



South Staffs Water



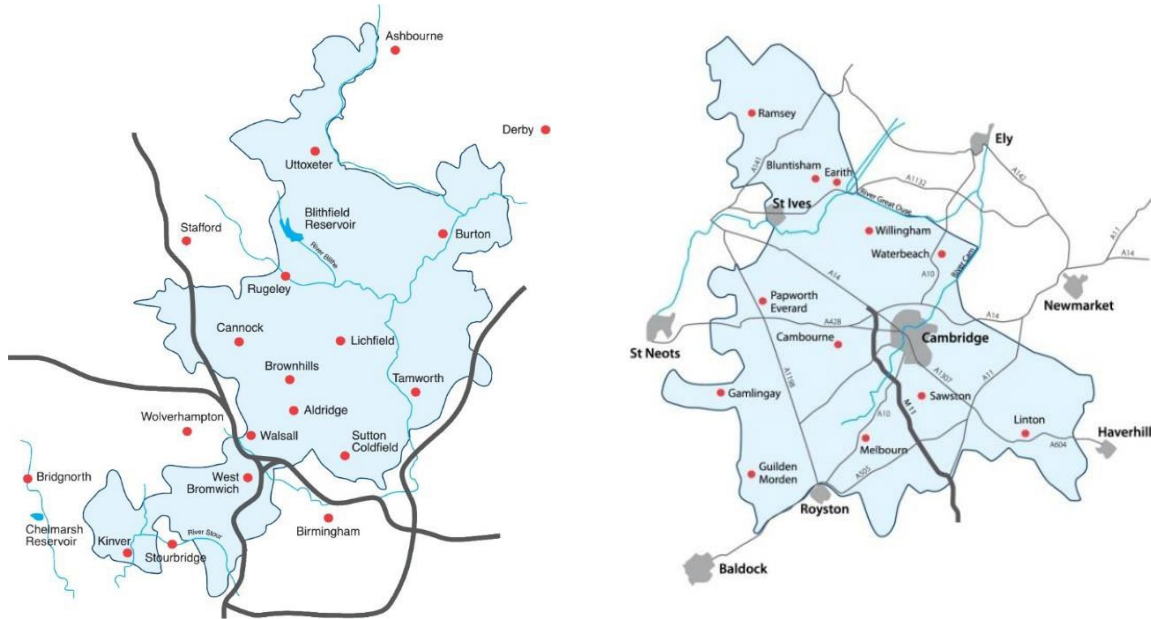
Cambridge Water

# Draft Assurance Plan 2024/25

November 2023

## 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 2024 to March 2025. 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 2024. We will publish our final assurance plan by April 2024.

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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 43 to 44 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/4308/annual-performance-report-2022-23.pdf>

## 2. Updates from 2023/24 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	<p>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.</p>
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 have updated our PR24 targeted area to reflect the fact that we submitted our Business Plan on the 2 October 2023. We now focus on the next stages of the process, namely the query process on our plan and our response to Ofwat’s Draft Determination expected to be submitted in the autumn of 2024.</p> <p>We also recognise that although the Final Determination won’t be published until December 2024, we need to start planning now for delivering our commitments over the 2025-30 period. This replaces last year’s targeted area covering the 2020-25 period.</p> <p>We have introduced a new targeted area to cover environmental compliance reporting. Last year, we over abstracted at two Cambridge sites, in breach of our licence. We over-abstracted at our Abington source by 31% and at Great Wilbraham by 24%. We also recognise that discharge compliance is a significant concern for customers. Overall, we need to ensure that our environmental reporting is clear and transparent.</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>

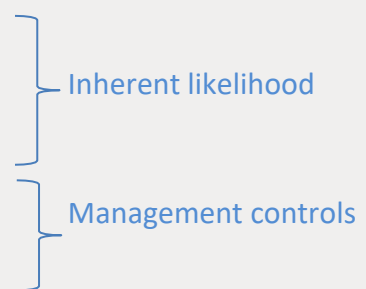
### 3. Assurance risk assessment process

#### 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;
  - b. Completeness of the data set;
  - c. Extent of manual intervention;
  - d. Complexity and maturity of the reporting rules;
  - e. Control activities already established;
  - f. Experience of our personnel;
  - g. Evidence of historical errors and last audit.
- 
- The diagram shows two blue curly braces on the right side of the list. The top brace groups items a, b, c, and d, with the label 'Inherent likelihood' to its right. The bottom brace groups items e, f, and g, with the label 'Management controls' to its right.

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.
<b>4</b>	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.
<b>3</b>	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.
<b>2</b>	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.
<b>1</b>	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.



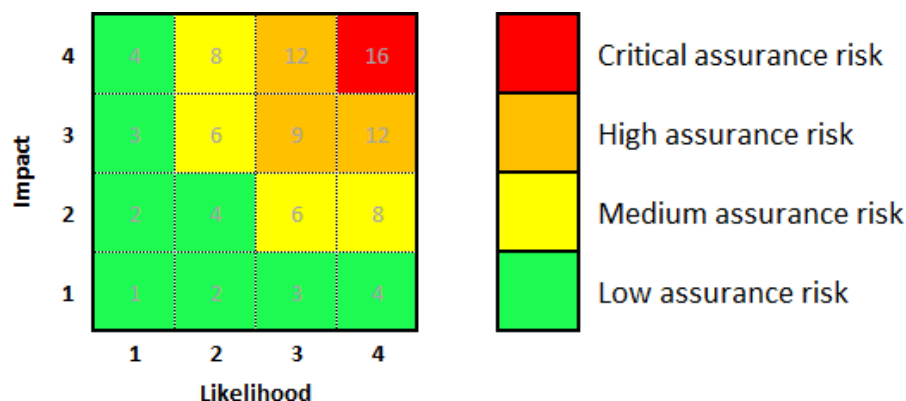
**Figure 2: Assessment criteria for scoring the impact element\*:**

Score	Customers	Competition	Financial	Compliance and regulation
<b>4</b>	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.
<b>3</b>	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.
<b>2</b>	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.
<b>1</b>	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
<b>Planning</b>	Methodology statement is required for all data			
<b>Audit</b>	Second person review	Independent internal assurance	Third party assurance	Third party assurance
<b>Sign off</b>	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 member of the Executive Team	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 and Risk 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 and Risk 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 and Risk Committee specifically covers business risks, the work of Internal Audit and the external financial and technical auditors.

## 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 two groups:

Table 1: Performance commitments operating between 2020 and 2025.

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

## 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
PR24 new performance commitments	Shadow reporting of new performance commitments for PR24	Annual	4	3	12	High

## 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. Business Plans

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. In October 2023 we submitted our plan for 2025-30 as part of PR24. Ofwat's Draft Determination is due to be published in May/June 2024.

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.

### High-risk data

The following high-risk areas have been identified:

i) Water resources management plans

We published our draft water resource management plans in 2023. 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.

ii) New development charging rules

Over recent years there has been significant changes to the approach for developer charging and consultation. Further changes are planned from April 2025. 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 2024/25

We have used our assurance risk assessment and any stakeholder feedback we have received to identify the following targeted areas for 2024/25:

**Targeted area A- PR24:** We submitted our PR24 Business Plan on the 2 October 2023. It describes 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. We now focus on the next stages of the process, namely Ofwat's query process on our plan and our response to Ofwat's Draft Determination expected to be submitted in the autumn of 2024.

**Targeted area B- preparing for the 2025-30 period:** This is a new targeted area that we propose to assist focus on preparing for the start of the 2025-30 delivery period. It includes focus on new performance commitments and delivery of capital and operational projects to meet our objectives.

**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- environmental compliance reporting:** This is a new targeted area. Last year, we over abstracted at two Cambridge sites, in breach of our licence. We also recognise that discharge compliance is a significant concern for customers. Overall, we need to ensure that our environmental reporting is clear and transparent.

**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 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 A – PR24 post Business Plan submission

### What is the risk?

Every 5 years, we submit our business plan to Ofwat. We submitted our latest plan on 2nd October 2023. It described in detail the funding that we need, and the service levels we plan to deliver for our customers and other stakeholders for 2025-30.

Ofwat will give their first views on our business plan in Spring/Summer 2024 when they publish our Draft Determination. We will then have an opportunity to submit a response on where we accept their determination and areas of challenge. This feedback will then be considered by Ofwat before publication of our final determination in December 2024.

Between October 2023 and the publication of our draft determination, Ofwat send us queries requesting clarifications on our plan and, in some cases, requiring changes to our original submission. We usually have 2 days to respond to each query and make the changes required.

The outcome of the price review process is essential to ensuring the sustainability of our services over the next five-year period and beyond. Whilst we submitted the majority of the data and information required for the price review process in October 2023, our queries responses and draft determination response are equally critical in the evaluation of our business plan and therefore require an appropriate level of assurance and governance.

### What do we currently do?

We followed a robust assurance process for the original submission of our plan. We used internal assurance to ensure alignment across our business plan and long-term delivery strategy and ensure accuracy of our data. We used external assures including Jacobs and SIA partners to carry out assurance on high-risk areas which required additional review. We also used third party support where we required specialist knowledge such as costing.

We implemented a multi-layered governance framework to inform PR24 decision making, including workstream groups, a programme board, a high-level steering group, and our board of directors. This ensured our plan development was subject to internal challenge throughout the process, and that our Board was able to sign off all the required assurance statements on costs, outcomes, affordability, financeability, customer support and long-term delivery.

Therefore, we are confident in the quality of our business plan submitted in October and the processes followed in building the submission. We plan to implement the same assurance processes and governance structure for our other submission proportionate to their materiality.

## What are we planning to do?

For the query process, we will ensure each response is internally assured by members of the PR24 team to ensure alignment with our plans and that any changes made are accurate. The short deadlines for responses mean we are unlikely to use external assurance, but will consider it where necessary on larger responses, such as new data requests. We will update senior management regularly on the queries asked, highlighting particularly significant queries and their potential impact. We will also include a summary as part of our monthly board report to keep our board informed on areas of challenge throughout the process.

For our draft determination response, we will reintroduce our governance structure to manage our response. This will include board sessions to inform them of the key successes and challenges for our business and seek their support for our proposed responses. This will be further supported by internal and external assurance of any resubmitted data and business cases that are high-risk for our final determination.

## What is the impact on our stakeholders?

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

Accurate responses to queries and our draft determination are critical in the assessment of our business plan and final determination to ensure we can deliver our plans for customers and the environment.

## Targeted area B – Preparing for the 2025-30 period

### What is the risk?

Our PR24 business plan submission is an ambitious plan, with new performance commitments to meet, more stretching targets to deliver on established performance commitments, and with significant acceleration of capital and operational programmes in some areas, such as metering, leakage, demand management, and the environment.

Establishing a targeted assurance area on this theme now will help us ensure we work, over the next year alongside the continuation of the PR24 process, to establish robust delivery processes for these new and enhanced ambitions, so that we are ready and prepared to deliver on our commitments for customers at the start of 2025.

### What do we currently do?

We already have robust processes for monitoring performance commitment delivery, capital and operational work programme delivery, and monitoring and delivery of other regulatory, environmental and customer focussed obligations. We will continue to use these governance processes to ensure preparedness for delivery in 2025-30, but with enhancements.

### What are we planning to do?

We will enhance our existing governance processes to ensure we are ready for delivery in 2025-30 by:

- Beginning any required procurement processes now, to ensure we and our delivery partners are ready to implement our plans for customers by the required timescales of our various components of delivery of our plan. We have already begun this process by securing a long term partner for supply of meters, and by beginning a procurement process for delivery of meter installation and other network related activity.
- Shadow reporting of new performance commitments in APR24 and APR25, for 2023/24 and 2024/25 respectively. It is important that we do this to ensure our data capture, reporting and assurance processes are set up for reporting of the new performance commitments that become live in 2025. This will also help us see where we need to target additional management focus.
- We are already examining any data capture changes that are needed within the business to ensure we can report transparently on our proposed performance commitment deliverables – this new mechanism requires additional data capture or granularity in some cases, compared to our existing data capture, and we are working to establish these processes now.

### What is the impact on our stakeholders?

Our proposals to focus now on PR24 delivery will help ensure our Board, stakeholders and customers have confidence that we are ready to deliver on our ambitions 2025-30 plans. It will also establish additional reporting and assurance processes now, so that they can be tested and further developed in readiness for the start of the next period.

## 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 charges

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

#### NAV charges

New Appointments and Variations (NAVs) represent a form of competition where the incumbent operator is replaced by another company for a particular development site. When a NAV is appointed as a water company for a site, it may have its own water supply, which it could use to supply its customers. Alternatively, it may wish to purchase a supply of water from us. This is known as a 'bulk supply'.

For NAVs, the most significant area in calculating the bulk supply charge is how companies calculate the costs that are avoided when a site is served by a NAV. In previous year's we had used a 'top down' approach using high level data published in our Annual Performance Report (APR). The updated guidance now requires companies to use a 'bottom up' approach as this is more likely to result in cost reflective tariffs. We adopted this approach for the first time when we set our 2023-24 charges.

### 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.

Our customers have supported increasing the contribution they make to our social tariff fund from £5 to £8 per annum. This will ensure that we can help more customers who are struggling to pay.

Alongside this, we plan to increase the visibility of our social tariffs on our social media and websites as well as within local communities.

#### Developer charges

From 2025, the way that developer charges are regulated will change. The majority of charges will be outside of the price control which governs the amount of revenue we can recover. Instead, charges will be fully opened to competition with SLPs and NAVs. However for smaller developments

where mainlaying is not required, other regulatory tools will be put in place to protect developers. Ofwat are currently consulting on the best way to do this including tethering the amount we can charge to the level we charge for larger developments. We will need to put processes in place to ensure we are compliant with this regulatory guidance well in advance of setting our charges for 2025-26.

Other changes from 2025 are the removal of the income offset which acts as a rebate to developers to recognise that we will receive future income from a new customer once they are connected. Instead, we will be reviewing how we incentivise developers to build more water efficient homes. We have an incentive scheme in place currently but it has a low take up rate so we need to consider how we can make it more attractive.

### **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 (APR)

### 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 Ernst and Young (EY) 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.

In publishing our 2023 APR we addressed feedback from Ofwat on the transparency of our dividend disclosure and ensuring that our publication is in a searchable pdf format.

### What are we planning to do?

The deadline for publishing the APR is the 15 July each year. Unfortunately, last year we were a few days late in publishing. A key reason was that we had changed our financial auditors from Deloitte to EY who had to spend more time than planned in auditing all data and key disclosures so that they were comfortable in signing off the report.

Although we do not expect the same problem for the 2023-24 APR, we will put a plan in place to ensure that this does not happen again. This will involve:

- Planning meetings with EY to ensure timescales for delivery are understood.
- Internal planning to ensure that we have the correct level of resource to deal with the audit process.
- Consideration of the likely impact of the Draft Determination (DD) due to be published in May/June 2024. We have a small team that will be working on both the APR and our response to the DD. We may need to bring in additional resource during this time.

We are also expecting to receive specific feedback from Ofwat on our 2022-23 APR and we incorporate this in our final assurance plan where necessary.

### 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 – environmental compliance

### What is the risk?

We have a range of both abstraction licences and discharge permits that we must legally comply with in both our South Staffs and Cambridge Water regions. We need to report on our compliance with these annually, and sometimes monthly, to our regulator the Environment Agency. We also have a duty to ensure that our operations do not adversely impact on the environment in any way.

The collection and production of monitoring data is critical to be able to demonstrate our compliance, and this data must be robust and accurate to ensure we can identify any issues and give confidence to the Environment Agency on our processes and procedures for maintaining compliance, as well as our approach to learning from issues and taking positive actions to mitigate the risk of reoccurrence.

Gaps in data, inadequate monitoring, or lack of verification and calibration of our meters could lead to breaches of these permits or mean we do not have robust data to demonstrate our compliance. As a result, we could be at risk of enforcement action.

### What do we currently do?

Our Water Resources team are responsible for both the monitoring and reporting of our environmental compliance, focusing on discharge permits, abstraction licences and pollutions.

We monitor the abstraction licence compliance on a weekly basis and submit annual returns to the Environment Agency every April showing daily data for every site. Second line internal assurance is undertaken on this data prior to submission.

In our South Staffs region we have several sites that have MCERTs meters on the discharges. This ensures a higher level of monitoring of both the quality and volume of discharges, and any variances are reported to the Environment Agency monthly. In addition, we submit annual data returns to the Environment Agency, in the same way we do for abstraction licences, detailing all of our monitoring data for each of these sites across a 12-month period. This data also has second line internal assurance before submission. The Environment Agency also employs an external auditor who audits our compliance with the MCERTs requirements, including training, maintenance, verification and auditing. This is an annual process taking place in June.

Any breaches of compliance are shared with Exec and also with Board via the monthly Board reports. All are investigated by the water resources team and a report developed with recommendations and next steps.

## What are we planning to do?

Following the over abstraction in Cambridge in 2022/23, we have initiated the following processes to improve governance of our monitoring activity:

- Development and implementation of a new abstraction licence monitoring database which is updated weekly through supply meetings with production.
- Creation of a new role – Director of Quality & Environment – that brings together water quality and water resources to ensure key focus on these areas when making decisions on site operation and performance, and therefore ensuring compliance across both. .

We want to be more proactive in our reporting of any potential environmental incidents. We plan to improve our self-reporting of these through the development of an updated clean water pollution toolkit (I.e. chlorinated water from a burst main that could have a negative impact on the environment) for rollout to the business in 2024 which will include:

- Training for staff to understand the nature of potential clean water breaches, how to identify them, how to prevent them, and how to mitigate the impacts of any.
- An updated process for field staff to record and report any potential environmental issues.
- Development of an inbox for internal and external communication regarding environmental issues to ensure all stakeholders are involved and there are no single points of failure in the process.
- Investigation to be undertaken into each incident, led by water resources team, with actions developed to prevent reoccurrence and lessons learned communicated to all departments.
- Development of a database system for reporting these incidents to monitor frequency and causes to help inform future training, performance management and improvements required.
- Monitoring of these actions and progress through an environmental steering group which will ensure delivery and provide an additional layer of governance to our performance monitoring and improvement.

## What is the impact on our stakeholders?

The quality of the data we provide to our regulator, the Environment Agency, is critical to provide assurance that we have suitable processes and systems in place to reliably and accurately monitor and manage our performance.

By implementing a proactive self-reporting procedure for pollutions, this will provide the Environment Agency with confidence that we take our environmental compliance very seriously and take accountability for our performance. Through this process we will be able to demonstrate how we have learned from each situation and the measures we have taken to prevent reoccurrence.

## 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.

From 2022, we have had to report on our progress on 'Green Recovery' in two new APR tables (4S and 4U) along with an accompanying narrative and additional information regarding DWI reporting and our cost projections for the remainder of the period. This reporting will continue each year until the Hampton Loade scheme is completed in 2025.

We met the deadline of end of March 2023 for delivery of the first scheme, Seedy Mill. The project was a huge success and is now operational, improving the treatment process through an extra filtration stage as planned. The delivery of the scheme on time was assured by our technical assurer and we reported this success in our 2023 annual performance report.

### 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 APR's going forward, we will continue to report progress 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.

## 6. Assurance timescales for 2024/25

Below we set out a high-level summary of our assurance programme over the year 2024/25

2023	November	- Publication of our risks, strengths and weaknesses and our draft assurance plan for the financial year 2023/24	Completed November 2023
2024	January	- Assurance of our annual charges	January 2024
	April	- Publication of our final assurance plan for 2023/24, taking account of feedback we have received	April 2024
	May and June	- Assurance of our Annual Performance Report, including annual performance, performance commitments and cost assessment tables.	Publication July 2024
Spring/ Summer	- Internal and external assurance for our PR24 draft determination response  - Board sign off on PR24 draft determination response	2024 Ofwat deadline to be confirmed	
October 2023 to June 2024	- PR24 query process	Interim deadlines	

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