance in the business retail market	Annual	3	2	6	Medium
PC B1 financial support	Number of customers that we have helped with debt support and social tariffs	Annual	2	2	4	Low
PC B2 Extra Care assistance	Percentage of customers who have taken up our extra care offering from the PSR	Annual	1	2	2	Low
PC B3 education	Number of people receiving our education services	Annual	1	2	2	Low
PC C5 environmentally sensitive water abstraction	Compliance with the abstraction incentive mechanism baselines	Annual	1	3	3	Low
PC C6 supporting water efficient housebuilding	Water efficiency savings attributed to new build homes in our regions	Annual	3	2	6	Medium
PC C7 protecting wildlife, plants, habitats and catchments	Number of hectares of land we actively management for environmental improvements	Annual	2	2	4	Low
PC C8 carbon emissions	Amount of carbon emissions we produce	Annual	3	2	6	Medium
PC D6 customer contacts about water quality	Overall customer contact rate for water quality concerns	Annual	2	3	6	Medium
PC D7 visible leak repair time	Number of days in which we repair 90% of visible leaks	Annual	1	2	2	Low
PC D8 water treatment works delivery programme	Completion of our water treatment works upgrade programmes	Annual	1	3	3	Low
PC E1 bad debt level	Level of bad debt as a percentage of total household revenue	Annual	1	2	2	Low
PC E2 residential void properties and gap sites	Percentage of void properties that we check each year to confirm their void status	Annual	1	2	2	Low
PC E3 employee engagement	Level of employee satisfaction and our attainment of investors in people accreditation	Annual	2	2	4	Low
PC E4 treating our suppliers fairly	Payment of small companies within 30 days terms	Annual	2	2	4	Low
PC F1 trust	Customer trust in our company from quarterly customer surveys	Annual	3	2	6	Medium
PC F2 value for money	Customer perceptions of our value for money from quarterly customer surveys	Annual	3	2	6	Medium
PC NEP01 delivery of WINEP programme	Completion of our environmental programmes	Annual	2	3	6	Medium

## Table 2: Risk scores for other regulatory information

Data Item	Data Description	Frequency	Risk Score			
			Likelihood Score	Impact Score	Total Risk Score	Assurance Risk Category
Annual charges	The publication of our wholesale and retail annual charges.	Annual	2	4	8	Medium
CCWater quarterly return	The quarterly data return to CCWater on customer service performance and complaints handling.	Quarterly	2	2	4	Low
Annual review of FWRMP, inc SOSI, table 7, table 10, table 1	The annual review on progress of the five year water resources management plan.	Annual	3	2	6	Medium
Abstraction returns	The volumes of water abstracted from our sources.	Annual	2	3	6	Medium
Environmental performance assessment	Discharge permit compliance, pollution events and abstraction compliance including self reporting.	Annual	3	2	6	Medium
Annual streamlined energy and carbon reporting	The annual assessment of carbon emissions.	Annual	3	2	6	Medium
Energy savings opportunity scheme	A submission on the mandatory UK programme introduced under the EU Energy Efficiency Directive.	4 yearly	3	2	6	Medium
Water resources management plan	The five yearly assessment of water resource position and demand forecasting.	5 yearly	3	3	9	High
Drought plan	The five yearly assessment of drought resilience.	5 yearly	3	4	12	High
Water quality annual data tables	The annual submission of our sampling programme for the year ahead.	Annual	2	2	4	Low
Water quality monthly compliance data returns	The compliance sample results from our regulatory sampling programme, sent monthly.	Monthly	1	2	2	Low
Water quality event reporting data, including ERI	The reporting of network events that have occurred, on an ad hoc basis, including DWI ERI	Ad hoc	2	2	4	Low
Water quality audit data	Data requested by the DWI during any audit.	Ad hoc	2	2	4	Low
Water quality customer contact data	The customer contact we have received on a range of water quality themes.	Annual	2	2	4	Low
Water quality regulation 28 submissions, including RARI	The water safety plan risk assessments, including the data supplied for the DWI RARI score.	up to Monthly	4	2	8	Medium
Annual performance reporting (financial elements), excluding cost allocation data	The annual reporting of end of year financial data.	Annual	2	4	8	Medium
Cost allocation	The data on segregation of wholesale and retail costs.	Annual	2	4	8	Medium
Business plan	The five yearly price review process containing multiple data submissions.	5 yearly	4	4	16	Critical
Developer services league tables data	The performance metrics for developer services performance.	Monthly	3	2	6	Medium
October update of access prices	The annual update of access prices for retail combined supplies.	Annual	2	2	4	Low
Blind year true up tables	Submission of blind year true up tables to Ofwat	5 yearly	2	3	6	Medium
Bulk supply agreement register annual update	Annual return to Ofwat detailed our special agreements and bulk supplies	Annual	2	2	4	Low
RBMP impact assessment data submission	Cost data for schemes feeding the River Basin Management Plan impact assessment	One off	4	1	4	Low
Cost assessment data submission	Various financial and asset related data for feeding in to TOTEX process	Annual	2	3	6	Medium
New Development charging rules	Any new charging rules for developers published by Ofwat	Annual	3	4	12	High
Gender Pay	Publication of pay differentials	Annual	2	3	6	Medium
PR19 reconciliation	Submission of data to apply in period true up mechanisms from 2020 to 2025	Annual	2	3	6	Medium

**Table 3: Risk Scores for PR24 and LTDS submission and data**

Data Item	Data Description	Frequency	Risk Score			
			Likelihood Score	Impact Score	Total Risk Score	Assurance Risk Category
PR24 data tables - outcomes	Outcome delivery incentives and performance commitment levels	5 yearly	4	4	16	Critical
PR24 data tables - risk and return	Financial modelling, financeability, resilience, and allowed returns	5 yearly	4	4	16	Critical
PR24 data tables - wholesale costs	Forecast costs and associated drivers for wholesale	5 yearly	4	4	16	Critical
PR24 data tables - water resources	Water resources assets and their characteristics	5 yearly	3	4	12	High
PR24 data tables - retail	Forecast costs, associated drivers, and revenues for retail	5 yearly	4	4	16	Critical
PR24 data tables - developer services	Forecast costs and connections	5 yearly	3	4	12	High
PR24 data tables - supplementary	Additional data including properties, CMex, efficiency and customer engagement	5 yearly	3	4	12	High
PR24 data tables - summary tables	Summary of key measures from BP	5 yearly	1	4	4	Low
PR24 data tables - past delivery	For PR19 reconciliations	5 yearly	4	4	16	Critical
LTDS tables - outcomes	Forecast outcomes for 2025-50	5 yearly	3	4	12	High
LTDS tables - core pathway	Forecast costs for no and low regrets enhancement expenditure	5 yearly	4	4	16	Critical
LTDS tables - scenario testing	Forecast costs for common reference scenarios	5 yearly	4	4	16	Critical
LTDS tables - alternative pathways	Forecast costs for enhancement expenditure in range of scenarios	5 yearly	4	4	16	Critical
LTDS tables - average bills	Forecast bills impact of different adaptive pathways	5 yearly	2	4	8	Medium
Financial model	Model to set price controls and test financeability	5 yearly	4	4	16	Critical
Stress testing	Modelling the impacts of different scenarios on financial resilience	5 yearly	4	4	16	Critical
Customer insight	Alignment of customer engagement to LTDS and PR24	5 yearly	3	4	12	High
Quality gateway	Assurance that quality gateway requirements have been met	5 yearly	4	4	16	Critical



## Outcomes of the assessment process

For the purposes of discussion of results and outcomes, we have focused on high and critical risk areas.

It should be noted that an area identified as critical or high risk does not mean that any data we have published is in any way incorrect. Referring to our assessment criteria, it means that the data could be complex, infrequently produced, with extrapolation or assumptions, or have a high impact on customers, competition, finance or regulation. Where an area is critical or high risk this guides the level of assurance that is required for that data set. We are confident that we have historically had strong management controls, assurance and sign off processes in place for published data.

### Critical-risk data

The following critical-risk areas have been identified:

i. PR24

Due to their significance, Price Reviews will always be an area where assurance and governance is of critical importance and will therefore continually require a high level of assurance activity. The next Price Review, PR24, will culminate in the submission of our business plan to Ofwat in October 2023.

We have highlighted that all data and information associated with the business plan has a high impact on our business as it is used by Ofwat to determine our funding and service for the next period. Most likelihood scores are also high due to the complexity and detail required in the historic and forecast data supplied. This leaves the majority of PR24 data in the critical-risk category.

ii. LTDS

The long-term delivery strategy (LTDS) is a new requirement from Ofwat as part of PR24. We are fully supportive of the increasing importance of long-term planning, and want to embed it as part of our investment planning. We must ensure we are complying with the guidance Ofwat has set out, and that our data and processes are robust. Therefore, almost all LTDS data is considered critical-risk.

### High-risk data

The following high-risk areas have been identified:

i) Water resources management plans and drought plan

We completed our water resource management plan and drought plan in late 2019. During the development of the plan, and across all submission milestones, we provided the appropriate level of assurance which included extensive Board involvement and governance. The five-yearly water resource planning process will always remain a high risk given its complexity and impact. As we approach the next plan, with publication expected in 2023, we will reassess our assurance plan and

once again prioritise assurance for this process. In particular, we will ensure that property projections are robust as this is a key assumption used in our water resources management plan.

ii) New development charging rules

Over recent years there has been significant changes to the approach for developer charging and consultation. We have been consulting on our approach to ensure that we are clear and transparent in how we are charging.

iii) Performance commitments for 2020 to 2025

Table 1 shows that unplanned outage, CMEX and DMEX have been scored at a high risk level.

- For unplanned outage, this is due to outage data being collated manually from works management system records. We undertake extensive validation and assurance on these records, but it remains high risk due to this manual work;
- For CMEX and DMEX, the high scores are a result of the measures being reliant on external survey activity over which we have limited control. We will continue to monitor the results and collaborate with the sector to ensure the process is robust.

#### Medium and low-risk data

The bulk of our data is classified as medium or low risk. In most cases, a medium score is the result of an inherent complexity to a data set or submission that directly causes that score to occur. Our risk assessment also highlights areas where internal processes can be improved which we continue to monitor and address through data improvement activities.

## 5. Assurance plan targeted areas for 2023/24

We have used our assurance risk assessment and any stakeholder feedback we have received to identify the following targeted areas for 2023/24:

**Targeted area A- PR24:** every 5 years, we submit our business plan to Ofwat. Our next plan is due to be submitted on 2<sup>nd</sup> October 2023. It will describe in detail the funding that we need, and the service levels we will deliver to our customers and other stakeholders for 2025-30. This process is critical to the sustainability of our services for our customers, our environment, and our business.

**Targeted area B- long term delivery strategy:** the LTDS will outline our ambition and strategy for the next 25 years (2025-50). It will provide the context for our 5-year business plan, ensure best value for our customers, and provide the framework for future business plan submissions. This is a new requirement for PR24, so it is critical we comply with Ofwat's guidance and ensure our approach is robust.

**Targeted area C- annual customer and developer charges:** it is important that our published charges are calculated correctly, easy to understand, and comply with Ofwat's charging rules.

**Targeted area D- annual performance report:** this sets out all our regulatory, financial and performance related information in the year. It is used by a wide range of stakeholders including Ofwat, customer groups, investors and credit rating agencies. As a result it is critical that the data contained within it can be relied upon.

**Targeted area E- performance commitments between 2020 and 2025:** for common performance commitments, companies have been working towards consistent reporting using common definitions, which we achieved in 2021/22. We will retain this targeted area to ensure continued focus on performance commitment assurance.

**Targeted area F- delivery of water treatment works investment:** between 2020 and 2025 we are going to deliver over £70 million of net investment to upgrade our two surface water treatment works, Seedy Mill near Lichfield, and Hampton Loade near Bridgnorth. This includes an additional £8m secured in the last year under Ofwat's 'Green Recovery' scheme for an alternative, more environmentally friendly solution. We want to ensure that the delivery of these projects is transparent to customers and stakeholders.

**Targeted area G- open data:** data is a valuable asset and can help to drive innovation, efficiency, improved service and transparency. As we share more data publicly, we need to ensure that it is accurate.

## Targeted area A – PR24

### What is the risk?

Every 5 years, we submit our business plan to Ofwat. Our next plan is due to be submitted on 2nd October 2023. It will describe in detail the funding that we need, and the service levels we will deliver to our customers and other stakeholders for 2025-30.

This process is critical to the sustainability of our services over the next five-year period and beyond. Whilst the principles of assurance and governance are fundamentally the same as with our other reporting, the complexity and critical nature of our business plan necessitates a dedicated assurance and governance work stream.

A wide range of activities are currently being undertaken to develop our business plan including:

- Seeking customer and other stakeholder input to our plans
- Identifying the efficient level of expenditure that we need to maintain and improve services to customers
- Determining stretching but achievable levels of service improvement for our performance commitments
- Considering how our plan fits in the long-term context of our ambitions and strategy
- Ensuring our financial resilience so that we can continue to deliver services to customers
- Identifying how to further support our customers who find themselves in vulnerable circumstances
- Ensuring all of our customers find our charges affordable and value for money

These activities require a great deal of work in the development of our plan. We must provide our stakeholders, including our regulators and our customers, with confidence in the processes we have followed and the data we submit. To do this, we need to ensure that we can robustly justify all of our proposals and demonstrate they are based on reliable and accurate underlying data and sound assumptions.

We share Ofwat's view that a business plan can only be of high quality when the data and information presented in the plan has been subject to good assurance processes which ensure it is consistent and accurate. We also agree that a company's full Board should assure that the business plan is of high quality and reflects the views and needs of customers. Therefore, assurance and governance play a critical role in production of our business plan.

### What do we currently do?

We have been closely engaged in Ofwat's PR24 consultation process- in particular the draft methodology (Sept 22) and the upcoming final methodology (Dec 22), which outline Ofwat's expectations for our submission. Reviewing the draft tables showed similarities to the current period annual reporting, which we have already worked hard to ensure our compliance. However, we have risk assessed the table in this report to understand where new requirements and greater granularity may present further challenge. The guidance also outlines the board assurance requirements which we are closely reviewing.

We have developed a multi-layered governance framework which is being used to inform PR24 decision making, including workstream groups, a programme board, a high-level steering group, and our board of directors. This ensures our plan development is subject to internal challenge throughout the process, not just at the end.

Additionally, we have been engaging with external stakeholders to inform our processes and decision making. These include a stakeholder challenge panel made up of informed expert stakeholders who can help shape our plan in the context of current challenges. Additionally,

we are looking to build a citizen's jury of a cross section of our customer base to help inform critical decision making. This is to support our willingness-to-pay, customer acceptability, and affordability projects, and Ofwat's new requirement of Open Challenge Sessions.

Having completed a competitive tender process, we have appointed Jacobs as our external audit provider. They will carry out assurance on high-risk areas which require additional review on top of second person and independent internal assurance processes. We will utilise other external support where necessary for robust assurance of areas requiring specialist knowledge.

### What are we planning to do?

The Board assurance requirements outlined by Ofwat provide the framework for our PR24 assurance and governance planning. These follow four key themes summarised below:

- **Affordability:**  
The Board must be satisfied that the plan achieves value for money. In the context of long-term planning, they must also assure that the plan protects customer's ability to pay their bills into the future and is fair across generations.
- **Costs and Outcomes:**  
The Board must assure the proposed performance commitments are stretching, but deliverable. They must also be satisfied that the planned costs are robust, efficient and that they represent the best option for customers from the range considered. The overall package must be deliverable, reflect our customers views and be affordable, with bill increases no higher than necessary.
- **Risk and Return**  
The Board must assure that the business plan is financeable and maintains the target credit ratings under the notional structure. They should also evidence that the minimum grade can be maintained under a range of stress scenarios. The board must also assure the company is financially resilient for AMP8 and beyond, and the steps taken to ensure this.
- **Customer Engagement**  
The Board should provide assurance that the company's customer engagement and research meets the standards for high-quality research and has been used to inform its business plan.

In order for our Board to sign off on these areas, we must effectively utilise our governance and assurance frameworks we have set up, as explained above. We will ensure a holistic approach to our assurance by reviewing:

- Assumptions
- Systems
- Processes
- Stakeholder input, including board and customer challenge
- Approach to risk management
- Internal controls
- Data and information provided

We will also address the areas from PR19 where we fell short in Ofwat's assessment on assurance, in particular:

- A lack of appropriate assurance on our tax calculation
- Some inconsistencies between business plan data and APR data
- A small difference on the cost of capital used in Ofwat's financial model
- A lack of transparency on our dividend and executive pay policy

We plan to engage regularly with our Board and Audit Committee over the coming year to update them on our progress. We believe by following this approach, we will be able to meet Ofwat's requirements to pass the quality gateway, evidencing our plan meets their expectations to a high standard for assurance and governance.

## What is the impact on our stakeholders?

Stakeholders need confidence that information we will submit at PR24 can be relied upon as it is used to determine the amount of funding we will get to deliver services to our customers.

If Ofwat do not believe we have satisfied their requirements for assurance and governance, our plan will not pass the first quality gateway, which will have both financial and reputational consequences.

## Targeted area B – long term delivery strategy

### What is the risk?

The long-term delivery strategy will outline our ambition and strategy for the next 25 years (2025-50). It will provide the context for our 5-year business plan and ensure we deliver best value for our current and future customers. Ofwat expects this to provide the framework for future business plan submissions. This is a new requirement for PR24, so it is critical we comply with Ofwat's guidance and ensure our approach is robust.

The LTDS is made up of five core sections: Ambition, Strategy, Rationale, Foundations, and Board Assurance. This will be supported by a suite of tables forecasting performance and costs until 2050. We must ensure both the data in the final tables, and the supporting processes and frameworks used for the plan's development are robust and meet Ofwat's guidance. This is critical to producing a high-quality business plan, which evidences how we will deliver best value, resilient service for our customers now and into the future.

### What do we currently do?

We have consulted Ofwat's guidance carefully to ensure our approach in completing the LTDS is aligned to their expectations and meets the requirements set out. This is particularly critical as it is a new submission for PR24.

Additionally, we have engaged independent consultants to support our development of the LTDS to ensure our approach is robust and interprets Ofwat's guidance correctly throughout the process, not just as a final step. We will present our progress and any challenges to Ofwat in a meeting in February 2023.

As long-term planning is uncertain by nature, we are ensuring that we record assumptions, rationale and decisions made to evidence the process we are following. Additionally, we are considering decision frameworks to inform our core investment pathway and scenario testing.

Our WRMP has already identified some of the investment needed in the long term, including a new reservoir in our Cambridge region. Due to the scale of this project, we are anticipating the need for direct procurement and are working to understand how we capture the impact of this as part of our LTDS.

Finally, we have already been engaging our board on the development of the LTDS and the expectations associated. We have planned further touch points over the next year to provide opportunities for them to challenge the approach and help inform decisions, as they are the owners and will be accountable for the strategy.

### What are we planning to do?

The LTDS requires Board Assurance, outlined in Ofwat's guidance. They must explain how they have satisfied that the strategy:

- reflects a long-term vision and ambition that is shared by the board and company management
- is high-quality, and represents the best possible strategy to efficiently deliver its stated long-term objectives, given future uncertainty
- is based on adaptive planning principles
- has been informed by customer engagement
- has taken steps to secure long-term affordability and fairness between current and future customers
- will enable the company to meet statutory and licence obligations- now and in the future

Therefore, we plan to assure that our approach complies with the above areas and the resulting data tables submitted are accurate and aligned to the development work completed. The assurance process will involve internal reviews, external assurance, and board engagement to enable this requirement is met.

#### **What is the impact on our stakeholders?**

Our LTDS should provide confidence for our stakeholders that we are prepared for a range of future scenarios and have planned accordingly to ensure fairness between current and future generations. As such, our assurance process should reflect this.

Ofwat must be confident that our LTDS provides suitable evidence of how our AMP8 plans fit into the long-term context, as this is a gateway to allowing our funding for the next period. Therefore, it is critical to ensuring the sustainability of our services in the short and long term.



## Targeted area C – annual customer and developer charges

### What is the risk?

We publish several different charging documents each year and customers need to be confident that they are being charged correctly and are non-discriminatory. If this does not happen, we could need to re-issue our charges or face a possible breach of competition rules and enforcement action.

### What do we currently do?

All our charges go through strong internal assurance and governance with Board sign off before they are published. We separately assure the models we use to create our charges.

#### Customer charges

Each year we engage with the Consumer Council for Water, who are a statutory consultee. We also engage with water retailers on our wholesale charges. We focus on any areas that could mean bill changes for customers. We model the impact of our charges across a wide range of customer types and usage levels; this enables us to identify any groups of customers that may be adversely affected.

We also recognise that most of our customers are also charged for sewerage services provided by either Severn Trent or Anglian water. We bill and collect this on their behalf. We have improved the communication between us so that we are able to provide our customers with the best level of information with regards the total charges they are likely to face.

#### Developer and NAV charges

We hold regular forums with SLPs, CCW, Fair Water Connections (whom represent Self Lay providers) and NAVs. These meetings are used to discuss and consult on a variety of topics from operational issues through to key items such as our charges.

For NAV charges, we currently use a 'top down' approach to estimate avoided costs. An industry working group has been looking at developing a consistent approach for calculating NAV charges used a more granular 'bottom up' approach.

### What are we planning to do?

#### Customer charges

We recognise the current pressure on households in the current 'cost of living' crisis and that we need to ensure that help is available to our most vulnerable customers. We plan to increase the visibility of our social tariffs on our social media and websites as well as within local communities.

#### NAV charges

In light of the industry working group, we intend to move to a 'bottom up' approach for our NAV charges. We will engage with relevant stakeholders to explain our approach and take into account any feedback.

We also intend to publish draft NAV charges for the first time in October 2023 to allow stakeholders to consider their own offerings to customers

### What is the impact on our stakeholders?

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

## Targeted area D – annual performance report

### What is the risk?

The annual performance report sets out all of our regulatory, financial and performance related information for the year. It is used by a wide range of stakeholders including Ofwat, customer groups, investors, and credit rating agencies. Therefore, it is critical that the data contained within it can be relied upon.

### What do we currently do?

We currently use our statutory auditor Deloitte to externally audit our financial reporting and we use Jacobs to assure our performance commitments, outcome delivery incentives and other non-financial data in our report.

For the last five years we have also produced a summary version of our annual performance report. This mainly covers our high-level financial metrics, group structure and outcomes performance. We will continue to publish this summary version as it is more accessible for customers than our full annual performance report.

As part of new reporting requirements for 2020/21 reporting, we introduced some additional assurance to ensure we were compliant. There were also a number of new data requests for 2021/22 that we expect will continue in 2022/23 and beyond.

### What are we planning to do?

There were a number of new data requests in APR 2021/22 that we expect to continue into 2022/23 and beyond. These were primarily about understanding greater detail of companies' costs and activity on key areas such as leakage, developer services, and retail, amongst others.

Some of the additional data was challenging to produce, either due to the granularity required or the time period requested. We recognise that this data is important and we will implement additional internal checks and assurance to address some of the difficulties we experienced in 2021/22.

We have recently changed our financial auditors from Deloitte to Ernst & Young (EY). We are planning to have early engagement on the audit work required for our APR to ensure that the changeover is as smooth as possible.

We also have two further areas where we will require additional procedures and assurance processes:

- We will be implementing a new billing system next year and so we will need to ensure that all the necessary data is migrated across from the old system correctly
- In August, our parent company, South Staffordshire Plc, was the target of a criminal cyber-attack. We have taken action to protect our systems, putting measures in place to increase the security of our IT network. As a result, there is a risk that some of our data may not be as readily available.

### What is the impact on our stakeholders?

There is no direct impact on service levels from our annual performance report. But it contains critical regulatory information that affects the transparency of our financial and service level reporting.

## Targeted area E – performance commitments between 2020 and 2025

### What is the risk?

For the period 2020 to 2025 we have a number of performance commitments defining our regulatory service targets over that period. A greater proportion of these are financially incentivised than in the previous price control period. We have achieved full compliance with all of the common sector methodologies in 2021/22 and we will continue to maintain and develop this over 2022/23 and beyond.

### What do we currently do?

We have been fully involved in the water industry's drive to improve consistency for several key service level metrics over the past four years, actively participating in industry workshops which sought to improve definitions and provide commonality between companies where there were differing interpretations of requirements. Since then, we worked towards and achieved full compliance with these common definitions in APR 2021/22, and where appropriate we reported historically adjusted performance values in our APR.

### What are we planning to do?

In order to maintain compliance and ensure continuing improvement and transparency of our assurance, we are working with our technical assurance partner, Jacobs. We will be running half year assurance activity internally to ensure we are on track for addressing any risks highlighted at our APR 2021/22 assurance, and to help with workloads and resourcing since the APR2022/23 assurance will coincide with a substantial volume of assurance work for PR24.

We are looking to introduce a new assurance system via our assurance partner - Track Record- which will hold all our assurance reporting in one place, and enable us to easily track each stage of internal and external assurance, and any changes made. As part of this implementation, we plan to run internal workshops with our assurance leads and our assurance partner to direct a good assurance message through our business.

We are also strengthening our internal assurance with support from our Group internal audit function and Audit Committee, starting with a formal documentation review.

### What is the impact on our stakeholders?

A wide range of stakeholders, from regulators through to customers, are interested in our performance and assurance for service targets. We will need to ensure we effectively communicate our performance and assurance activity to customers and other stakeholders. This includes tailoring our communications to different stakeholders in order to ensure our performance is accessible to everyone.

## Targeted area F – delivery of water treatment works investment

### What is the risk?

Between 2020 and 2025 we are going to deliver over £70 million of net investment to upgrade our two surface water treatment works, Seedy Mill near Lichfield, and Hampton Loade near Bridgnorth. This includes an additional £8m secured in the last year under Ofwat's 'Green Recovery' scheme for an alternative, more environmentally friendly solution. We want to ensure that the delivery of these projects is transparent to customers and stakeholders.

### What do we currently do?

As we started our programme of work, we have kept stakeholders informed by posting updates on our website. This includes a mixture of text and video to show the progress we are making on site. The latest update can be found here:

<https://www.south-staffs-water.co.uk/news/innovative-investment-for-water-treatment-works>

We also had our technical auditors, Jacobs, peer review the evidence we intend to use to enable us to report against our delivery performance commitments. This was to ensure we are ready to report when the first milestone of delivery is expected in 2023.

In our 2022 APR, we had to report on our progress on 'Green Recovery' in two new tables (4S and 4U) along with an accompanying narrative. Following submission, Ofwat requested additional information regarding DWI reporting and our cost projections for the remainder of the period.

### What are we planning to do?

We continue to explore how we can enhance our communication with stakeholders further. This includes:

- How we communicate regular progress on the schemes to our customers in a way that they can follow and be interested in.
- How we can integrate this with our existing social media presence.

We will engage with other companies to look for good practice in this area, including for companies outside of the water industry. We will also be seeking ideas from our delivery contractors.

In our 2023 APR, we will ensure that the additional information Ofwat requested in 2022 is included in our 'Green Recovery' publication and use our technical assurance partner to validate our cost projections.

### What is the impact on our stakeholders?

Customers and other stakeholders have been highly supportive of the need for these schemes and this support played a key part in our success in gaining funding in both our PR19 final determination and the green recovery process. It is important to us that we keep these groups informed of progress to provide visibility to customers on what this funding is achieving for them.

## Targeted area G – Open Data

### What is the risk?

Data is a valuable asset and can help to drive innovation, efficiency, improved service and transparency. As we share more data publicly, we need to ensure that it is accurate.

### What do we currently do?

We already share a range of data with stakeholders externally. Some of this data is a regulatory requirement, for example the Annual Performance Report. Data in other areas that we currently share include:

- Service performance dashboard – This provides regular updates on our performance throughout the year on areas the matter to customers, for example the number of leaks, number of properties affected by supply interruptions and how many water meters we have fitted. This can be found at the following link: <https://www.south-staffs-water.co.uk/about-us/our-performance-dashboard>
- Metrics on quarterly service performance through water UK, for example developer services.

In October 2021, Ofwat published a paper outlining how open data can enable water companies to create value for water customers, communities, and the environment. Ofwat have appointed PwC to run an open data progress assessment in for the industry through November and December which we will respond too.

We also attended an UKWIR big data pathfinder workshop, aiming to promote big data/digital related research and to provide support to pilot/explorative projects that can be developed into competitive full-scale proposals.

### What are we planning to do?

PwC has produced a framework which identifies key enablers/ activities that support high quality data that can generate benefits for customers, communities, the environment and the water sector.

During the next year we will be planning to apply the PwC framework and also use the feedback from the PwC progress assessment to develop an open data plan for 2023. This will include:

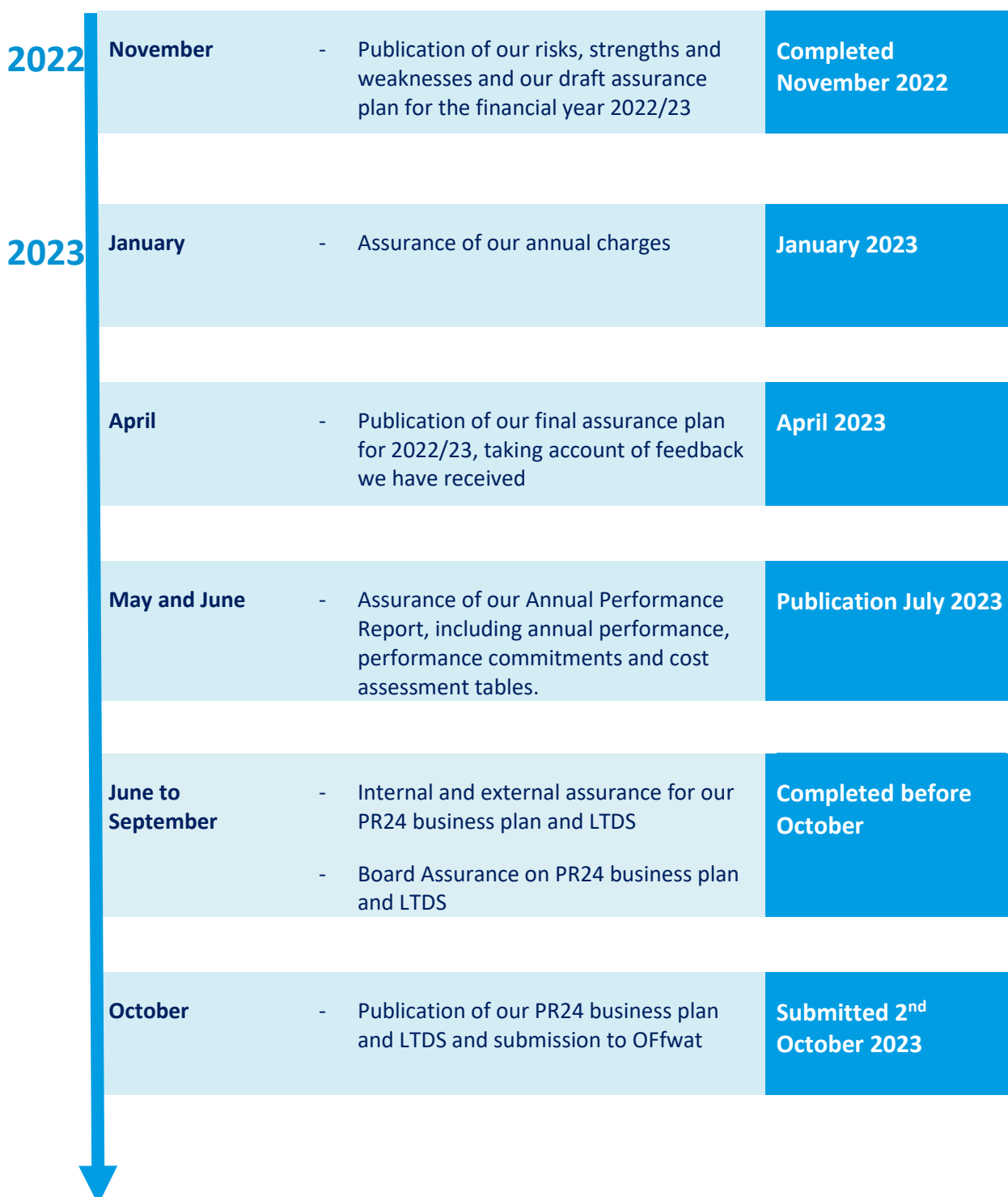
- Further development of our open data strategy
- Ensuring we have the right level of resource and expertise in order to embed Open Data into the culture of the Company and ensure we have the right infrastructure in place to achieve the required outcomes to benefit stakeholders
- Development of a dedicated webpage for Open Data where we can provide easy navigation and access to our data
- Put processes are in place to ensure that any data that is shared is robust and accurate whilst recognising the importance of timely information

### What is the impact on our stakeholders?

Opening up our data will help us to be more transparent with our stakeholders on how we are performing. It will also enable more collaboration between parties to identify new processes and innovative solutions.

## 6. Assurance timescales for 2022/23

Below we set out a high-level summary of our assurance programme over the year 2023/24



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