



2018

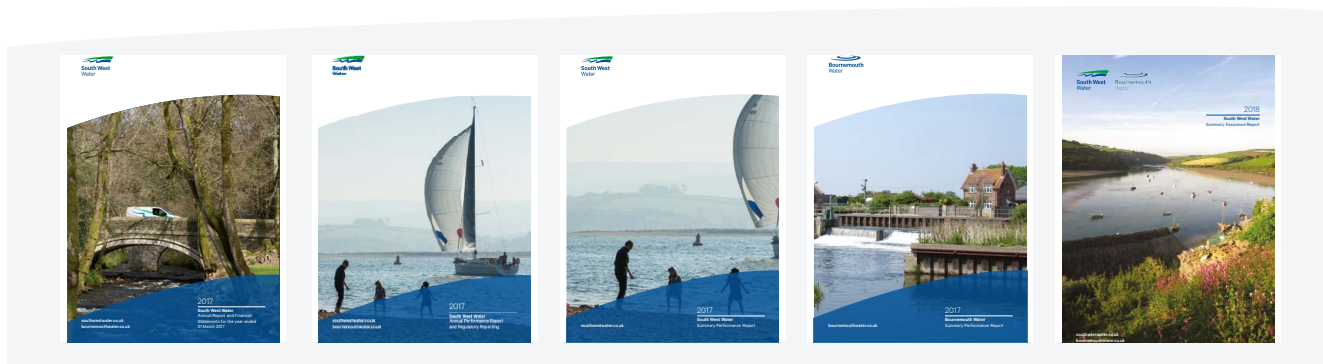
South West Water
Summary Assurance Report



Introduction

This is South West Water's second annual Summary Assurance Report, which complements our other annual reporting, including the assurance sections within our Annual Report and Annual Performance Report (both available at www.southwestwater.co.uk/report2018 and www.bournemouthwater.co.uk/report2018).

It provides an update on the assurance we have performed and commissioned during 2017/18 as well as the results of that assurance, focusing on the 'Significant Areas for Assurance' identified in our Assurance Plan, published in November 2017.



ASSURANCE

The assurance we perform and commission is designed to provide comfort to the users of the information which we provide internally and externally.

It goes beyond providing comfort that South West Water is compliant with obligations, for example commenting on whether information is fair, balanced and understandable.

Assurance can be provided at different levels dependent on the complexity of what is being assured and the level of reliance which users of the information place upon it.

Assurance is rarely able to provide absolute certainty over reported information, however we aim that the assurance we perform and commission provides sufficient comfort over reported information in line with expectations of the users of the information.

WHAT IS THE SUMMARY ASSURANCE REPORT?

This is a summary of the results of assurance performed in respect of annual reporting and updates on the Company's Assurance Plan which was published following a consultation in March 2018.

South West Water's Assurance Plan is available at southwestwater.co.uk and bournemouthwater.co.uk and includes further detail on assurance we perform and commission. All planned assurance processes which were contained within the plan to date have occurred as stated, with some limited changes which are discussed in the significant assurance areas contained in this report.

We have implemented certain additional processes where we have identified additional areas for assurance. Again these have been discussed within this report.

The report incorporates our 'Data Assurance Summary' which we are required to publish under the water industry regulator, Ofwat's Company Monitoring Framework (see page 2). It goes further than the Data Assurance Summary by providing an update on other significant areas which we have identified as requiring assurance. It also provides an overview of the Governance and Assurance framework which we apply at South West Water.

SOUTH WEST WATER AND BOURNEMOUTH WATER

South West Water provides water and wastewater services in Devon and Cornwall as well as small parts of Somerset and Dorset.

Since 2016 it has also been providing water services within the Bournemouth Water area.

This report covers both areas and all references to South West Water reflect the merged Company covering both areas unless explicitly stated otherwise.

USABILITY OF THE DOCUMENT*

We have made this report as user-friendly as possible, whilst ensuring that the document is relevant to customers and other stakeholders who read the report and provides a meaningful summary. By the nature of assurance, some sections of this report are technical in nature. We appreciate that further explanation could be required by some readers of the document and we are happy to provide explanation of concepts if required (email: riskandcompliance@southwestwater.co.uk).

THE ONGOING ASSURANCE PROCESS

This report summarises significant areas of assurance, in addition to significant assurance processes which carry on throughout the year. As a summary, this report does not cover all areas which we assure (internally or externally). We are happy to summarise further specific details of assurance if required.

* This document is available in other formats on request.

Executive summary

This document is published alongside the Company's suite of statutory and regulatory annual reporting. We are pleased to report this summary of the assurance performed in our significant areas for assurance (including in respect of annual reporting).

This report incorporates key areas where improvements have been made as well as setting out the governance and assurance frameworks underpinning the assurance performed.

We are pleased that internal and external assurance processes did not identify any material issues in the data reported or the processes and controls underpinning our Annual Report and Financial Statements or Annual Performance Reporting and Regulatory Reporting. Both our financial auditor, Ernst & Young (EY) and our technical auditor, Jacobs (following Jacobs acquisition of CH2M) have provided independent opinions and summaries, which we have published.

We have strengthened and formalised certain administrative procedures within the Company for Annual Reporting and other data submissions in respect of version control and consistency verification to ensure that stakeholders are provided with finalised fully assured data at all times.

Beyond our annual reporting assurance processes, a wide range of assurance activity has been performed throughout 2017-18. This has included an extensive internal and external assurance programme covering the work we are undertaking to prepare our business plan submission covering the 2020-25 period (as part of Ofwat's PR19 process). In addition, we perform a wide range of assurance on a day-to-day basis, including on other specific projects which have not been identified as significant areas for assurance.

In addition to the significant areas for assurance identified in our Assurance Plan, we have identified one further significant area in respect of the health, safety and wellbeing of our people and others working for or attending South West Water sites. We are working to obtain certification against the new International Standard for Occupational health and safety (ISO 45001:2018) during 2019. The standard requires both internal and external audit to be performed in respect of health and safety and we have already implemented a programme of internal audit in line with ISO 45001:2018 requirements.

South West Water is proud to maintain our range of certifications and accreditations against recognised other international standards and we are committed to the approach of continual improvement which underpins both these international standards and our future plans for 2020-25.

We have worked to improve signposting of this document for 2017/18 (e.g. within annual reporting and on relevant areas of the South West Water website), so that it is more easily identifiable to stakeholders who are interested in our assurance processes across all of the significant areas for assurance.

ASSURANCE PLAN

| | |
|--|----|
| Introduction | 00 |
| Executive summary | 01 |
| The Company monitoring framework | 02 |
| Governance at South West Water | 04 |
| South West Water's integrated assurance framework | 05 |
| Annual reporting – incorporating data assurance summary | 06 |
| Other significant assurance areas – update | 12 |
| Commitments following risks, strengths and weaknesses statement – update | 17 |
| Ongoing ISO assurance | 19 |

ONLINE

southwestwater.co.uk
bournemouthwater.co.uk



The Company monitoring framework



What is the Company monitoring framework?

The water industry regulator, Ofwat, introduced a 'Company monitoring framework' as a tool to oversee that customers and other stakeholders can have confidence in the information that water companies report. The framework covers both data assurance activities and wider assurance that companies perform to demonstrate they are listening to customers and other stakeholders and delivering services customers want and can afford.

Companies are assessed in one of three categories, 'self assurance,' 'targeted assurance' or 'prescribed assurance,' which determine additional requirements that are required by companies to ensure trust and confidence is maintained for customers and other stakeholders.

The November 2017 assessment

In November 2017, following Ofwat's assessment of the 2016/17 reporting cycle, South West Water was classified within the 'targeted assurance' as it had been at the November 2016 assessment.

The November 2017 assessment considered South West Water's performance against a number of specific areas. Ofwat did not identify any areas where it had 'serious' concerns in respect of South West Water's reporting of performance and we exceeded expectations in respect of the Assurance Plan (available at www.southwestwater.co.uk/assuranceplan2017). In respect of the six other measures, including our 2016/17 Summary Assurance Report, South West Water was assessed as having met Ofwat's expectations.

South West Water met expectations in the two areas which Ofwat raised minor concerns over in its 2016 assessment (relating to 2015/16 outcome reporting in Bournemouth Water and the disclosure of our governance structures and processes). Improvements we made in respect of those concerns were summarised in the 2016/17 Summary Assurance Report.

Improvements identified

Although no specific concerns were identified by Ofwat, some areas were identified where improvements could be made to ensure best practice was achieved. South West Water has also identified further improvements which were implemented in 2017/18.

Key improvements made relevant to the confidence stakeholders can place in the information that we report include:

- updates to our website, including key landing pages such as in respect of tariffs and charges and annual reporting, to more clearly signpost relevant information and reports
- further enhancements to the description of our governance in our annual reporting, and the appointment of a Senior Independent Non-Executive Director separate from the Pennon Group Senior Independent Director
- refinement following review of our Risk and Compliance Statement (contained within our Annual Performance Report and Regulatory Reporting) such as in respect of management and review of risks
- publication of the detailed performance data in respect of the submeasures which when combined for an overarching performance commitment (in 2016/17 we simply summarised whether they were met or not met)
- further refinement of our Annual Performance Report and Summary Performance Report to ensure it is as easy to understand and navigate as possible
- publication of a report from South West Water's WaterShare Customer Panel and Bournemouth Water's Customer View Group within the Annual Performance Report providing an independent opinion to customers and other stakeholders
- expanding the detail within the Summary Assurance Report on the procedures adopted in and the results of each significant piece of assurance.

South West Water has also implemented further consistency checking and validation processes for its 2017/18 reporting (including but not limited to external validation of versions submitted).



Risks, strengths and weaknesses and assurance plan

As a targeted assurance company, South West Water was again required to perform a 'Risks, Strengths and Weaknesses' consultation as well as publish an Assurance Plan. These consultations and publications occurred in Autumn 2017.

The final documents can be found on the South West Water website: southwestwater.co.uk.

Once again, we fully engaged in this process and sought to use the consultation as fully as possible to improve assurance processes as well as taking the opportunity to review the nature and format of our reporting.

We made a number of commitments following the 'risks strengths and weaknesses' consultation, which were published in our Statement of Risks Strengths and Weaknesses. We have provided an update on progress on these commitments in this report.

Our Assurance Plan laid out specific plans for assurance we will perform and commission in respect of significant areas requiring assurance. In this summary report we not only focus on assurance performed in respect of annual reporting, but also provide an update of the other areas identified in the Assurance Plan as significant areas to assure.

We will perform a further consultation in Autumn 2018 to update our assessment of risks, strengths and weaknesses as well as our assurance plan for 2018/19.



Our 'Risks, Strengths and Weaknesses' and Assurance Plan publications are available on our websites: www.southwestwater.co.uk and www.bournemouthwater.co.uk.

Governance at South West Water

Introduction

South West Water remains committed to operating its business adhering to the highest standards of corporate governance. We see strong governance as central to the successful management of any company, and the framework for the effective delivery of our own strategy and sustainability objectives.

South West Water is wholly owned by a single company, Pennon Group plc. The Chairman of South West Water (Sir John Parker) is also the Chairman of Pennon Group.

South West Water has appointed a Senior Independent Director (Lord Taylor of Goss Moor) to be available to stakeholders to address any specific concerns they may have relating to South West Water. He is not a Director of Pennon Group plc.

Pennon Group also has a Senior Independent Director (Gill Rider), who is available to shareholders and other stakeholders.

In addition to the role of Senior Independent Director, South West Water has further Executive and Non-Executive Directors who are not Directors of Pennon Group. These Directors provide a strong independent voice on the Board and they are available to address South West Water's stakeholders' concerns if required.

Our governance structure helps ensure we operate effectively and cohesively across the Group with efficient and transparent decision-making while preserving the degree of regulatory independence that Ofwat requires for the ringfenced business of South West Water.

Further information on the approach to Group and South West Water governance is included in South West Water's Annual Report and Financial Statements.

We also describe the governance structures and the respective roles of the Board, its committees and executive management in our Annual Performance Report and Regulatory Reporting.

Board independence

Notwithstanding Sir John's chairmanship of Pennon Group, the South West Water Board believes that he continues to demonstrate independence of character and judgement (of Pennon and its investors, and of management) when leading the Board in debate on South West Water matters.

Sir John Parker was considered to be independent at the time of his appointment, in accordance with Provision A.31 of the UK Corporate Governance Code ('the Code'). At that time, the Board concluded that none of the criteria set out in Provision B.1.1 of the Code applied to Sir John; although he was appointed to the position of Chairman of Pennon Group plc on the same date, he was not placed on the South West Water Board by Pennon in order to represent Pennon's interests but rather to help the flow of information and foster an understanding of the issues facing the South West Water at Pennon board level. The South West Water Board believes that this model worked to South West Water's benefit in the past and the operation of the Group's governance framework is underpinned by the dual South West Water/Pennon appointments held by Sir John Parker and other Non-Executive Directors.

The Senior Independent Director (Lord Matthew Taylor) as well as Martin Hagen and John Butterworth are South West Water Non-Executive Directors,

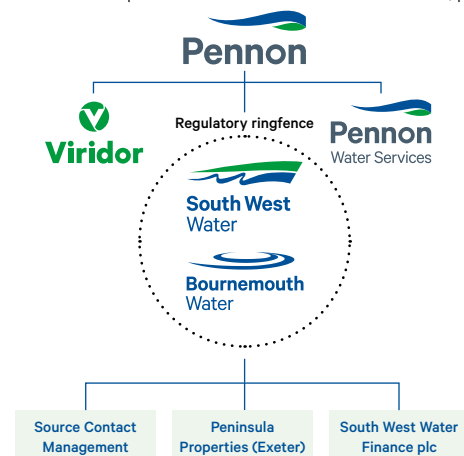
but are not also directors of Pennon Group plc. These Directors provide an independent voice and channel for concerns of stakeholders other than those of Pennon Group plc to be raised if required.

Whilst Non-Executive Directors of Pennon Group plc, Martin Angle, Neil Cooper and Gill Rider are considered to be independent in character and judgement and they were appointed to the South West Water Board in order to facilitate the Group's revised governance framework, rather than to represent the interests of Pennon Group.

South West Water's Group context

South West Water Limited is a subsidiary of Pennon Group plc (which is South West Water's immediate and ultimate parent company), a FTSE 250 company, whose principal significant trading subsidiaries are shown below:

Note: this is a summary structure and includes only South West Water's trading subsidiaries. South West Water's subsidiaries are listed in full in South West Water's Annual Report and Financial Statements (note 16, page 127).



Company and Group compliance with the highest standards of Board leadership and governance

In response to, and in accordance with Ofwat's 'Board leadership, transparency and governance – principles' (January 2014) and the timetable for meeting those principles, South West Water adopted its own Board leadership, transparency and governance Code (31 March 2014) which sets out how South West Water complies with the Ofwat principles.

The South West Water Code states that the Company will comply with the UK Corporate Governance Code to the extent that it can be applied to South West Water within the context of the Pennon Group structure. The Company will continue to regularly review its governance structures, ensuring it continues to carry out its business in a transparent way, designed to secure the Company's long-term success and profitability.

The Board, Committees, Executive and sub-groups

South West Water has a governance framework and structure comprising the Board, Committees of the Board, Executive Management and Sub-committees/Steering Groups reporting to the Executive. This structure is laid out in detail in the Annual Performance Report (pages 40 to 49).

South West Water’s integrated assurance framework

South West Water’s integrated assurance framework

South West Water continues to employ an effective and rigorous risk management and assurance process.

South West Water’s risk and assurance processes are embedded into the management of the Company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to meet the risk appetite. The methodology for identification and mitigation of risk is in place throughout the organisation.

Using a risk based approach South West Water’s integrated assurance plan ensures that an appropriate balance of varied providers of assurance dependent on the assessed risk and complexity of assurance requirements. The integrated assurance approach includes:

| | |
|--|---|
| <p>1ST LINE OF DEFENCE Management</p> | <ul style="list-style-type: none"> • performance reviews • local quality control • ‘sense checking’ • annual certification and • ‘sign off’ of submitted data |
| <p>2ND LINE OF DEFENCE Policy setting and compliance checking</p> | <ul style="list-style-type: none"> • business management systems internal audits • policies and culture (e.g. whistle blowing) • QA and ISO internal reviews • risk & compliance internal reviews |
| <p>3RD LINE OF DEFENCE External scrutiny</p> | <ul style="list-style-type: none"> • group independent internal audit • financial audit • technical audit • quality regulators (including ISO external reviews) • business management systems external audits • other external assurance providers. |

This risk based integrated assurance framework is applied to all areas of the business, including all key projects as they arise. The range of assurance methods used is reviewed by the South West Water Audit Committee, which is responsible for ensuring comprehensive assurance frameworks are in place to support Board assurance and compliance requirements.

In any significant area or project where assurance is required for information, certificates over submitted data will be prepared by those responsible to confirm that the submission is robust and all material issues have been addressed.

Independent internal review is used to ensure that processes are robust and adhered to.

External review and audit processes are utilised whenever significant data is provided by South West Water externally (such as the PR19 business plan, tariffs/charges submissions and Annual Performance Reporting). The allocation of assurance work between external providers (including financial and technical auditors) is based upon the content of the data submission and multiple providers of external assurance are frequently engaged on the same project. The professional credentials of the third party assurance providers are considered in detail to ensure they have the relevant knowledge and experience.

Strong feedback processes are established to ensure that issues or queries raised during internal and external assurance processes are resolved to ensure that any changes required or follow up work is completed as appropriate.

In addition to the strategic leadership provided by the Board, for significant projects, a Steering Group is formed to give direction, monitor project delivery and issue regular updates to the Board.

For all key projects and data submissions the Board confirm in their opinion that assurance provision, governance and internal systems of control have been sufficient.

Our Assurance Plan (see: www.southwestwater.co.uk/AssurancePlan2017) lays out specific assurance plans for each of these areas, as well as elements of the integrated assurance framework utilised. This report summarises results of the assurance work performed and any deviations from the plan, including any additional assurance performed or commissioned when deemed necessary.

This summary does not aim to fully replicate all elements of the assurance plan and for a full understanding of the assurance performed this summary report should be read in the context of the Assurance Plan.

Performance commitments

Significant Assurance Area 1: Performance Commitments

Why is it significant?

Following two years of consultation, South West Water's and Bournemouth Water's 2015-20 Business Plans targeted a number of 'performance commitments' to deliver customer and other stakeholder priorities. The commitments were developed following extensive consultation and an assessment of the value customers place on the improvements which influence the amount the Company is allowed to charge customers. Outperformance of some of the commitments results in financial rewards, with penalties for underperformance, through our Outcome Delivery Incentives (ODIs).

As the commitments reflect areas where South West Water is targeting improvements to address customer and other stakeholder priorities, performance in respect of the commitments is key for customers and other stakeholders in forming their view on how the Company is performing as a whole.

Customers and other stakeholders would therefore expect the reported performance against these commitments to be robust and have been subject to an appropriate level of assurance, including external third party assurance.

Integrated Assurance Framework Elements Utilised

1st line

- Ongoing performance reviews and monthly reporting within teams and senior management
- Departmental certification and 'sign off' of submitted data
- Process and culture formed on quality

2nd line

- Risk and Compliance internal audits

3rd line

- Pennon Group Independent Internal Audits
- Jacobs (following the acquisition of CH2M by Jacobs) technical auditors
- SGS ISO auditors, including ISO 9001 (Quality), ISO 14001 (Environmental) and ISO 50001 (Energy) certifications.

Assurance performed

The performance commitment data is initially provided alongside a methodology explaining how the data is collated and a narrative commentary by the relevant departments within South West Water. This follows departmental reviews and sense checks and explicit management sign off of the data by the departmental management.

All of the performance commitment data is subject to a mixture of assurance provided by a combination of the internal Risk and Compliance team, Pennon Group Internal Audit and the external technical auditor, Jacobs. The level and extent of assurance applied to each performance commitment is determined by a risk assessment of how prone each reported commitment may be to error, and any other assurance performed upon the data.

All performance commitments were subject to an audit by our external technical assurance partner Jacobs, or EY, our external financial assurance partner in the case of financial performance commitments.

Examples of internal assurance performed during the year include:

- an annual audit performed by the Risk and Compliance team reviewing a sample of customer correspondence to ensure that the correspondence had been correctly classified for the purposes of SIM (Service Incentive Mechanism) e.g. complaint
- the Pennon Group Internal Audit team audited the Company's strategy for reducing pollution incidents, this audit included in its scope the internal and external reporting of the performance commitments relating to pollution incidents.

South West Water's data owners (including all ODI data owners), senior managers responsible for data and South West Water directors attended a launch event for the external technical non-financial data audits relating to annual reporting and the business planning process. Those responsible for the data alongside Jacobs (the independent technical auditor) performed a risk assessment of each set of data to determine the level of external audit work required. This was against a set of objective criteria (such as whether there are other external verifications in place) as well as agreed subjective criteria (such as complexity of the data).

The results of these assessments influenced the level of audit required, however at a minimum all ODI data was subject to a thorough independent external audit for each of:

- the methodology used to obtain and compile the data from source;
- the ODI data reported for 2017/18 and compliance with the methodology to obtain and compile the data; and
- the commentary explaining the performance for the year (including that included in the Annual Performance Report and Summary Performance Report).

Following the audit and follow up actions, management, including directors signed off the final position and commentary. The technical auditor also confirmed to the Board that audit actions have been resolved prior to the Board 'sign off' of the Annual Performance Report and the Summary Performance Report.

Audits of the non-financial data were completed in advance of publication of any of South West Water's annual reporting and in advance of the publication of Pennon Group plc's Annual Report to ensure that any data published in each of these reports was in line with audited data.

The risk assessments performed and results of Jacobs's and EY's external audits are being considered by South West Water and will further influence both the internal and external audit programme during 2018/19.

Results of assurance performed

All internal departmental and central verification was completed and signed off by those responsible for the data.

Jacobs and EY have not identified any material issues with the ODI reporting methodologies or the resultant ODI data published in the Annual Performance Report and in the Summary Performance Reports. Between the two auditors, they completed audits of all ODI data as well as other financial and non-financial data reported in South West Water's annual reporting.

Underlying methodologies actually implemented were not noted as deficient, however areas for improvement with respect to the documentation of methodology were identified.

Summaries have been provided in the Annual Performance Report of the results of their assurance procedures.

Annual regulatory reporting

Significant Assurance Area 2: Annual Regulatory Reporting (Other than Performance Commitments)

Why is it significant?

Regulatory Reporting (including price control, additional segmental reporting and other regulatory information) which is published alongside the Annual Performance Report is an annual requirement of our regulator, Ofwat.

This reporting is prepared in accordance with Ofwat's Regulatory Accounting Guidelines (RAGs), which ensures the Regulatory Reporting is prepared in a consistent manner across all water companies. The reporting allows customers and other stakeholders to see how South West Water has performed financially as well as how and in which areas of the business it spends customers' money, and many other financial and non-financial metrics.

Data submitted in 2016/17 as an unpublished 'Cost Assessment' data submission is included this year in the published Regulatory Reporting and is included within the scope of this Significant Assurance Area. This data allows Ofwat to produce econometric models which predict efficient cost profiles across the industry and provides other stakeholders with a more detailed breakdown on financial and non-financial data. It will form part of the basis for the 2019 Periodic Review, setting the framework for the 2020-2025 period, including setting the revenue South West Water will be able to collect from customers.

We therefore consider this information very important and apply rigorous assurance to it.

In addition to the reporting published by South West Water, a sector-wide open access data share, discoverwater.co.uk, allows customers and other stakeholders to find out more about us and the water sector overall. As an important resource for customers and other stakeholders, we have therefore added the information we submit directly to the data share in this significant assurance area.

Integrated Assurance Framework Elements Utilised

1st line

- Delegated Manager Review of submitted data
- Published Board sign-off of Regulatory Reporting

2nd line

- Risk and Compliance verification of data included within the Regulatory Reporting

3rd line

- EY audit of sections 1 and 2
- EY and Jacobs assurance procedures on sections 3 and 4. Technical auditor assurance on information submitted to discoverwater.co.uk
- EY assurance procedures for financial cost assessment data and Jacobs assurance procedures on non-financial cost assessment data
- SGS ISO auditors, including ISO9001 (Quality) and ISO14001 (Environmental) certifications.

Assurance performed

All tables within the Regulatory Reporting section were subject to audit procedures or other assurance procedures performed by South West Water's statutory financial auditor EY, or the Company's technical auditor, Jacobs.

EY performed an audit on sections 1 and 2 of the Regulatory Reporting which includes baseline level of historical cost financial information aligned to price controls and further disaggregation of revenue and costs which allow stakeholders to review Company performance against the final determination.

Section 3 of the Regulatory Reporting, which covers performance commitments is discussed on pages 6 to 7.

Section 4 of the Regulatory Reporting contains additional financial and non-financial information. There is no specific requirement that this information is externally assured, however this section of the report contains a significant amount of financial and non-financial information and metrics which we feel is likely to be of interest and used by various stakeholders of South West Water. We have therefore agreed a set of assurance procedures with the statutory auditor EY and the technical auditor Jacobs to ensure that the information is assured to a similar level as our performance commitments and can be relied upon by stakeholders.

We have applied the same assurance procedures for the cost assessment tables (tables 4J to 4W) as for rest of section 4 of the Regulatory Reporting, obtaining external non-financial technical assurance from Jacobs and external financial assurance from EY.

Responsibilities for completing tables within the Annual Regulatory Report and within the Cost Assessment tables and associated commentaries to be shown alongside the tables are delegated to the relevant management within South West Water. A thorough internal verification of the information reported is performed within the relevant teams overseen by the Risk and Compliance team. The completed tables and associated commentary information is provided to the auditors and all of the relevant management are made available to the auditors. The internal processes were strengthened during the year to further reduce risks in respect of reported data.

In line with statutory requirements, the Board also provides a published through a formal statement, sign-off of the Regulatory Reporting.

Jacobs provided additional specific assurance reviews of data included in our submission to discoverwater.co.uk and in respect of disclosures made in the Risk and Compliance section of the Annual Performance Report.

Results of assurance performed

We have included reports and summaries of external assurance work completed within the Annual Performance Report and Regulatory Reporting (pages 78 to 85).

EY presented their audit opinion on the fair presentation of sections 1 and 2 of the Regulatory Reporting and that they have been properly prepared (see page 78 to 81).

A summary has been provided on pages 82 to 84 of the results of Jacobs' assurance procedures and EY's agreed-upon-procedures work. Neither EY, nor Jacobs identified any material issues with the South West Water's Annual Performance Report and Regulatory Reporting and Jacobs noted the improvements made in internal processes during the year.

Internal verifications and sign-offs were appropriately completed with no issues arising.

Further, Jacobs have provided two memorandums summarising their additional work in respect of the Risk and Compliance Statement as well as the data submitted for discoverwater.co.uk. These memorandums have been published on the South West Water website and do not identify any material issues.

Periodic review 2019 (PR19)

Significant Assurance Area 3: Periodic review 2019 (PR19)

Why is it significant?

PR19 will set the framework for the services South West Water delivers and the prices it is able to charge during the 2020-25 period. South West Water will submit its business plan to Ofwat on 3 September 2018, which Ofwat will then assess, test and challenge.

During 2019 Ofwat will issue its determination upon the business plan, which will finalise the expectations upon South West Water for service delivery and the pricing framework.

Although the business plan will be submitted on 3 September 2018, South West Water has already performed significant amounts of work preparing this plan including undertaking research to establish customers' priorities and establishing the 'willingness to pay' for these priorities. We are also required to submit to Ofwat a number of submissions linked to modelling for the 2020-25 period.

We will aim for the business plan to deliver improving services, which are resilient for the longer term and are affordable for customers. We will also consider innovations which may provide new ways of delivering services more effectively and efficiently

It is important for our customers, other stakeholders (including regulators and shareholders) to trust that our business plan submission is of high quality and that it is based on assured data and that assumptions, judgements and choices made are reasonable and reflect the best available knowledge and information.

Integrated Assurance Framework Elements Utilised

1st line

- Rigorous project management approach
- Monthly reporting to Board level project steering group
- Certification by business units and Board of all submissions

2nd line

- Extensive Board scrutiny
- Internal assurance (directorates and Risk and Compliance)

3rd line

- Assurance and challenge (risk based level of detail) upon financial data by financial assurance specialists
- Jacobs audit and challenge of technical data
- Other specific external assurance commissioned as deemed appropriate
- External Customer Panel oversight.

Assurance performed

Note: as a significant ongoing project the update below covers the period to the date of publication of this Summary Assurance Report, which extends beyond 2017/18.

South West Water's Board is overseeing an comprehensive programme of assurance, which alongside a strong governance process is a key aspect in the development of its Business Plan for 2020-25 and ensuring the plan is of a high quality.

The submission of the business plan will be supported by an extensive set of required data tables. Each of these is subject to rigorous internal and external assurance. Relevant management within the Company have been delegated tables and associated commentaries and thorough internal verification procedures have been implemented.

For each data table, at a minimum external agreed-upon-procedures assurance has been performed which considers:

- Compliance with the Company's internal sign-off and verification procedures
- The appropriate sourcing and use of previously assured historic data
- Assurance of historic data which has not previously been assured
- Agreement of forecast data to assured models or assurance of individual forecast methodology
- Compliance with the relevant guidance
- The quality of methodologies and commentaries to be published.

Areas of the business plan and supporting data tables which have been risk assessed as higher risk as well as significant models supporting forecasts are being subjected to more extensive assurance procedures such as deep dives in certain areas, and other relevant assurance procedures developed in collaboration with our external assurance partners.

Internal and external assurance procedures have been phased as early as reasonably possible to ensure that there is maximum time for Board scrutiny and for any remediation actions to be completed prior to publication and submission.

Results of assurance performed

Our external assurance partners have reported to South West Water the results of each of their audits. No significant issues have been raised, and where minor issues have been raised South West Water is acting to remediate any issue.

South West Water's Board will provide both a Statement of Assurance and a detailed supporting summary of assurance which the Company has performed and commissioned alongside submission and publication of its Business Plan in September. The supporting summary of assurance will include a report of both the financial and technical assurance partners.

The WaterFuture Customer Panel (South West Water) and Customer View Group (Bournemouth Water) have monitored progress in respect of PR19 and have appointed Deloitte as their independent report writer to assist them in producing their report to Ofwat alongside the Company's submission of its Business Plan for 2020-25.

Annual report and financial statements

Significant Assurance Area 4: Annual Report and Financial Statements

Why is it significant?

The Annual Report and Financial Statements provide financial and other information about the Company's activities during the year in accordance with International Financial Reporting Standards and the Companies Act 2006. This makes the format and basis of preparation of the information consistent with annual reporting of all other large UK companies. The annual report is freely available alongside other UK company accounts at Companies House and is published on our website (southwestwater.co.uk/report2018).

The information contained within this report is important to our shareholder (Pennon Group plc), its investors and other stakeholders.

Integrated Assurance Framework Elements Utilised

1st line

- Extensive management oversight

2nd line

- Verification programme led by the Risk and Compliance team
- Monthly review of financial performance and position by the Board

3rd line

- Pennon Group Internal Audit - programme includes regular audits of financial systems and processes
- Statutory External Audit - performed by EY and overseen by the Audit Committee.

Assurance performed

The Annual Report and Financial Statements are subject to an extensive programme of internal and external assurance.

South West Water's financial processes and procedures are rigorous, robust and subject to extensive management oversight and internal review as well as being an integral component of the independent Group Internal Audit cyclical plan. As part of this cycle, during 2017-18, internal audits were performed over the Company's sales ledger and credit management processes.

South West Water's Executive Management and Statutory Boards review the Company's financial position and performance on a monthly basis, and there is a thorough process of validation to ensure that annual and monthly financial reporting is in line with the underlying financial systems and transactions.

Our external auditor, EY, audits the Annual Report and Financial Statements. Their audit plan is reviewed annually by the Audit Committee, who are actively engaged with the external auditor. The Audit Committee has policies in place to ensure that the external auditor acts independently and effectively – for example the external auditor is not used for non-audit services, except where they are not material and the external auditor is best placed to provide those services (such as Regulatory Reporting).

Although South West Water is not a listed company itself, the Company has decided to comply with the principles of the UK Corporate Governance Code so far as it is possible in the context of being a subsidiary of a listed company (Pennon Group plc). These principles set out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. They also cover governance in respect of the Audit Committee and audit services.

The Board also makes a statement to confirm it considers the document 'Fair, balanced and understandable.' This statement is made following an extensive verification process undertaken in conjunction with the preparation of the document in addition to a review undertaken by the statutory external auditor, EY.

Results of assurance performed

EY provided an unmodified, unqualified opinion on South West Water's Annual Report and Financial Statements.

All internal verifications and sign-offs have been completed and internal audit outcomes did not identify any material control weaknesses.

The Board has signed off the Annual Report and Financial Statements and are satisfied that the report is 'Fair, balanced and understandable.'

The summary performance reports and summary assurance report

Significant Assurance Area 5: The Summary Performance Reports and Summary Assurance Report

Why is it significant?

Following consultation on our 'Risks, Strengths and Weaknesses,' in 2016/17, our engagement with customers and other stakeholders through meetings with our independent customer panels, customer focus groups and an online survey, many of our customers and other stakeholders stated that they would prefer a short summary of South West Water's performance to be provided in addition to the more comprehensive Annual Performance Report and Regulatory Reporting.

We therefore committed to Summary Performance Reports for each of the South West Water and Bournemouth Water areas, which we aim by design to be user friendly and engaging, focusing on key headlines and performance in each area. We want the documents to be useful to customers and increase our already strong levels of customer engagement and as such believe it is vital the document is as rigorously assured as the comprehensive Annual Performance Report and Regulatory Reporting.

We have also decided to publish this Summary Assurance Report to ensure that stakeholders can gain an understanding of the assurance which has been performed upon the annual reporting as well as on other data and information published by South West Water. This Summary Assurance Report forms an important follow up to the Assurance Plan and it is important that it is a fair, unbiased and accurate summary of assurance performed.

Integrated Assurance Framework Elements Utilised

1st line

- Compilation of Summary Performance Report using only assured data from the full Annual Performance Report and Regulatory Reporting

2nd line

- Verification led by the Risk and Compliance team of data and information within the report to the comprehensive report

3rd line

- Technical auditor review of document for unbiased nature of compilation from full reporting
- EY review of accuracy and summary of their assurance work.

Assurance performed

Summary Performance Reports

We acknowledge that as these shorter documents are published outside of a statutory requirement, with no formal assurance requirements, there is a risk that the document could be produced in a biased manner. If it were produced in this way the value to stakeholders would be greatly diminished. To ensure this is not the case the document:

- includes a page showing the performance for the year against all of South West Water's performance commitments
- only include data and information shown in the Company's Annual Performance Report and Regulatory Reporting which has been subject to the rigorous assurance described on pages 6 and 7.
- include balanced commentaries against both areas in which we have done well and those where we have performed less well and/or missed annual targets
- has been fully verified by the Company's technical auditor, whose scope explicitly included a review for bias within the document.

Summary Assurance Report

Our statutory and technical auditors have read and reviewed this report to ensure that their work has not been misrepresented. Jacobs' report includes consideration of any bias included within the report.

Following publication of these reports, we will seek feedback from customers including the WaterShare Panel and Customer View Group to ensure the documents are as 'user friendly' as possible.

Results of assurance performed

Internal verification has confirmed that all data included within the Summary Performance Report is included within the Annual Performance Report and Regulatory Reporting which has been subject to the rigorous assurance procedures described in this report.

Jacobs has also not reported any issues in this regard in its Assurance Report.

EY and Jacobs have read and reviewed both reports. No issues were identified regarding bias within the Summary Performance Reports nor with the Summary Assurance Report.

Health, safety and wellbeing

Significant Assurance Area 6: health, safety and wellbeing

Background

Within South West Water, we are committed to providing a place of work free from harm, by preventing injury and ill health, where everyone goes home safe every day. The health and safety of our employees and all company stakeholders comes first. We aim to do everything safely and responsibly, or not at all – regardless of what the task is or who has asked us to do it.

In 2017, Pennon Group appointed a new Director of Health, Safety, Security and Assurance (HSSA), which heralded the launch of a new Group-wide vision and strategy for health and safety, called 'HomeSafe'. HomeSafe is designed to: standardise our approach to health and safety across the Pennon Group, so we only have one way of doing things; establish clear and simple processes, procedures and rules that govern how we should all act and work in order to get home safe; and, most importantly, reinforce our existing positive attitude and behaviours to health and safety.

In recognising its importance, health, safety and wellbeing has been added to South West Water's Assurance Plan as a 'significant area for assurance'. It is the first agenda item for all South West Water business meetings. South West Water is committed to achieving the new ISO 45001:2018 Occupational Health and Safety standard, which is planned to be achieved in 2019.

Assurance performed

South West Water has an established programme of health and safety Senior Management visits across its operational sites, which have been supplemented in 2017/18 by consideration of health and safety issues as part of site internal audits performed by the Risk and Compliance Team.

From April 2018 a Group-wide Health, Safety, and Security Assurance (HSSA) Plan was launched by the HSSA Team. This Plan is aligned with the requirements of the ISO 45001:2018 Occupational Health and Safety standard in order to effectively implement new standard within South West Water. The Plan is risk and theme based with targeted assurance of both legal and systems compliance, and with strong linkage to the HomeSafe delivery programme.

The development of new Pennon-wide occupational health, safety and security strategies, systems, and standards has commenced following the creation of the Group HSSA Shared Service function. This programme will serve to standardise and continually improve existing South West Water health and safety systems and processes, and will provide better data and management information. This will supplement the Group-wide HomeSafe delivery programme, to enable the emergence of an improved safety culture and compliance with standards, rules and expectations.

Results of assurance performed

The Group-wide Health, Safety, and Security Assurance Plan commenced in April 2018. The process of implementing the new ISO 45001:2018 Occupational Health and Safety standard has commenced, which is planned for completion ahead of external validation in 2019.

Integrated Assurance Framework Elements Utilised

1st line: Ongoing performance reviews and monthly reporting within teams and senior management

- Departmental certification and 'sign off' of submitted data
- Monthly reporting to Board level
- Certification by business units and Board of all submissions

2nd line: Internal assurance

- HSSA team
- Senior Management site safety visits

3rd line: Regulatory inspection

- Pennon Group Internal Audit oversight
- Pennon Serious Incident Review Panel.

Tariffs and charges

Significant Assurance Area 7: Tariffs and Charges

Background

The bills paid by our domestic customers and the wholesale charges paid by non-household customers in our areas are determined by the tariffs and charges published in January and February each year.

These tariffs and charges are set in line with the 2015-20 Business Plan and a number of other constraints, not least our Price Promise made to customers in the original South West Water area that the household bills will, on average, rise by less than the Retail Prices Index (RPI) during each year of the period and that for customers in the Bournemouth Water area, the price differential following the merger will be maintained. The tariffs are also designed to be cost reflective of the differing wholesale and retail services provided.

It is important that the customers can have confidence that the bills which they receive reflect the published charges schemes and that those charges schemes have been through a sufficiently rigorous assurance process to ensure the constraints have been met.

Assurance performed

The Company meets with representative customer groups throughout the year to ensure that the structure of South West Water's charges remains the most appropriate for customers in our areas. The calculation of the tariffs and charges within this structure, which comply with the constraints in place, is led by the Company's Regulatory Directorate utilising a model developed by an external specialist (ICS Consulting Ltd.).

Internally there is a process of sign off for all variable inputs into the model and for forecasts and expert judgements used.

KPMG performed a set of procedures mutually agreed between South West Water and KPMG, reflective of risks which may result in tariffs and charges not meeting the constraints discussed above.

KPMG focused on:

- identifying whether inputs to South West Water's model agree to underlying sources
- replicating key calculations to ensure the model is operating correctly
- checking that the tariffs and charges comply with key constraints and guidelines
- checking that the revenues and margins from the model outputs are in line with the approved business plan.

External assurance is supplemented by internal procedures led by the Company's Risk and Compliance team, which include the validation that charges input into the Company's billing systems are in line with those published, which are in turn in line with the assured outputs of the model.

The Board signs an explicit Statement of Assurance alongside publication of the charges schemes in January and February each year confirming, amongst other things, that in the Board's opinion the Company's processes and internal systems of control ensure that the data and information contained in the Charges Schemes meet the Company's obligations.

Results of assurance performed

KPMG performed the agreed-upon-procedures and reported to the South West Water Board. KPMG confirmed that there were 'no issues identified that would present concerns that would represent material risk of the tariffs being non-compliant'.

KPMG did however note recommendations where some refinement of calculations was possible and improvements to process. None of the recommendations identified by KPMG were deemed to be a potential or likely 'compliance problem.' All of these recommendations are being considered and will be addressed prior to the 2019/20 tariff setting process.

The Board signed the Statement of Assurance, which has been published on the South West Water and Bournemouth Water websites.

The government £50 contribution

Significant Assurance Area 8: The Government £50 Contribution

Background

South West Water domestic customers in the original South West Water area have been receiving an annual £50 contribution towards their bill from central UK Government since April 2013. South West Water receives the contribution from the Government and the contribution is fully passed onto customers by South West Water in the form of a £50 discount on customers' bills (pro-rated for bills relating periods of less than a year).

The Government has committed to the scheme until at least 2020. South West Water receives no financial benefit from the payment and it is important that customers and Government can have confidence that the whole reduction reaches customers and that the contribution is claimed only for eligible customers.

Assurance performed

The £50 contribution is automatically applied to all domestic customer bills within our billing system (this is pro-rated, where bills reflect a period of less than a year).

At the commencement of the £50 contribution scheme, South West Water performed a review of all customers' account classifications (as domestic or business) to ensure that everyone entitled to receive the contribution did so and equally that the Government Contribution is only received by those customers the Government has defined as eligible.

South West Water's domestic retail function has a specific compliance team overseeing the billing system and matters relating to Customer Service. The Pennon Group Internal Audit also perform a cyclical annual audit of our billing systems.

South West Water and the Department for Environment, Food and Rural Affairs (DEFRA) have engaged PwC to perform a quarterly audit of the scheme. This audit includes PwC reviewing a sample of payments made to ensure that they have been correctly applied and that the classification of accounts within South West Water's systems remains appropriate.

Results of assurance performed

Results of internal and external assurance have not identified any material concerns surrounding the £50 contribution scheme and PwC has completed its quarterly audits on schedule throughout the year.

PwC's quarterly audits occasionally identify a very small number of properties which are incorrectly classified as eligible or ineligible. This can occur for example where the usage of a property has changed. This can be complex in certain circumstances, for example where there is mixed use of a property, potentially changing during the year such as a seasonal Bed and Breakfast property.

Similarly the full review of classification of customers' accounts ahead of the opening of the non-household retail market identified a number of customers whose eligibility for the £50 contribution had changed. All impacted customers were written to in advance of the change, explaining both the impact upon their bill in respect of the £50 contribution and the impact upon their eligibility for the non-household retail market.

Risks, strengths and weaknesses

In our statement of 'Risks, Strengths and Weaknesses' published in October 2017 we committed to six clear actions to achieve to address risks and weaknesses in our data and information provision as identified by ourselves and confirmed by customers and other stakeholders. Some of these were related to tangible changes in the way we report, whilst others concerned the nature of how we report.

Some of the actions build upon those identified in the previous reporting year, with others addressing newly identified risks and weaknesses.

We have provided an update in respect of the progress of the actions committed to below, and will provide further updates in Autumn 2018 when we publish our updated statement of Risks, Strengths and Weaknesses.

Issue
Provision of price review information to customers

The commitment
Ensure the information and engagement with customers regarding the price review is understandable in terms of language and level of detail.

Update
In line with our approach to annual reporting, we produce customer summary versions of key PR19 related documents, including documents outlining potential options, our Water Resource Management Plan and the final Business Plan. These are reviewed to ensure they are understandable in terms of language and level of detail.

Issue
Reporting of Outcome Delivery Incentives (ODIs) performance

The commitment
Taking into account feedback from customers in the recent focus groups, further refine our summary Annual Performance Report.

Update
Following customer feedback through focus groups during the Risks, Strengths and Weaknesses exercise, we have implemented a number of further improvements in our reporting of ODIs within the Summary Performance Reports, including explicitly listing the commitments we have met and not met within our summary page (we have also reflected this in the Annual Performance Report).

Issue
Reporting of WaterShare performance

The commitment
Further develop communications with customers to ensure clarity on the benefits of the WaterShare mechanism.

Update
South West Water has continued to work with the WaterShare Panel in an open and transparent manner with respect to WaterShare performance. This year, South West Water has published a report from the Panel Chair on page 54 of its Annual Performance Report, which includes a summary of WaterShare performance.

South West Water is continuing to develop communications in this area.

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|---|---|--|
| <p>Issue Customer understanding of performance reported against consistency measure methodologies</p> | <p>The commitment Ensure communication around performance reported against the new consistency measures is clear in terms of no change to service.</p> | <p>Update We are considering approaches to take in 2019/20 to ensure that consistency measures are introduced in a concise manner ensuring that performance on a like for like basis is clearly shown. These approaches will be tested with customers ahead of publication in 2020.</p> <p>As part of our Price Review engagement with customers, all required consistency measures were tested among other potential performance commitments in focus groups to ensure all performance commitments for 2020-25 were supported and understood by customers. This feedback has been used to draft performance commitment definitions so that they would be understood by customers as well as setting the overall performance commitment/ODI framework.</p> |
| <p>Issue Customer understanding of information provided</p> | <p>The commitment Continue to work to ensure reporting is as understandable as possible (avoiding jargon) and is suitable for all relevant users.</p> | <p>Update We have acted upon customer feedback and again commissioned Jacobs, our technical assurance provider, to review whether they are as understandable as possible, whilst maintaining an appropriate level of detail.</p> |
| <p>Issue Our websites</p> | <p>The commitment Relaunch Bournemouth Water's website and update South West Water's following feedback from customer survey.</p> | <p>Update We have updated central customer pages on the South West Water website to make them more engaging, easier to navigate and customer friendly. Pages updated include; About Us, Household Charges, How are we performing and WaterFuture. Following feedback from stakeholders and customers, a central Governance page has also been created, detailing information about our Board, compliance and the code that we follow.</p> <p>We want to have a website that is user friendly with accessible information for our customers and stakeholders and continue to identify areas to update in line with our customer feedback.</p> <p>The Bournemouth Water website will be relaunched later in the year when it is on the same platform as the South West Water website. In the meantime customer pages such as charges have been updated to make the pages more engaging and customer friendly.</p> |

Ongoing ISO assurance – continual improvement

South West Water seeks to continually improve in all areas of its operations. All of the performance commitments within the 2015-20 business plan are aimed at improving performance across the period or for continued excellent performance where high levels are already achieved. These performance commitments are all in customer priority areas.

Wherever possible South West Water uses the results of assurance work performed to drive continual improvement and actively seeks the opinions of internal and external assurance providers concerning improvements that can be made.

South West Water operates an Integrated Management System. Individual accreditations and certifications are therefore not managed in isolation, rather South West Water's systems comprise sets of policies and procedures to ensure that South West Water meets customer and stakeholder requirements such as the identified performance commitments which are customer priorities including priorities in respect of quality, energy, environment (including flow monitoring requirements), information security and sampling.

These systems are at the heart of what we do to ensure we are providing a continually improving quality service.

The below summarises the standards we are currently certified and accredited against and the assurance work performed during the year. Each refers to all areas of our business, including both the South West of England and the Bournemouth area unless otherwise stated.

ISO 9001 – Quality Management Systems

We have proudly been certified in line with ISO 9001 since 2003.

SGS performed an external audit in respect of ISO 9001:2015 following our upgrade to the 2015 update to ISO 9001 in July 2017, well ahead of the requirement to transition to this standard. No major issues or minor issues were noted.

A number of areas for potential improvement in line with examples of best practice (either within the Company or elsewhere) were identified including improvements to sharing of ISO 9001 (and ISO 14001) internal audit findings throughout the Company, review of some system documentation and formalisation of certain risk procedures. Each potential improvement has either been or is being implemented.

Internally an extensive programme of internal audits led by the Company's Risk and Compliance team is performed, with all larger operational sites and head office functions audited on a cyclical basis as well as a sample of smaller operational sites.

ISO 14001 Environmental Management Systems (and the Environmental Permitting Regulations)

SGS performed an external audit in respect of ISO 14001:2015 following our upgrade to the 2015 update to ISO 9001 in July 2017, again well ahead of the requirement to transition to this standard. No major issues were noted, however two minor matters were reported to South West Water, which have subsequently been addressed. The Risk and Compliance team perform an extensive programme of internal audits.

These issues related to clarifications to responsibilities following staffing changes and improvements to the process for reporting minor issues identified in some operational and non-operational areas (where the issues fall outside of South West Water's incident reporting and near miss reporting systems). Clarifications to responsibilities have been made in line with the current structure and a group-wide incident management system is being implemented.



Ongoing ISO assurance – continual improvement

ISO 50001 – Energy Management Systems

In November 2015 we became certified against ISO 50001:2011.

The certification is in line with our attempts to deliver best practices in our management of energy. Energy is integral within our business plan and there are energy related performance commitments in place for each of the original South West Water and Bournemouth Water areas.

Training has been delivered in the year to members of the energy team and those independent of the energy team including the Risk and Compliance Team to ensure that energy audits are performed in line with the standard and energy considerations are integrated into ISO 9001/ISO 14001 audit programme.

An external ISO surveillance audit was performed during the year by SGS, with no significant issues noted.

ISO 27001 – Information Security Management

South West Water's corporate network at head office sites has been certified in accordance with ISO27001 since 2009 and is currently certified against the 2013 version of the standard.

The scope covers the secure management of customer and company information and the physical and logical security of corporate IT infrastructure and application services.

South West Water have a dedicated Information Security team and there is an internal audit programme in place performed by specialists from within the Information Security team, which is supplemented by assurance commissioned from external sources, in particular covering higher risk areas.

Formal external audit is performed by SGS, and an external ISO surveillance audit was performed during the year by SGS, with no significant issues noted.

ISO 17025 – Sampling

South West Water's laboratories perform sampling, including for:

- South West Water's drinking water supply and treated waste water
- on a commercial basis to third parties.

The scope of South West Water's certification includes both procedures within our laboratories and on site sampling. A programme of internal and external audits (by UKAS) is performed and no significant issues have been identified during the year.

MCERTS Self-monitoring of flow

South West Water has more than 200 wastewater sites which have a flow monitoring requirement in their permit, which requires the sites to comply with the MCERTS scheme in order to fulfil environmental responsibilities.

An annual external audit is performed by Sira (the MCERTS certification body) and there is a programme of internal audit. No significant issues have been identified, however the programme of internal audit has been strengthened during the year.



As noted on page 14, South West Water is also aiming to achieve certification to the new ISO 45001 (Occupational Health and Safety) standard during 2019 and has implemented both an overarching Group-wide 'HomeSafe' programme and a programme of internal audit.

South West Water Limited

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