

Final Assurance Plan

Annual Performance Reporting

29 March 2018

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Welcome

The water sector is going through the biggest period of change in its history.

New markets are being introduced for some parts of our business, emerging technologies are rapidly changing the way we provide our services and our customers' expectations are different to those in the past. We also face challenges from climate change and housing and population growth.

To meet these challenges we need to be bold and innovative.



Last year we published our 25-year strategy, Let's Talk Water: A resilient future for water in the South East, which outlines some of the ways we will meet these challenges – and make the most of the opportunities they present.

While it is right that we look to the future, at the heart of our strategy is also a recognition that we need to get the basics right, right now.

We talked to you, our customers, our regulators, local councils, developers and environmental groups and more than 500,000 of you shared your views with us. So a huge thank you to those of you who took part. We listened and used what you said to form our goals, which we have published in It's your water too, which you can find by visiting southernwater.co.uk/have-your-say/its-your-water-too.

We're proposing ten big goals to help we shape our business over the next five years and beyond. The first five are about strengthening the foundations of our business, being brilliant at the basics and making sure we're providing the services our customers expect. The second five are about tackling the big challenges that lie ahead, by working in ways that are cleaner, greener and better.

In November 2016, our economic regulator, The Water Services Regulation Authority (Ofwat), told us that the standard of some of the information we make publicly available fails to meet its expectations. In addition, we received feedback from our customers and stakeholders that sometimes our communications are confusing, too technical, or that our website is awkward to use.



While this was disappointing to hear, we accepted the criticisms and set about tackling these issues.

Over the past year we have worked hard to understand how to get it right. This includes putting in place actions directly targeting the areas where Ofwat, and our other regulators, told us that we have fallen short.

In the 2017 assessment of our reporting quality, we were pleased that Ofwat acknowledged some areas of significant improvement in the information we present to our customers compared to 2016. However, we also fully accepted its findings that we still have several shortcomings to address.

This year, we created two new teams – a Data team to coordinate and verify the data and statements we make about our performance, and a Compliance and Asset Resilience directorate to give greater oversight to regulatory reporting and our compliance framework.

Of course, the efforts we are making can only be truly successful if they are judged to be so by our customers.

You can also find out more about our plans for the future – and tell us what you think – by visiting southernwater.co.uk/have-your-say.

Please help us to build a better business so that we can serve you well now, and long into the future.

Ian McAulay
Chief Executive Officer

1. Summary

We are now in the third year of delivering the promises and performance commitments that we made to customers and stakeholders in our 2015–20 business plan.

Our Annual Report and Financial Statements outlined the key activities that we undertook in 2016–17 to deliver our business plan, together with a view of how well we had performed over the first two years of our plan against our performance commitments (these are detailed in Appendix 1).

We understand, however, that the heart of our business is the relationship we have with our customers and how we communicate is just as important as the services we provide.

Part of building trust with customers and stakeholders lies in the way we provide information about our performance in a way that is clear, accessible and accountable.

In addition to supplying transparent factual company data, we must also ensure that our stakeholders can access and understand important guidance that is specifically relevant to them. For instance, they should be able to understand how we work out their bills and follow the advice that is available on a range of topics via our website and other media.

Given the importance of our communications, we have processes in place to gather feedback to make sure we are getting them right.

The diagram below shows how we gather observations from our regulators, customers and stakeholders and how we respond to this feedback.

This document forms a key part of this collation and evaluation process.



Its importance to us is therefore hard to overstate. In 2016, our regulator Ofwat told us that our reporting fell short of its desired standards. We have worked hard over the past year to address those concerns, and Ofwat has recognised the significant improvements we have made. However, we know there is still a way to go to regain Ofwat's trust and inspire confidence in our reporting processes.

The document itself is presented in two parts. The first (section 2) looks at the risks, strengths and weaknesses in the way we provide our performance data and advisory information to customers and other stakeholders.

We assess our current position (our risks and strengths), what areas have been flagged to us as requiring more work (our weaknesses) and what we are currently doing to address our shortcomings.

Based on the findings of this review, we have produced the second part of this document (section 3) an assurance plan to outline how we propose to improve our reporting in the months ahead.

2. Risks, Strengths and Weaknesses

In this section we set out our engagement with customers, stakeholders and regulators and based on the feedback, and our summary of our internal governance, we assess our risks, strengths and weaknesses in relation to performance reporting.

2.1 Engagement overview

We welcome feedback from customers and stakeholders on our performance and how we talk about it in our publications, on our website or in direct conversation.

Our regulator, Ofwat, specifically requires us to seek feedback on the main vehicle for our formal performance statements, the annual report. We have used these insights to update what we know about the risks, strengths and weaknesses of our reporting activity.

In Table 1 below, we list the main points that were raised by stakeholders during our 2016 engagement exercise, and describe what we did to address them in the way we presented our performance reporting in our annual report 2016–17.

Table 1: How we used your feedback to shape our 2016–17 annual report	
You wanted us to...	How we've responded...
Better target our report towards different categories of user	As well as publishing our formal annual report 2016–17, we produced a shorter summary version and published bite-sized chunks on our website so that readers could select the most relevant parts to read
Signpost a link to the annual report on customers' bills to highlight that such information is available	As well as promoting our annual report through our website, we included a web link to it in the billing information we send out to customers
Provide more information on Southern Water's performance against its biodiversity commitments	The section on our sustainability and environmental responsibility has been expanded to include a detailed look at the work we are doing on conservation and biodiversity, including how we are meeting our biodiversity targets
Include more case studies highlighting areas of success or innovative ways of addressing core challenges	We included a number of case studies in our annual report to bring to life some of the real issues we are tackling across the region
Explain the role of the Customer Advisory Panel (CAP) in the governance of our performance reporting activity	A section on the role of our CAP is included on page 25 of our annual report

2.2 Feedback from customers

Building on the 2016 exercise we have improved how we listen to customers on the information we provide, by using a variety of feedback channels:

- Following the publication of our annual report in July we invited stakeholders to complete a short survey to give their views on the way information was presented and any concerns they had with the quality of it
- We invited direct feedback on the report via a dedicated email address
- We spoke directly to the Environment Agency (EA) and the Consumer Council for Water (CCW) to hear their views in greater depth
- We invited feedback from our Customer Advisory Panel (CAP) on our annual report and other publications
- We used the insight gained from our annual stakeholder audit on our broader engagement activity
- We have drawn on feedback gained from the developers who attended our engagement workshop in October 2017.

Overall, your feedback on the way in which we present our information was positive, recognising that there is unlikely to be a single method that will work for every customer and stakeholder. The main points raised and our commitments are detailed in Table 2:

Table 2: Our engagement feedback		
Key themes of response	Comments received	Our commitments
Our reporting needs to stay accessible	<p>Notable shift from all of the water companies towards making their documents more engaging, but recognise difficulty in engaging customers on performance information (CCW)</p> <p>Bite-sized annual report to be welcomed (by the conservation organisation, WWF). Format, look and feel of annual report were good (EA)</p> <p>Noticeable effort to make published information more accessible. But tendency to slip into jargon. Also need to consider how we make our financial information more accessible (CAP)</p>	<p>We commit to the use of plain English in our publications, where possible</p> <p>We will establish a customer panel and use this to test the way in which we report our performance information</p> <p>We commit to continuing to reach as many customers as possible by using a broad range of channels including our website, social media and direct conversations</p>
Our reporting needs to be consistent across all channels and to all stakeholders	<p>Our regulators expect our annual report to be consistent with the regular performance information they receive (EA, CCW)</p> <p>Our CAP like the visibility of our monthly management dashboard which sets out how we are performing against our commitments and enables them to challenge us</p> <p>Pleased that companies are working together to improve the consistency of reporting across the sector. This is to be applauded (EA)</p> <p>More information is required on the metric definitions as well as contextual information to aid customers' understanding of overall performance (EA)</p>	<p>We will continue to ensure that our reporting is consistent across all channels and between all stakeholders</p> <p>We will provide customers and stakeholders with comparative information by including a link to Discover Water on our website</p>
Our reporting needs to show a fair balance of good news and challenges that have been addressed, and should show how our performance compares to other companies	<p>Case studies of how we have improved our performance were well received (all)</p> <p>But was there too great a focus on positive stories over negative (WWF) or the balance was just right (CCW)</p>	<p>We will ensure our reporting presents a fair balance of both our success stories and our challenges, including providing examples of where we have directly addressed a performance challenge</p>
You want to hear about our performance more frequently than you do currently	<p>We have shown a greater willingness to engage and have become more outward focused (stakeholders)</p> <p>Improvement suggestions included more frequent communication, more community activity, more activity on social media and more information on the development of our plans (stakeholders)</p>	<p>Working with customers and stakeholders we will establish a dedicated section on our website which provides more regular information on how we are performing. We will also investigate whether we can provide more targeted information</p>

2.3 Feedback from our regulators

We know that the role of our regulators (including other statutory bodies such as the Consumer Council for Water) is of paramount importance to the effective operation of the water industry. It is therefore key to us to understand their concerns and work with them productively. Employees at all levels of the company meet our regulators routinely and share information as required. We believe that strong working relationships are crucial to helping us meet our regulators' requirements, so we are pleased that we are building on our many positive consultations and exchanges with them. However, issues do emerge and this section details what these are and how they are being addressed.

2.31 Ofwat

Ofwat's company monitoring framework

For the period 2015–20, Ofwat has developed its own company monitoring framework (CMF) to ensure the quality and accuracy of information that water and wastewater companies provide to their customers and stakeholders. As part of this framework, Ofwat specified the minimum level of information that companies are required to report. It also carries out an annual assessment of each company placing them into one of three categories:

- **Self-assurance** – companies that Ofwat trusts to deliver their own assurance arrangements.
- **Targeted assurance** – companies that Ofwat believes need some external oversight to improve reporting and assurance procedures in some areas.
- **Prescribed assurance** – companies that Ofwat believes require wider external intervention to build confidence in the rigour of their reporting and assurance activities.

In 2016, Ofwat gave Southern Water an assurance rating of 'prescribed', lower than our previous rating. This was based on serious concerns that it had identified in relation to two specific areas and some minor concerns in other areas.

Following the assessment, we worked proactively with Ofwat to understand the causes of its concerns and put an action plan in place to ensure these are addressed with a view to improving our status at the next review.

Ofwat's 2017 assessment

On 30 November 2017 Ofwat published its latest assessment of companies reporting performance.

Overall, Ofwat said that it had seen some areas of significant improvement from Southern Water in 2017 as compared to the previous year.

In particular, the activity we took to engage our customers on our charges exceeded its expectations of companies. Other positive feedback was given on the quality of the data assurance plan, and the summary of our assurance activity which we published alongside our annual report. Ofwat also found that our reporting demonstrated that we are meeting its principles on board leadership and governance.

However, overall Ofwat found a number of minor concerns in our reporting. This includes reporting of our outcomes, a few errors in our financial information, and the quality of our casework responses.

Ofwat concluded that we had not yet made enough of an improvement to lift us out of the 'prescribed' category.

An overview of Ofwat's findings is in the table below:

Our response to Ofwat

Ofwat has recognised some areas of significant improvement compared to the 2016 assessment and we will continue the improvement process we put in place. With the support of our Board of Directors, and overseen by our Chief Financial Officer, our executive team of senior managers will continue to:

- *review and address each point raised by Ofwat to create an action plan to improve the quality of our reporting*
- *review the best practice of other companies and use these findings in our improvement plans*
- *meet regularly with Ofwat to understand its concerns and update it on the progress we have made*
- *commission our technical assurers, PricewaterhouseCoopers LLP (PwC), to review each specific action taken in response to Ofwat's concerns.*

Level of concern	Area	Ofwat's comments
Exceeds expectations	Charges engagement	<ul style="list-style-type: none"> • Our Board assurance statement is very clear and informative, setting out how we comply with each relevant charging rule • Our charges documents can be easily accessed on our website by stakeholders • We demonstrated timely correspondence with the Consumer Council for Water (CCW) on proposed changes to prices
Meets expectations	Compliance with principles of Board leadership, transparency and governance	<ul style="list-style-type: none"> • The information we provided demonstrates how we are meeting Ofwat's principles for board leadership, transparency and governance
Meets expectations	Risk and compliance statement	<ul style="list-style-type: none"> • A clear statement was provided by the Board on how we are meeting our obligations regarding compliance and risk management
Meets expectations	Assurance plan	<ul style="list-style-type: none"> • The plan clearly sets out the context and purpose, demonstrates good stakeholder engagement and shows how the plan has been changed to reflect feedback • Our plan is appropriate for a company in the 'prescribed' category
Meets expectations	Data assurance summary	<ul style="list-style-type: none"> • The summary has been overhauled from 2016's with an increased level of content • It is a succinct and comprehensive summary of assurance undertaken through the year • It is written as a standalone self-standing document that is easy to read and is prominent on our website
Minor concerns	Financial monitoring framework	<ul style="list-style-type: none"> • Ofwat's review found a number of errors which, while not material, indicated that Ofwat's reporting guidance had not been followed completely
Minor concerns	Outcomes	<ul style="list-style-type: none"> • There was clear evidence of our reporting being transparent and accessible, with our website and annual report providing well presented, clear and easy to understand performance information • There was clear evidence of wider assurance to demonstrate that we are listening to customers • However, concerns raised over issues we have had with gaining technical assurance on some of our wastewater performance metrics
Minor concerns	Casework	<ul style="list-style-type: none"> • Ofwat has raised concerns with the need to seek additional clarification on two open cases

Developer Services

One of the areas highlighted by Ofwat in its company monitoring framework as being in need of improvement concerned our services for property developers.

As the South East region is expecting to see significant levels of housing growth over the next 25 years, we recognise that we need to work more effectively with developers to ensure that this growth is accommodated in a sustainable way.

In the past, Southern Water has faced criticism from planners and developers in the way in which we respond to the needs of house builders. In response, we held a workshop in October 2017 to encourage developers to tell us where we could improve our service and co-design an action plan to tackle the issues together and improve our performance in this area.

Meanwhile, Ofwat is proposing to introduce a new measure of the standard of services provided to developers based on qualitative aspects, such as how user-friendly and efficient they are. Called 'D-Mex', the measure will be a common performance indicator applied to all water companies from 2020. This will be in addition to Water UK's existing way of measuring the level of performance, which is based on quantitative aspects such as how many developers receive services.

2.32 Drinking Water Inspectorate (DWI) reporting

Southern Water is currently subject to enforcement actions by the DWI in respect of:

- *the submission of information and data associated with the Water Industry (Suppliers Information) Direction 2012 (updated 2017)*
- *delays to some improvement works.*

The DWI are also considering whether to take steps in relation to:

- *compliance with the Water Supply (Water Quality) Regulations regarding the collection of the required number of samples*
- *an incident at one of our reservoirs in 2013.*

We recognise the importance of data management in the protection of public health. We have recently established a new Compliance and Asset Resilience directorate that has introduced an enhanced programme of collecting and verifying our data, from the planning and scheduling of drinking water sampling right through to reporting.

The components of this programme, known as 'Water First', are detailed in section 2.41.

As part of this programme we will collaborate with the DWI during the implementation process.

2.33 Environment Agency (EA) reporting

We provide a significant amount of data to the EA about the performance of our assets and any wastewater or sewage discharges we make into what is known as the 'water environment' such as rivers, streams and coastal waters.

We previously identified the need to improve our reporting with a view to implementing better processes and controls. In our 2016–17 Annual Report and Financial Statements we made it clear that we still needed to complete this improvement activity and, as such, our technical assurers were unable to assure information in relation to the following metrics:

- *Wastewater Treatment works population equivalent compliance*
- *Wastewater treatment works numeric compliance*
- *Category 3 pollution incidents.*

We fully understand that this area represents a risk for us and our new Compliance and Asset Resilience directorate is leading improvements in the planning, scheduling, monitoring and performance reporting to the Environment Agency. We include details of the 'wastewater improvement programme' in section 2.41.

In addition, we are in the process of completing assurance of these metrics for 2016–17 according to what are known as 'agreed upon procedures'. This work is being completed by our technical assurers PricewaterhouseCoopers (PwC).

2.34 Consumer Council for Water (CCW) reporting

In June 2017, CCW's Chair, Sir Tony Redmond, wrote to our Chief Executive Officer, Ian McAulay, welcoming the improvement initiatives that the company has put in place to address our complaints performance over the past year. CCW acknowledged the reduction in written complaints for 2016–17, reflecting that this was the company's best performance since 2005–06. However, both parties agreed that there is still more to do. To ensure this improvement continues, CCW has requested that we continue to share our quarterly interim complaints data.

We recognise that we need to build on our recent improvements and are fully committed to achieving this. Included in our quarter one report was a summary of the key initiatives which make up our Customer Service Transformation programme.

These include:

- *Enhanced online services*
- *A dedicated Home Move team*
- *Joint billing with South East Water to simplify the process for customers*
- *More targeted billings and collections*
- *The consolidation of our outsourced service partners*
- *The development of a new operating model.*

2.4 Our company governance

At Southern Water, we have adopted a best practice standard the 'three lines of defence' framework for our data governance and assurance activity. This sets out to assure performance information by applying these multiple levels of control. This is illustrated in Table 4 below:

Lines of defence		Accountabilities and activities
First Business operations	Business management process and controls	<ul style="list-style-type: none"> • Developing and maintaining sound processes and controls over operations • Reporting financial and operational performance measures including our performance commitments and other external regulatory measures • Ensuring data quality and integrity over information • Assessing changes in risk profiles and implementing mitigating actions • Integrating all compliance requirements into day-to-day operations and monitoring adherence
	Operational and financial control monitoring and measures	
Second Oversight functions	Regulation and compliance	<ul style="list-style-type: none"> • Liaising closely with business operations to ensure activities are controlled and effectively operated • Setting policy and procedures • Ensuring the ongoing challenge, monitoring, assurance and governance of business operations • Reviewing regular and ad hoc performance reporting • Identifying risks and enabling risk management processes • Gathering industry intelligence and linking closely with regulators and stakeholders • Building compliance and resilience into our water and environmental processes • Standardising data governance and reporting
	Health and Safety	
	Financial control	
	Legal / Company Secretary	
	Human Resources	
	IT security	
	Risk management	
	Compliance and Asset Resilience	
Data Analytics and Reporting		
Third Independent assurance	Internal audit	<ul style="list-style-type: none"> • Completing internal audit reviews of systems, processes and control monitoring through ongoing testing and assurance of key processes using a risk-based approach • Completing third party risk-based assurance of financial and regulatory accounts and performance information • Linking closely with first and second lines of defence and activity on issues identified or reported
	External financial auditors	
	Third party technical auditors	
	CAP	
	Board and Audit Risk Review Committee	

Other key features that we employ which relate to data governance include:

- *a risk and compliance statement signed by the Board, which is a key part of our annual report*
- *top-level challenge of business performance that allows for action to be taken where improvement is required. This happens through our framework of monthly performance reporting to the Board and Executive Leadership team*
- *an obligation on Executive Leadership team members to submit a letter of compliance every six months to confirm that the areas of the business for which they are responsible are compliant with legal and regulatory requirements, company procedures and controls*
- *a requirement on all staff to report any issues with procedures or with information being reported. This is supported by our 'Speak Up' campaign – an initiative specifically introduced to provide all staff with simple ways to report any concerns*
- *a risk framework for the identification, assessment, management and communication of key risks to our business (see Appendix 2 for a description of our corporate risk framework)*
- *the Board's Audit and Risk Review Committee (ARRC) monitors assurance activities during the year. It also reviews the processes undertaken by internal and external audit teams and their reported finding*
- *a board effectiveness review which has been completed by an expert independent of the company and its stakeholders.*

It is a statutory requirement that annual accounting statements (our financial information) are audited and that an independent auditor's report is produced. We believe customers should see the same principle applied to reporting on the delivery of our non-financial business performance information.

Following the introduction of risk-based regulation by Ofwat in 2012, we have continued to use independent external technical assurance providers to complete reviews of our regulatory compliance reporting processes and associated data, as well as reporting to ARRC. Our current technical assurers are PricewaterhouseCoopers LLP (PwC). We will continue to use independent experts in customer service, asset management and operations to complete assurance work on our performance reporting.

Deloitte LLP conducts an independent external audit of our financial statements every year. Based on its independent financial materiality assessment, Deloitte also provides a 'true and fair view statement' of our annual financial statements.

2.41 Strengthening our governance

We take any feedback relating to our data assurance and reporting very seriously and we know we need to improve. As a result, we have implemented two key organisational changes that are targeted towards strengthening our control and governance of reported data.

We have set up the Compliance and Asset Resilience directorate to give greater oversight to our regulatory reporting and compliance framework.

Key activities include:

- *The establishment of an overall compliance framework including engagement with external academics on best practice*
- *The development of a compliance dashboard to identify key performance indicators and ensure they are reported effectively*
- *Embedding ethical business practice across our company as part of our compliance requirements*
- *Recruiting a new senior team dedicated to compliance management*

While the Compliance and Asset Resilience directorate has full cross-company compliance responsibilities, it is also implementing two specific programmes relating to how we improve our water and wastewater operational processes and our performance information processes.

Our 'Water First' programme aims to improve our activities relating to:

- *compliance risk identification*
- *catchment risk management*
- *planning, scheduling, monitoring and reporting of water quality*
- *water quality instrumentation systems, process and information management.*

In addition, we have established a wastewater improvement programme includes:

- *end-to-end flow and spills reporting*
- *permit information and its ease of use*

These two programmes are underway and will focus on process improvements and greater resilience in our performance and operational information.

We have also set up a new corporate Data Analytics and Reporting team. The team will centralise all data management activities and introduce new data analytics and performance tools. It is also aiming to standardise our data reporting and data governance requirements. It also supports all performance reporting across the company including initiatives detailed in this document.

2.5 Summary of Risks, Strengths and Weaknesses

We have come a long way in improving the way we collect, assure and present our performance data, but we know that there are areas where we can do better. Summarised below are the main 'risks' relating to our performance reporting and the areas of strength and weakness obtained from what our customers and stakeholders have told us, as well as what we have learnt ourselves:

Our risks

- Maintaining high quality in the regulatory and statutory reporting we are required to undertake for our regulators
- Meeting the stringent assurance and reporting requirements for the next five-year business plan
- Ensuring we respond in an effective and timely manner to regulators' concerns.

Our strengths

- The establishment of new organisational teams to improve compliance, resilience and data governance
- Improved quality and transparency in respect to our reporting in our annual report and on our website
- Ofwat has reported some 'significant' improvements in our company monitoring framework assessment compared to 2016
- A greater focus on engagement with our stakeholders and regulators.

Our weaknesses

- Improvements required to our performance reporting, in particular, those relating to our regulator's requirements
- Ofwat 'prescribed' ratings in both 2016 and 2017 Company Monitoring Framework Assessments
- Our responses to planning and developers in relation to their requirements
- Further developments required to our risk management systems and processes.

The next section sets out our assurance plans aimed at improving our performance reporting.

3. Assurance Overview and Final Assurance Plan

Section 2 summarises our risks, strengths and weaknesses for performance reporting. This section sets out our proposed assurance plan for 2017–18, which aims to reduce our reporting risks.

Key sources of information used to develop the plan include:

- *Feedback from our engagement process as detailed in section 2 and potential risks and weaknesses that we have identified or have been raised by our regulators*
- *The regulatory and statutory reporting activity we are required to undertake. In particular, our annual report and financial statements where we publish our annual performance information, the performance commitments we made to comply with our business plan promises, and associated outcome delivery incentives*
- *Reporting and other activity relating to the preparation for our next five-year business plan, including our reporting of cost information and stringent assurance requirements for business plan data*
- *The way in which we set our customer tariffs*
- *Any changes to the market in which we operate. Southern Water moved out of the non-household retail market following the introduction of competition in April 2017. We transferred this aspect of our business to the company, Business Stream.*

For our main information and reporting areas across the business, we apply internal controls and have processes in place to mitigate the risk of supplying incorrect or inaccurate information. Our assurance processes operate throughout the year and a number of key activities are in progress or have already been completed.

Based on our reviews, we have drawn up the following final assurance plan to detail how we propose to tackle our reporting risks.

Our Final Assurance Plan is detailed in Table 5 (5a to 5f)

Table 5a: Our commitments following stakeholder engagement		
Stakeholder observations	Explanation for inclusion	Our commitments
Our reporting needs to stay accessible	Customer and stakeholder feedback that we need to ensure our reports are clear and do not use jargon	<ul style="list-style-type: none"> We commit to the use of plain English, where possible We will establish a customer panel and use this to test the way in which we report our performance information We also commit to reaching as many customers as possible across a broad range of channels including our website, social media and in direct conversation
Our reporting needs to be consistent across all channels and all stakeholders	Feedback from stakeholders over desire to ensure consistency across different regulatory reports	<ul style="list-style-type: none"> We will continue to ensure that our reporting is consistent across all of our channels and between all stakeholders We will provide customers and stakeholders with comparative information by including a link to Discover Water on our performance webpage
Our reporting needs to show a fair balance of good news and challenges addressed	Stakeholder challenge as to whether we prioritise good news over more challenging stories	<ul style="list-style-type: none"> We will ensure that our reporting presents a fair balance of both our success stories and our challenges, including providing examples of case studies demonstrating how we have directly addressed a performance challenge
You want to hear about our performance more frequently than you do currently	Customer and stakeholder feedback on level and frequency of information	<ul style="list-style-type: none"> Working with you, we will establish a dedicated area on our website which provides more regular information on how we are performing We will investigate whether we can provide more targeted information

Table 5b: Actions to be taken following Ofwat's company monitoring framework assessment			
Significant areas for assurance	Explanation for inclusion	First and second line of defence (mitigating actions)	Third line of defence assurance (third party and internal audit)
Financial monitoring framework	Ofwat's review found some errors which, while not material, indicated that Ofwat's reporting guidance had not been followed completely	We will review our reporting in relation to these areas and will introduce additional measures to prevent recurrence of these minor errors	As part of our assurance process we will ask our technical assurers, (PwC), to ensure that we have addressed each of Ofwat's concerns
Casework	Ofwat has raised concerns about the need to seek additional clarification on two open cases	<p>We will work with Ofwat to understand why our casework responses do not meet their requirements</p> <p>We will put in place further improvements in our processes with developers to reduce casework activity</p>	As part of our assurance process we will ask our technical assurers, (PwC), to ensure that we have addressed each of Ofwat's concerns
Outcomes	Concerns raised over issues we have had with gaining technical assurance on some of our wastewater performance metrics	These concerns relate to our reporting of certain wastewater metrics. Our first and second line of defence actions are detailed in Table 5d	These concerns relate to our reporting of certain wastewater metrics. Our third line of defence actions are detailed in Table 5d

Our Final Assurance Plan is detailed in Table 5 (5a to 5f) continued

Table 5c: Assurance of our 2017–18 Annual Report performance data			
Significant areas for assurance	Explanation for inclusion	First and second line of defence (mitigating actions)	Third line of defence assurance (third party and internal audit)
Our next annual report (2017–18)	<p>Our annual report is the primary way that we publish our annual performance information and it is made available publicly to all stakeholders. It includes:</p> <ul style="list-style-type: none"> • our statutory accounts – audited separately by Deloitte LLP • our annual performance and how this fares against our commitments (as detailed below) as well as broader information on our commitments and responsibilities to stakeholders and customers • Our Long Term Viability Statement (LTVS) included with our statutory report 	<p>We have an internal set of financial instructions that detail the financial control framework and approvals required within the business which all employees are required to follow</p> <p>Monthly management accounts are produced and reported to the ELT and Board</p> <p>The reporting and control of performance commitments is covered in the section below</p> <p>The LTVS and supporting analysis is presented to, and approved by, the Board and ARRC as part of the process for them to approve the Annual Report and Financial Statements</p>	<p>Corporate auditors Deloitte LLP (Deloitte) audit the annual report according to Ofwat’s scope of work and audit requirements</p> <p>Deloitte will carry out ‘agreed upon procedures’ assurance on reported performance data and the presentation of information and risks</p> <p>Deloitte will review the LTVS as part of the year end statutory audit. In addition they will undertake ‘agreed upon procedures’ assurance on the information used to support the statement</p>
Performance commitments and outcome delivery incentives (ODIs) 2017–18	<p>Our business plan for 2015–20 made 26 promises to our customers with a clear set of targets to deliver by 2020. This will be year three of this planning process. We assure these metrics during the year and as part of a year-end exercise, with additional emphasis on critical and high risk areas (as detailed in the section below)</p> <p>As part of Ofwat’s efforts to ensure that definitions of reporting metrics across the industry are comparable they have looked to redefine four metrics relating to Leakage, Customer Interruptions, Sewer and External Flooding. We very much support these comparisons across the industry. For the 2017–18 reporting year, we will include these ‘industry metrics’ within our assurance process and report according to Ofwat guidelines</p>	<p>Promise metrics are controlled by a specific overarching assurance process: the regulatory control framework (RCF). This consists of:</p> <ul style="list-style-type: none"> • <i>specific up-to-date documentation of the promises, controls and reporting of promise metrics</i> • <i>staff training and processes to manage changes to process, controls and key posts</i> • <i>metric risk assessments</i> • <i>full ownership by senior management with sign-off of documentation and reported metrics</i> <p>Business assurance controls the RCF process</p> <p>Regulation and Compliance and business assurance teams collate, challenge and review information provided</p> <p>Economic regulation works with Ofwat to ensure alignment and adherence to data requirements for reported external ODI data requirements</p> <p>Executive Leadership team and senior management review monthly promise metric reports and challenge results</p> <p>Compliance and Asset Resilience team updates compliance procedures from the ‘Water First’ and wastewater improvement programmes</p>	<p>Deloitte will carry out ‘agreed upon procedures’ to assure reported performance data and the presentation of information and risks</p> <p>PwC is our current technical assurer and for 2017–18 will complete a limited assurance review of our performance commitments according to the International Framework for Assurance Engagements 3000 (ISAE 3000) as issued by the International Auditing and Assurance Standards Board. This is except for those areas that were qualified in the opinion in 2016–17 which will be subject to ‘agreed upon procedures’ while we take required remedial actions</p>
Specific ‘higher ’ risk areas identified as part of 2016–17 performance commitment assurance			
• Billing Queries (‘Wanted’ and ‘Unwanted’ call categorisation)	<p>Errors in our categorisation of ‘unwanted calls’ have been previously recognised</p>	<p>We instigated improved controls within the 2016–17 financial year which resulted in improvements to the error rates in the last quarter of that financial year</p>	<p>We stated in our 2016–17 annual report that there was room for further improvement. As a result, we assigned PwC to continue quarterly reviews of call categorisation in 2017–18. For the first half year, continued improvements in error rates were noted</p> <p>We have requested PwC to complete a half-year review of our billing queries process, which is in progress. As at the time of this report there were no significant issues</p>

Our Final Assurance Plan is detailed in Table 5 (5a to 5f) *continued*

Table 5c: Assurance of our 2017–18 Annual Report performance data <i>continued</i>			
• SIM	The SIM score is affected by billing queries (above). We have also been requested by CCW to continue to complete quarterly returns on written complaints. We continue to monitor our processes and controls over this area very closely.	We are also making further changes including implementing new call decision tools, reorganising our customer service division, and moving demand to online servicing to improve customer satisfaction (above).	PwC will complete appropriate assurance of these metrics as part of its 2017–18 assurance work.
• Distribution input/leakage and per capita consumption metrics	While no significant control issues were identified at the 2016–17 audit, these metrics are associated with the 'water balance' calculation (that reconciles water input to output), which by nature is complex and therefore these metrics require additional assurance attention.	The calculation of the water balance is subject to checks and controls that include data validation, regular reviews and area sign-offs of information and reconciliations.	PwC will complete appropriate assurance of these metrics as part of its 2017–18 assurance work.
• Sewer collapses	We noted in the 2016–17 annual report that the prior year figure needed to be restated due to an error in data collation.	We have subsequently introduced additional controls to ensure the data collation error does not recur.	PwC will complete appropriate assurance of these metrics as part of its 2017–18 assurance work.
• Greenhouse gas emissions	The collation of information for reporting greenhouse gas emissions is relatively complex and there potentially prone to error.	We have updated our procedures in relation to this metric within our compliance framework.	PwC will complete appropriate assurance of these metrics as part of its 2017–18 assurance work.

Table 5d: Assurance relating to specific regulator feedback			
Significant areas for assurance	Explanation for inclusion	First and second line of defence (mitigating actions)	Third line of defence assurance (third party and internal audit)
DWI reporting	Southern Water is currently subject to enforcement actions by DWI.	We have reviewed and actively strengthened our focus, governance and capability around information management of our drinking water data submissions to the DWI. This is part of our Water First programme.	We have increased scrutiny of our annual reporting to DWI, which is subject to review by our technical assurers.
EA reporting (Wastewater treatment works numeric compliance and population equivalent compliance. Category 3 pollutions)	We provide a significant amount of data to the EA with respect to the performance of our assets and discharges to the water environment. We have previously identified the need to review and improve our historical end-to-end reporting processes with a view to implementing process and control improvements.	This area is a priority for the company, and we are in the process of making improvements as part of our Wastewater Improvement Programme.	We are in the process of completing assurance of these metrics for 2016–17 according to 'agreed upon procedures'. This work is being completed by PwC. This will include reviews of the process and control improvements that have been completed for that year. For our current year, 2017–18, PwC will also complete 'agreed upon procedures'. This will include the review of process and control improvements for this year.
CC Water reporting (written complaints)	CCW has previously written to us in relation to the relatively high level of written complaints received by the company. We are required to submit quarterly returns to CCW summarising our performance to reduce complaints received.	Controls reviews have been completed by our business assurance team and technical assurers in 2016–17. We have recently completed our first quarter review for CCW, highlighting a 25% reduction in complaints. The company is progressing a number of key initiatives within the customer services directorate to further improve customers' billing and payment experiences.	PwC will complete a half-year review of our written complaints procedures in January 2018.

Our Final Assurance Plan is detailed in Table 5 (5a to 5f) *continued*

Table 5e: Assurance relating to our next Five Year Business Plan			
Significant areas for assurance	Explanation for inclusion	First and second line of defence (mitigating actions)	Third line of defence assurance (third party and internal audit)
Five-Year Business Plan Review	Ofwat's price review programme sets out the industry-wide business plans process for the next AMP (asset management period 7) (2020 to 2025). This is a significant exercise for all water companies and requires us to complete a high quality, robust business plan, setting out our pricing and strategy for that five-year process. As a part of this, Ofwat has set out a number of stringent assurance requirements to ensure companies submit robust business plans. These plans, together with associated data tables and cost information, will be published next year	<p>Southern Water has begun its price review programme to meet, or exceed, all Ofwat's requirements. Key actions have included:</p> <ul style="list-style-type: none"> • <i>the implementation of a dedicated Programme Management Office to control our price review process</i> • <i>the start of detailed customer engagement activities</i> • <i>detailed engagement with members of the Board both collectively and individually so that they are able to fully scrutinise the process</i> • <i>dedicated resources from our business assurance team to ensure that the Ofwat assurance tests on the quality of the plan are delivered</i> 	<p>We are applying a number of additional resources to support the independent check and scrutiny of our proposed business plans.</p> <p>These include:</p> <ul style="list-style-type: none"> • <i>setting out a Board programme so members will be able to independently review and challenge the business plan before it is submitted</i> • <i>the appointment of PwC as strategic assurers to advise on overall assurance and develop a comprehensive assurance framework</i> • <i>implementation of a 'challenge team', which comprises a range of prominent experts to challenge and advise on the strategy and plan</i> • <i>use of specialist assurers on key parts of the plan</i>
• Water Resources Management Plan (WRMP)	This sets out in the long term how we plan to supply water to our customers for our area	Application of an independently designed 'bronze/silver/gold' quality accreditation to potential investments and peer reviews	Technical assurers Jacobs UK Ltd (Jacobs) will review water demand forecasts and investment costs
• Bioresources and Water resources regulatory capital values	Ofwat has proposed that the markets relating to wastewater treatment (bioresources) and water resources are opened up to competition in the next five-year regulatory period (AMP7). These exercises were required for us to allow Ofwat to set price controls for these businesses	Internal reviews have been completed by our Finance and Regulation and Compliance departments	There have been extensive reviews: Jacobs has reviewed our asset valuations, Oxera the economic models and Deloitte's the investment costs

Our Final Assurance Plan is detailed in Table 5 (5a to 5f) *continued*

Table 5f: Assurance of other areas (charges, cost allocation and market reform)			
Significant areas for assurance	Explanation for inclusion	First and second line of defence (mitigating actions)	Third line of defence assurance (third party and internal audit)
Cost allocation and segmental reporting	The allocation of costs between business units and segments is subject to significant management judgment.	Individual allocation methodologies have been agreed and documented with relevant members of the business and approved by management Details of our allocation methodology and approach are published on our website in our methodology statement	The allocation of costs between price controls is subject to audit according to Ofwat's guidelines. In addition, 'agreed upon procedures' are undertaken by Deloitte in relation to more detailed business unit reporting
Tariffs and charges	Water companies are required to publish their tariffs and charges to comply with legal obligations and to have appropriate systems of control in place	Data used to set tariffs is compiled from different areas across the business, provide appropriate separation of duties Management review of charges is undertaken within the economic regulation team	Oxera Consulting LLP (Oxera) are assuring our 2018–19 charges according to 'agreed upon procedures'. There will be full sign-off on behalf of the whole Board by a Board committee
New connections/ developer charges	Ofwat has published new rules for new connection charges which will come into effect from 1 April 2018	Independent consultant support to our developer services team. Secondary reviews led by the Business Assurance Team	Oxera will review the proposed method of collection of charges
Market reform 2017	From April 2017, non-household customers have been able to change their water retailer Southern Water decided to exit the non-household retail market and has transferred this customer portfolio to Business Stream who are therefore responsible for providing retail services Southern Water therefore provides only the wholesale services to the non-household market	The market reform programme that implemented new procedures, systems and controls is now a 'business as usual' activity	Market Operator Services Ltd (MOSL) has undertaken a market-wide review of all market participants, to focus on compliance with market and operational terms As part of this, PwC carried out a site visit with Southern Water in late August. The final report produced by PwC for MOSL highlighted medium and low level recommendations, most of which have since been adopted. PwC also plans to issue a market-wide report to all market participants. We have highlighted to PwC some wider market areas of concern as part of this process MOSL will also carry out an annual audit for 2017–18 which covers 'level playing field' (ensuring that the market operates fairly for all participants) and Southern Water's compliance to the market procedures

Appendix 1: Our promises and performance commitments



Responsive customer service

- Quick and effective resolution of your queries – 90% resolved first time by 2020
- Improved service to you and your community – increase the number of customers who feel our service meets their individual needs and those of their community
- Improved ranking in our regulator's league table for customer satisfaction – be among the best by 2020
- Direct compensation paid if we let you down – this will be linked to the service standards set out in our updated Customer Charter.



Looking after the environment

- No 'serious pollution incidents' affecting local rivers, streams and beaches caused by our operations by 2020
- Aim for 100% compliance by our wastewater treatment works with required standards – at least maintain performance at 98.6% (2014–15 target level)
- Increase by seven the number of beaches with 'excellent' bathing water quality by 2020
- Increase the proportion of renewable energy we use to 16.5% by 2020
- Reduce the amount of water we take from the environment by 1.4%, despite predicted population growth of 4%.



A constant supply of high-quality drinking water

- No restrictions on water use, such as hosepipe bans, unless there are at least two dry winters in a row
- Reduce leakage by 2020 – target of 86 million litres a day by 2020, equating to a reduction of almost two million litres a day
- No increase in the average time you are without water, for example because of a burst water main
- Aim for 100% compliance with drinking water quality standards – at least maintain performance of 99.93% then 99.95% from 2017–18
- No increase in the number of households suffering from persistent low water pressure
- Help reduce the effect of hard water in homes and businesses – increased customer understanding through better information and advice.



Better information and advice

- 10% reduction (15 litres per person, per day) in average water use by 2020 with better advice on saving water, energy and money – we will reduce average water use from 148 litres (2012–13) to 133 litres per person, per day*
- Improved advice on how to prevent blocked drains to help reduce blockages – increase the number of customers who know how to help prevent blockages in drains and sewers
- A 50% reduction in bill queries by 2020
- Customers provided with better information about what we do, why we do it and what it costs – increase the number of customers who understand how we use the money they pay us.



Removing wastewater effectively

- No increase in the number of blockages in our sewer network
- Significant reduction of 25% in sewer flooding inside your homes and businesses by 2020
- No increase in the number of incidents of sewer flooding affecting outside areas
- Reduction of 5% in complaints about smells from our wastewater treatment works and pumping stations by 2020.



Affordable bills

- Efficiency savings made during 2015–20 to help keep bills as low as possible
- 10% reduction (15 litres per person, per day) in average water use by 2020 with better advice on saving water, energy and money – this will reduce average water use from 148 litres (2012–13) to 133 litres per person, per day*
- Customers in genuine financial hardship provided with improved support – increase the proportion of customers who take up the support we offer around bills
- Customers provided with better information on how we are providing value for money – increase the number of customers who feel our services provide value for money.

* Note this promise contributes to both better information and advice and affordable bills

Appendix 2: Governance and risk management

One of Southern Water’s strategic objectives is to understand the risks to the business and manage these risks in a structured and controlled way.

There is a risk governance structure in place as shown in Figure 1 below:

1.1 Governance

Risk management is supported at each level in the company with a risk governance structure that defines roles and responsibilities:

Company Board – the Board is ultimately accountable for ensuring the risks are effectively managed and they are responsible for maintaining robust systems of risk management and internal control

Audit & Risk Review Committee – responsible for overseeing and challenging the effectiveness of Southern Water’s approach

Executive Leadership Team (ELT) – responsible for ensuring that the corporate risk management system is effective and embedded in the business

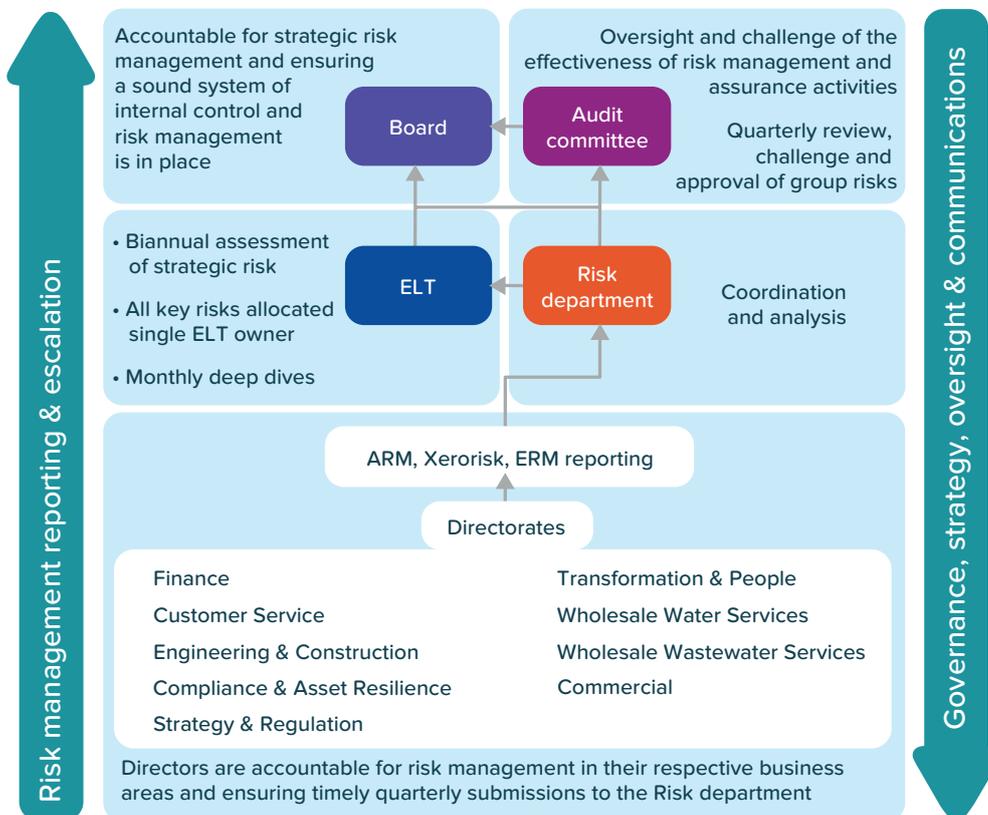
Directorate Management – responsible for maintaining reliable risk and performance management in the directorate

Risk Owner – named individuals accountable for overseeing and managing the specific risk identified

Action Owner – delegated individuals who implement specific risk activities

Risk Department – responsible for coordinating and analysing the risk management approach including disseminating information throughout the company.

Figure 1. Risk governance structure



1.2 Risk Management

This is a core component of Southern Water's wider governance and control framework to ensure that there is an overarching structure within which we manage our objectives. Risk management consists of four main stages shown in the diagram below:

We continually seek to review our governance and risk management approach in the light of changing external and internal factors. We also aim to ensure that we always apply best practice risk management processes across the whole organisation.

Figure 2. Risk management process



1) Risk Identification: the identification of risks that could affect business objectives. All risks are captured in the corporate risk systems.

2) Risk Assessment: Once identified, risks are assessed to estimate the potential business impact.

3) Risk response: There are a number of options to respond to a risk, including risk reduction, transfer of risks, avoidance or acceptance. Details for actions are included in risk response plans.

4) Risk monitoring, reporting and escalation: Tracking and sharing details of changes in risk are important to controlling risk exposures and that interventions are timely to reduce impacts.

5) Communication and Risk Appetite: Overall consultation and communication of risks at all stages and between departments is important. Information must flow back to all relevant areas of the organisation to ensure timely decisions are made and risks are effectively dealt with.



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