

NORTHUMBRIAN
WATER *living water*

ESSEX & SUFFOLK
WATER *living water*



CONSULTATION ON STRENGTHS, RISKS AND WEAKNESSES AND DRAFT ASSURANCE PLAN

NOVEMBER 2019

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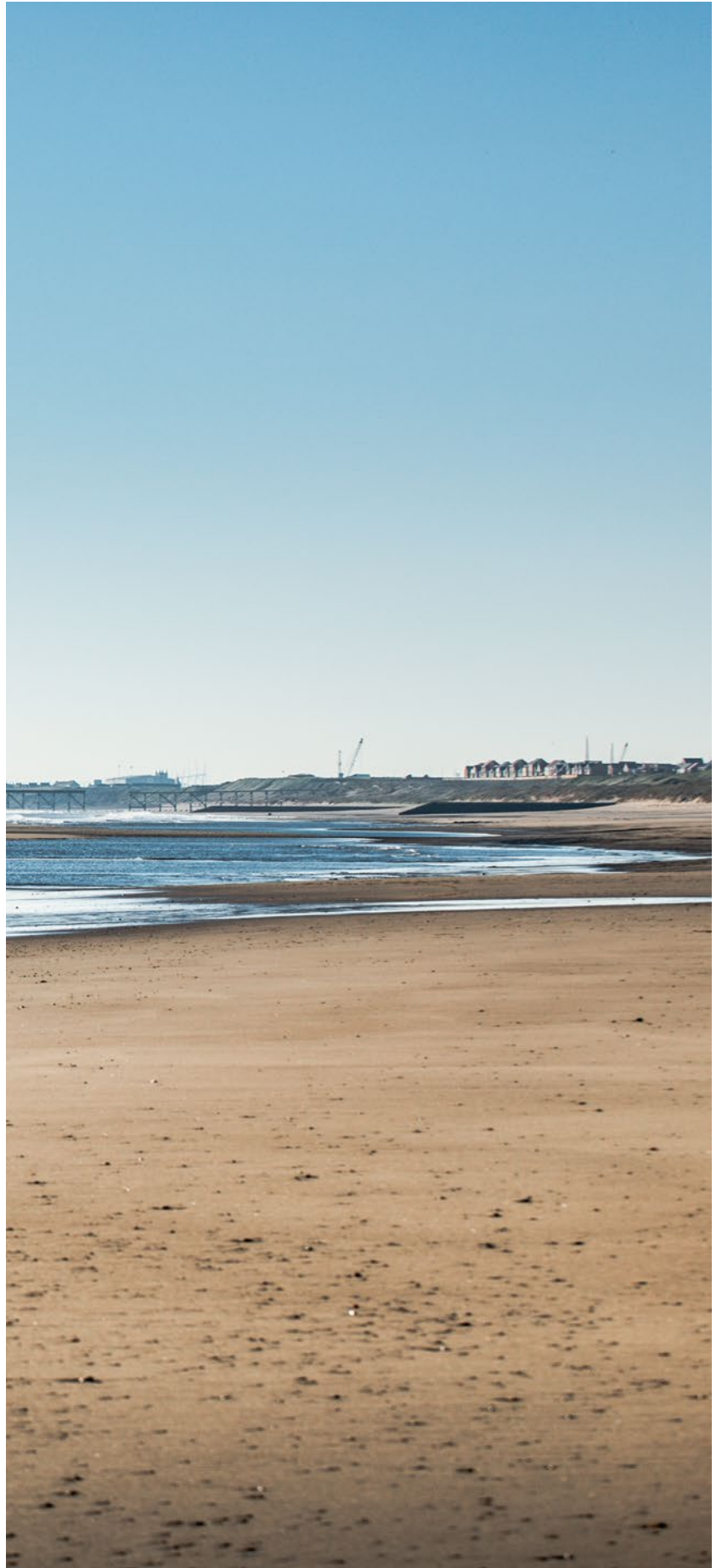
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HAVE YOUR SAY



WELCOME TO OUR CONSULTATION

Northumbrian Water Limited (NWL) operates in the North East of England as Northumbrian Water, and in the South East of England as Essex & Suffolk Water.

We supply water and wastewater services to around 4.5 million people. Northumbrian Water provides water and wastewater services to 2.7 million people in the north east of England. Essex & Suffolk Water provides water services to 1.5 million people in Essex and 0.3 million people in Suffolk.

We regularly report and publish information about our performance to show how well we are delivering our service promises to you, our customers. This information has robust checking procedures so that you can be sure it is correct. This is what we mean by **assurance**.

Why are we consulting you?

The services we provide are essential for life and wellbeing. This means that maintaining the trust and confidence of our customers and stakeholders is absolutely crucial.

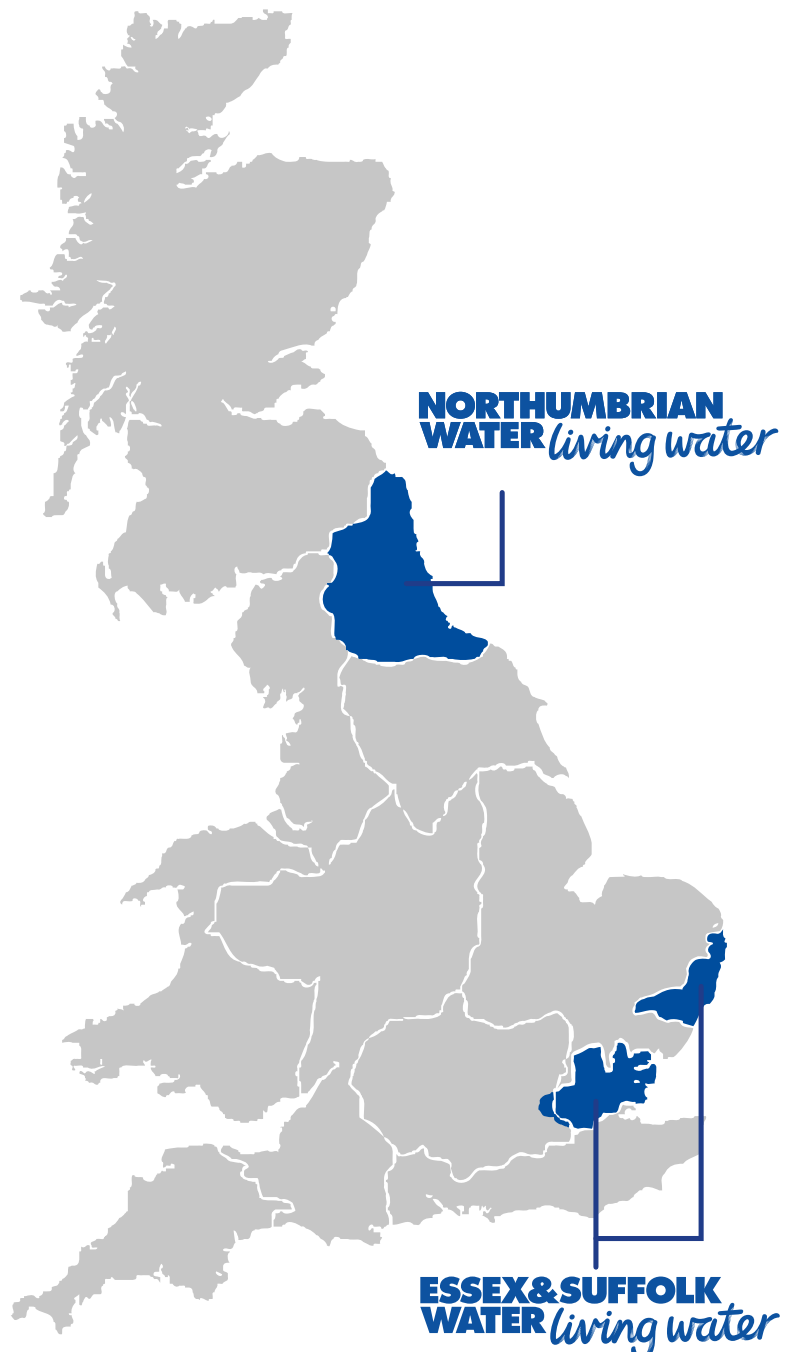
To maintain your trust, we need to ensure that we meet all our obligations and the published performance commitments that we have agreed with the water regulator, Ofwat.

We also need to make sure that we provide transparent, reliable information about our performance to our customers and stakeholders, so that they can hold us to account.

The purpose of this document is to tell you our views, and ask you about your views, on our **strengths, risks and weaknesses** in relation to:

- Fulfilling our performance commitments and obligations
- Providing robust information to customers and stakeholders.

We would also like your views on our **Draft Assurance Plan** which shows the assurance activities we plan to complete to reduce risks and weak areas.



There are two versions of this document to choose from. This one is our full assessment, which contains detailed, technical information. We also publish a [shorter summary](#), which has less technical detail.

Each year, we consult with our customers and stakeholders on our Draft Assurance Plan. Our 2018 consultation, for our 2019/20 plan, was commented on by more than 2,000 customers and stakeholders. **This year we want you to have your say!**

The feedback we receive will help us to review our assessment of strengths, risks and weaknesses and assurance arrangements, before publishing our Final Assurance Plan for 2020/21 in March 2020. Our focus will be on making sure our Final Assurance Plan fully responds to customers' and stakeholders' needs and priorities.

If you'd like to take part in this consultation, all you need to do is read this document, or [our shorter summary](#), then share your views with us by filling in this [short survey before Friday 10 January 2020](#).

Alternatively, send your answers to the following questions to haveyoursay@nwl.co.uk.

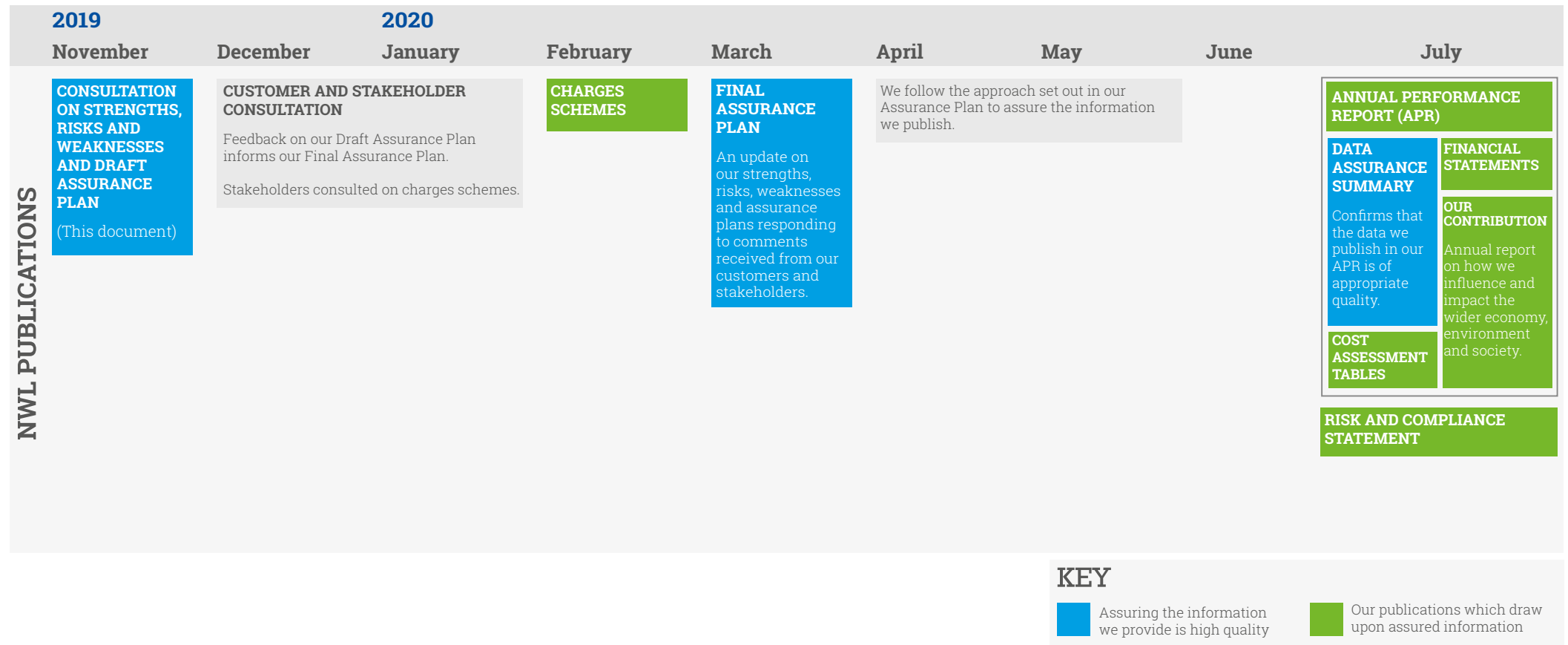
1. Do our plans to address the risks we identify in this document go far enough?
2. Have we missed any important risks?
3. Of all the different types of information we report on, which are most and least valuable to you?
4. Is there any further information we could provide that you would find valuable?

Our full Final Assurance Plan and a shorter summary document will be published on our website: nwg.co.uk in March 2020. They will reflect the feedback we receive on this consultation.

This Assurance Plan is then used to ensure we provide customers and stakeholders with robust information, including the information in our [Annual Performance Report](#), as shown in the diagram on the following page.

PROVIDING TRANSPARENT AND RELIABLE INFORMATION

Figure 1: Our annual cycle for assessing strengths, risks and weaknesses, developing our assurance plans and sharing information with customers and stakeholders.



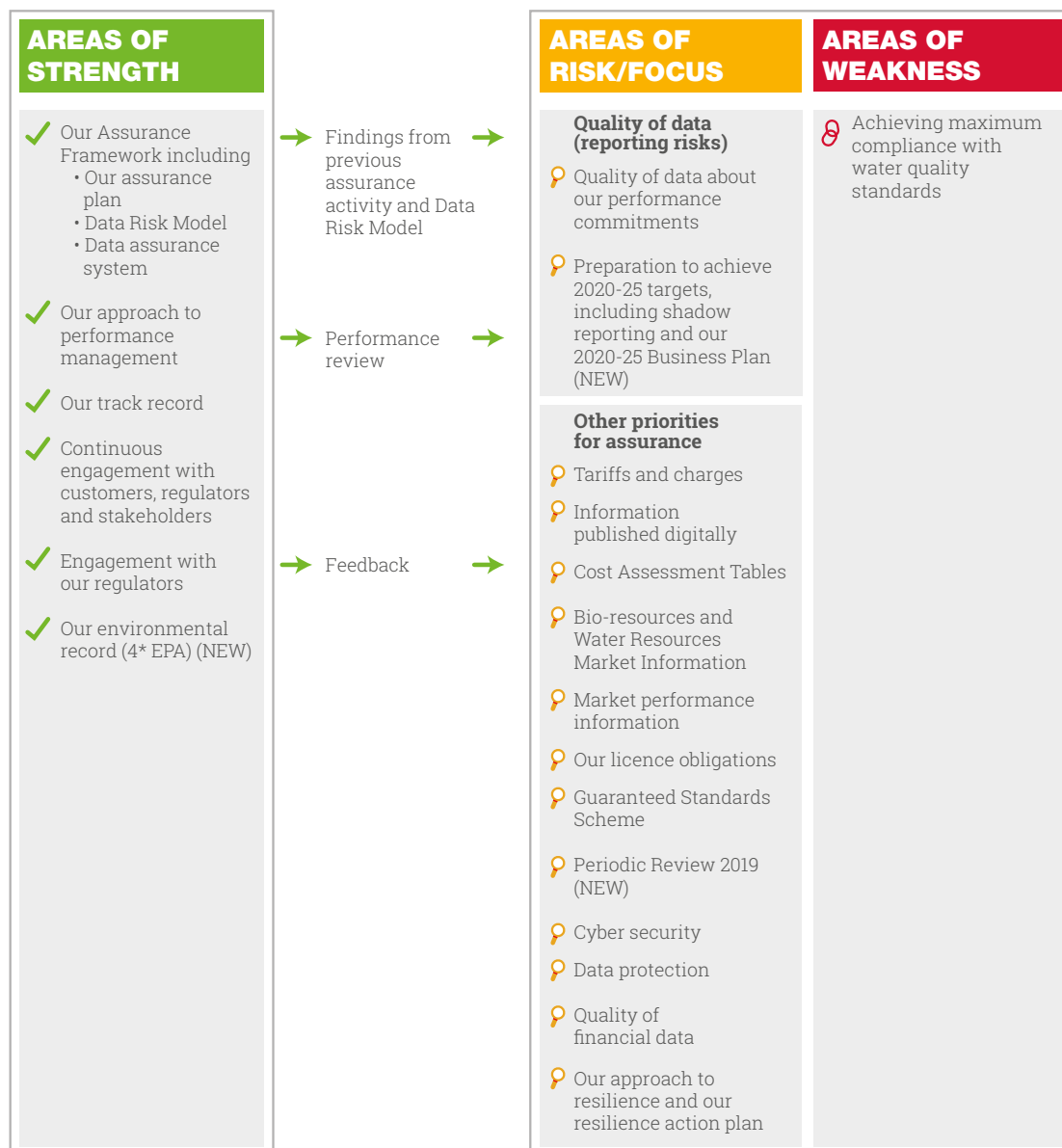
OUR APPROACH TO ASSESSING AREAS OF STRENGTH, RISK AND WEAKNESS

The diagram below summarises the strengths, risks and weaknesses we have identified relating to:

- Delivering our regulatory obligations and the performance commitments we made to customers and stakeholders in our 2015-20 Business Plan, and new 2020-25 Business Plan.
- Providing quality information to customers and stakeholders so they can hold us to account.

Each area's categorisation depends on their level of risk and their importance to our customers and stakeholders. For more detail on each area, please see the following pages.

Figure 2: Our view on our areas of strength, risk and weakness:



AREAS OF STRENGTH

As you're reading about our areas of strength, you might like to think about whether we have any other strengths which you think should be included here?

OUR ASSURANCE FRAMEWORK

We operate a well-established approach to corporate governance and assurance, which is summarised in our Assurance Framework (see [page 9](#)). We use the framework to make sure the information and data we provide to our customers, stakeholders and regulators can be trusted.

Our framework has five tiers of assurance, as follows:

- **Board oversight:** The Board has ownership of the arrangements for governance and assurance of regulatory submissions and reporting. This is monitored and controlled through the Board's Audit Committee and Risk & Compliance Committee, with regular reporting by the committees to the Board.
- **Risk management:** We use a data risk assessment, and a strengths, risks and weaknesses review, to determine levels of risk and target assurance activity. This is a robust and mature process and is embedded within the company's risk activity. The Board sets the tone for risk management, determines the appropriate risk appetite, monitors the management of fundamental risk and approves major decisions affecting the company's risk profile.
- **Management assurance:** Our Executive Leadership Team (ELT) implements the Board's strategies and closely monitors performance. This includes making sure sufficient and suitable resources (human and financial) are applied to scrutinise performance and identify and manage risk. Our ELT makes sure there is appropriate assignment of responsibilities, corporate structures and reporting lines and accountabilities, supported by annual assurances on systems and controls.
- **Business assurance:** We have teams that are separate from operational activities which monitor, capture and manage the data we report. Specifically this includes our Internal Audit Team which is directly accountable to the Audit Committee. The team provides strong, independent assurance. As such their remit sits across this tier and the following one.
- **Independent assurance:** Our business assurance teams are supplemented with external specialist providers where we require technical and/or independent external assurance.

OUR ASSURANCE PLAN

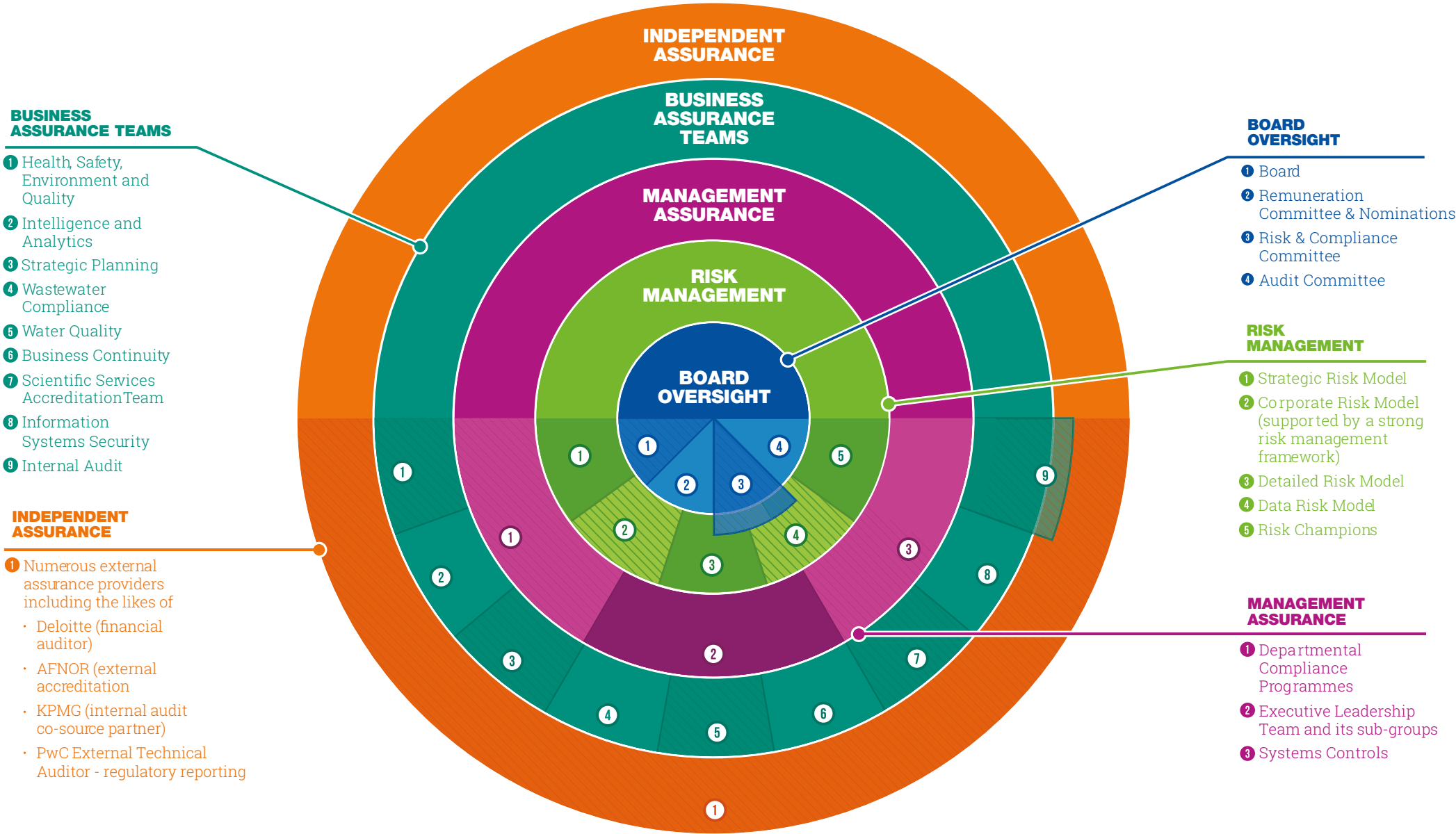
Until 2019, Ofwat has annually assessed the effectiveness of each company's assurance arrangements and categorises each company as either self-assured, targeted or prescribed, under its Company Monitoring Framework (CMF).

We were delighted to be awarded the highest assessment of "self-assured" by Ofwat in November 2017. In 2018, we were assessed as "targeted" because Ofwat had minor concerns with our assurance of our cost assessment and Water Resource Management Plan and market information. We were awarded 'Exceeds Expectations' for our 2018 Assurance Plan, which indicated that Ofwat placed a good degree of trust and confidence in us.

Ofwat will not publish further CMF assessments, but continue to scrutinise and challenge our approach to data quality and assurance of our performance reporting. They will do this through spot checks, deep dives and requiring companies to address data inaccuracies and gaps, as well as still requiring companies to publish a Draft Assurance Plan.



Figure 3: Our Assurance Framework.



OUR DATA RISK MODEL

Two critical parts of our internal approach are the Data Risk Model, and our data assurance system, which sit within the Risk Management tier.

Our Data Risk Model is used to understand and then mitigate risks associated with data errors. It includes the following steps:

1. Applying a formal risk assessment to the data we collect to understand:
 - The likelihood of a reporting error due to the complexity of a performance measure and the manner in which the data is collected.
 - The impact should an error occur, particularly with regard to customers' trust and confidence, financial incentives and penalties and our reputation.
2. Applying checks and balances, in the form of data quality controls to mitigate risks. These controls may be procedural, audit based, or built into our information systems. We review the effectiveness of these controls as part of our risk assessment and they are rated as good, acceptable or ineffective.

Findings from previous assurance activity, and outputs from our risk model, are used to identify areas of risk or weakness. These also inform which assurance provider we choose for each item of data, be it our Internal Audit Team or external independent assurance.

We want to make sure we have processes in place that continue to apply a quality assured approach to producing accurate and reliable data.

Confidence grades provide a reasoned basis for us to qualify the reliability and accuracy of the data we publish. Applying confidence grades ensures that we can identify areas where our data is of a high standard. They also ensure that we have action plans in place to improve data that falls below the standard confidence grade level.

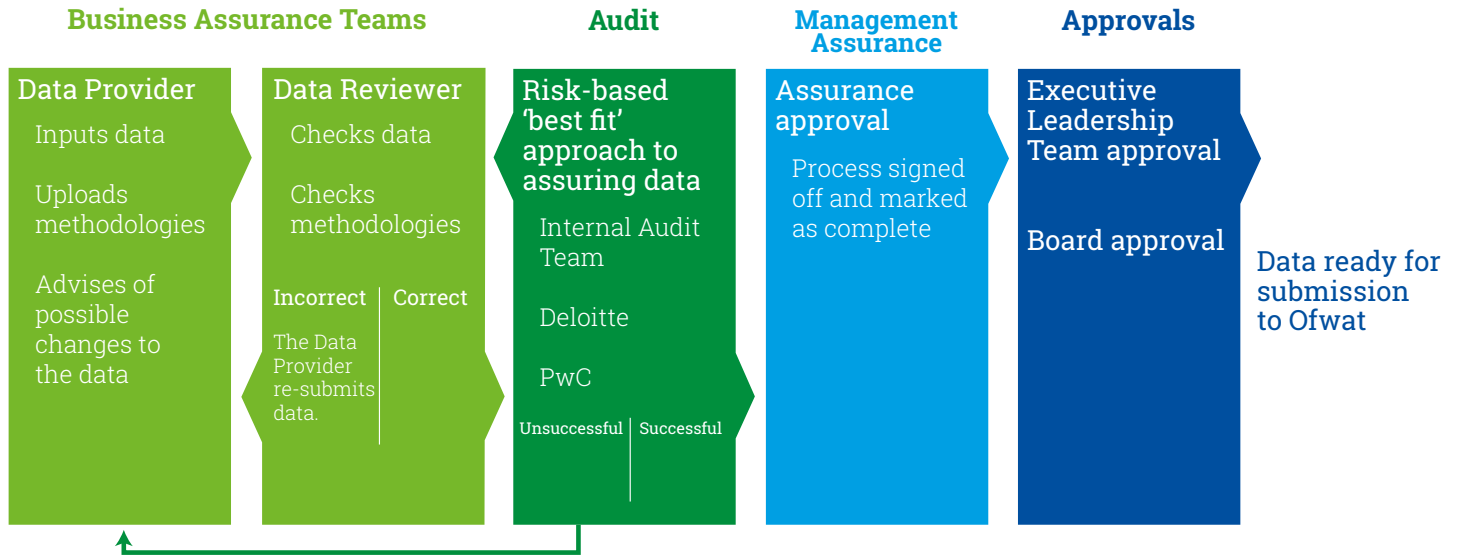
Our assurance of the data we produce will include comments from auditors on the suitability of the confidence grading that has been applied. Assurance providers will also provide their opinion where they differ to that which has been applied by our data teams.



OUR DATA ASSURANCE SYSTEM

Our data assurance system is an automated workflow system used to upload, manage and assure the data required to produce our APR, providing a robust audit trail for each piece of data. The system is summarised in Figure 4, below.

Figure 4: Our Data Assurance System.



OUR APPROACH TO PERFORMANCE MANAGEMENT

A key part of maintaining trust and confidence is delivering the performance commitments (or service levels) that our customers and stakeholders expect - in particular, the performance commitments we set out in our 2015-20 Business Plan.

We have a robust approach to performance management which is centred on our balanced scorecard. This is used to track performance against our performance commitments alongside other key measures such as employee engagement.

Our balanced scorecard is reviewed monthly by our Executive Leadership Team and also at our regular Board meetings. It is cascaded throughout the company via bi-monthly team briefings, giving all of our employees a clear understanding of our current performance and their role in meeting our targets. It enables action plans to be initiated quickly if performance in any area should start to deteriorate.

This ongoing performance review is used to identify areas of risk and weakness in this assurance plan. Targets are set annually

and, as well as reflecting the commitments made in our business plan, also take account of benchmarking against other companies' performance.

Effective benchmarking is only possible if robust comparative information is available. We have hence taken an active and leading role in the development of the industry's strategic dashboard; Discover Water, which makes it easier for customers, stakeholders and regulators to view and compare performance information about water companies in England and Wales in one place.

We take information from 'Discover Water' and publish it on our own websites. We report how we have performed compared to other water companies and what steps we are taking to keep our performance on track. You can read our Northumbrian Water publication [here](#) and our Essex & Suffolk Water publication [here](#).

OUR TRACK RECORD

Another important element of maintaining trust and confidence is our track record. In addition to having a strong focus on meeting our performance commitments, we have been recognised by several independent awarding bodies for exceptional performance in a broader sense including:

- **Living Wage (2017)** We were accredited by the Living Wage Foundation as a Living Wage employer, reflecting our belief that a hard day's work deserves a fair day's pay.
 - **RoSPA (2017)** We were recognised for our well-developed health and safety management systems and our culture and commitment to the wellbeing of not only employees but all those who interact with us.
 - **Green Apple Environment Awards for Environmental Best Practice (2017)** We were recognised for our effective strategy, approach and results of our Every Drop Counts campaign which encourages behaviour change in water efficiency.
 - **British Quality Foundation UK Excellence Award (2018)** for our positive impact on the world, through improving and advancing the economic, environmental and social conditions in the communities we serve.
 - **Water Industry Achievement Awards Company of the Year (2018)** Judges were impressed by our work and performance on minimising supply interruptions and on sustainable drainage.
 - **Business in the Community (2018)** The judges said we are putting responsible practices at the core of our business, and are helping to create healthy communities with successful businesses at their heart.
 - **British Water supply chain top water company (2018)** We were named the UK's top water company in the British Water 2018 annual performance awards, as voted by suppliers, seven times in the last nine years.
 - **Leading Utilities of the World (2018)** In October this year we joined this network of the world's most forward-thinking water and wastewater utilities, as defined by the network's 14 distinct innovation areas. Members represent the gold standard of utility innovation and performance throughout the developed world's water sector.
 - **IT Initiative of the Year Utility Week Awards (2018)** for the implementation of our new customer billing system, which modernised and improved the way we support and service our customers' accounts.
 - **Transformation and Innovation Award Utility Week Awards (2018)**, with judges highlighting our "culture in which innovation is everyone's job" and giving special mention to our Innovation Festivals.
 - **Customer Initiative of the Year (2019)** For our Water Without the Worry campaign aimed at promoting the extra support – both financial and practical – that we provide to customers in a range of difficult circumstances.
 - **Data Project of the Year (2019)** for our Water Poverty Eradication Modelling. This innovative project is utilising big data to support our goal of eradicating water poverty across our operating areas by 2030.
 - **Sunday Times Best Companies List (2019)** We achieved 19th place in the Top 25 Best Big Companies to work for. This was purely based on feedback from our employees.
 - **World's Most Ethical Company List (2019)** We are the only water company in the world, and one of just two UK based companies, to be on this list. It's the eighth time we have received this global recognition from the Ethisphere Institute.
 - **Competent Operator Scheme National accreditation (2019)** from Energy & Utility Skills, for securing the strict quality standards for water quality operations.
- As a responsible business with a strong track record, it is important to us that we demonstrate leadership and make a wider contribution to life within our regions. We are particularly proud that our external recognition reflects leading performance across a broad spectrum of our business activities over a sustained period.

CONTINUOUS CUSTOMER AND STAKEHOLDER ENGAGEMENT

We continually engage with our customers and stakeholders to assure them that we are meeting their expectations and to maintain their trust and confidence. Our goal is to give every single customer the opportunity to have a strong voice and engage with us, with at least 2m customers participating by 2025.

We carry out a programme of bespoke research and engagement activity around strategic aspects of service, including operations, inclusivity, charges and the future. This is complemented by regular customer research activity to understand trends in satisfaction, monitor the success of campaigns and understand service priorities.

We hold regular conversations and performance review meetings with our stakeholders, to understand their expectations relating to performance, data reporting and communications. Our key stakeholders in the context of this document are:

Our customers.

- The **Northumbrian Water** and **Essex & Suffolk Water Forums** (our independent Customer Challenge Groups).
- The Consumer Council for Water (CCWater).
- Ofwat.
- The Drinking Water Inspectorate (DWI).
- The Environment Agency (EA).

The Water Forums provide independent assurance to Ofwat on our performance and the quality of our customer service (annual reporting), our customer participation and engagement; our work in communities and with regards to the environment and sustainability.

Feedback from our customers, including as part of this consultation, is used to inform this Assurance Plan.

ENGAGEMENT WITH OUR REGULATORS

We have an ongoing system in place to capture, log and respond to all regulatory communications.

We have an internal team that monitors and coordinates responses to requests for information and other correspondence from our regulators.

The team identifies the right internal expert(s) to liaise with who then deliver a high quality, timely response as required. This process is overseen by a senior manager or Director.

All feedback, determinations and responses from our regulators are logged and stored on our company intranet, and are used to inform this Assurance Plan.

OUR ENVIRONMENTAL RECORD (NEW)

In July 2019 we were named by the Environment Agency as the only water and sewerage company in the UK to achieve four stars in our Environmental Performance Assessment. We are now leading the sector in how we care for the environment. In addition, we are on track to deliver all our environmental Performance Commitments for 2019/20, and have committed to significantly reducing our carbon emissions in our 2020-25 Business Plan.

AREAS OF RISK AND HOW WE PLAN TO ASSURE THEM

This section sets out those areas where either data errors, other failures or oversights, could have the greatest impact on our customers, and in turn on their trust and confidence in us.

These are the areas which we will focus on in our Draft Assurance Plan. The risks are largely the same as those covered in previous plans and those areas included for the first time are flagged as (NEW).

As you're reading about our areas of risk you might like to think about whether our plans to address them are enough?

QUALITY OF DATA RELATING TO OUR PERFORMANCE COMMITMENTS

Many of our PCs have financial incentives associated with them. If we deliver better performance, we could earn a financial reward. Alternatively, if we deliver poor performance, we could incur a financial penalty. Failure to report performance accurately could result in an incorrectly calculated reward or penalty, which could significantly undermine our reputation, as well as reduce customer and stakeholder confidence.

To mitigate this risk, data associated with each of our measures of success will receive risk-based assurance as detailed in our Draft Assurance Plan.

Any penalties or rewards will be calculated using the methodology stated in our Final Determination from the Periodic Review 2014 (PR14). This is subject to robust assurance, involving internal and external audit review, including our Water Forums.

PREPARATION FOR ACHIEVING OUR 2020-25 TARGETS (NEW)

We have some extremely stretching performance targets for 2020-2025, and are starting work early to develop our plans to achieve these targets.

These will include the optimum mix of activities including investing in new assets and changing the way we operate our existing assets. We will also, where appropriate, work with our customers to change customer behaviour and develop new and innovative ways of working.

BUSINESS PLAN SHADOW REPORTING

Companies have been working together to develop consistent definitions and reporting guidance for a number of metrics. This is to inform the reporting of performance commitments from 2020 onwards.

These metrics include:

- Leakage
- Supply Interruptions
- Mains Bursts
- Unplanned Outage
- Per Capita Consumption
- Risk of severe restrictions in a drought
- Internal sewer flooding incidents
- External sewer flooding incidents
- Sewer Collapses
- Risk of sewer flooding in a storm
- C-MeX
- D-MeX.

Information has been collected alongside the Annual Performance Report since 2017 through "shadow" reporting, and the data included has been subjected to the same level of assurance as other regulatory reporting areas.

Companies are expected to demonstrate full compliance with the new reporting guidance by the end of March 2020 in order to commence regulatory reporting from April 2020.

TARIFFS AND CHARGES

Water and wastewater services should be affordable for all customers, whatever their circumstances. The amounts our customers pay for their water (and wastewater) services change on 1 April each year and are determined by the [Charges Schemes](#) we publish in January and February of each year. When we change our charges, we follow the rules set out in legislation and by Ofwat.

We have a well-established timetable for the production and approval of our tariffs and charges scheme. This is to ensure that we do not risk a charging error, which could impact upon our customers. Our timetable includes key stages for producing our charges, assurance from our Internal Audit Team and external assurance experts, and review and approval by our Charges Steering Group and the Board.

INFORMATION PUBLISHED DIGITALLY

Our customers and stakeholders refer to our websites for information. We have designed an improved governance framework for our new websites, which went live in 2019.

The build was overseen by our Think Digital Steering Group. Our Internal Audit team worked with this group to create a clear process for how we will assure the quality of key information posted on the new website. This includes having named owners for all information, set dates for when information goes live and expires, and regular reviews of information to ensure its ongoing accuracy.

COST ASSESSMENT TABLES

Since 2016, we have provided cost assessment tables to Ofwat which cover all aspects of performance, including financial and operational metrics. This cost assessment

information has helped inform Ofwat's cost modelling for the PR19 process. Our approach to providing governance and assurance to the cost assessment tables follows the same process as we currently have in place for Annual Performance Reporting (APR).

As part of the PR19 process we resubmitted asset data in relation to pumping stations which is used as cost drivers in Ofwat's cost models. Further assurance was applied to the resubmitted data.

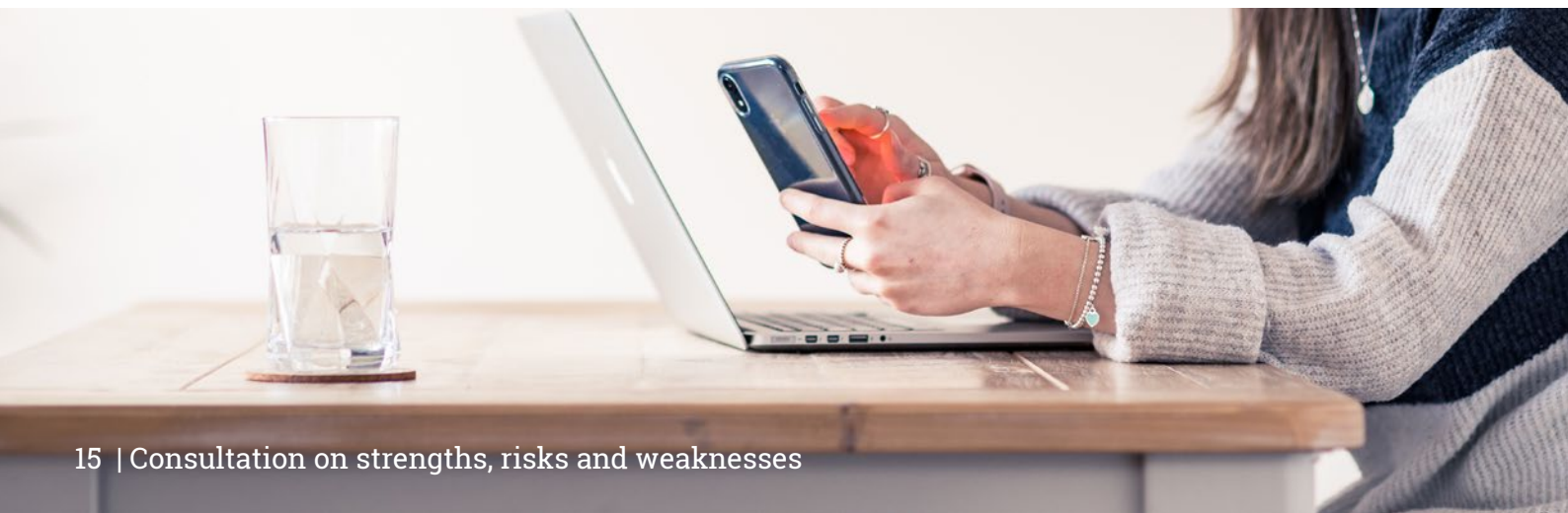
In 2020-21, PwC along with our internal audit team will audit the data we report, testing it from the source data to the reported data, to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.

BIORESOURCES AND WATER RESOURCES MARKET INFORMATION

The submission of cost assessment tables was introduced as a new reporting requirement in 2017/18 by Ofwat. Ofwat uses the tables to develop its cost models.

Companies are also required separately to provide Ofwat with standardised and defined information on bio-resources and water resources activities. This is to enable potential market participants to identify opportunities to supply services.

These are relatively new requirements, so are included as areas of risk. Our Internal Audit Team continues to work with our Bio-resources and Water Resources Teams to improve information.



MARKET PERFORMANCE INFORMATION

The Water Act 2014 set out the legal framework for the opening of the competitive non-household retail market. Market Operator Services Ltd (MOSL) was established in 2015 as a not-for-profit company to operate, develop and design this new market.

The market performance framework monitors how retailers and wholesalers perform. Market and operational performance metrics are collected by MOSL. This is intended to provide confidence to all parties that companies are complying with their obligations.

Providing this performance data is a relatively new requirement, and has therefore been identified as a risk for us. Our Internal Audit Team is working with our Wholesale Team to assure our reporting processes.

OUR LICENCE OBLIGATIONS

This area of risk is based on our need to comply with our licence obligations including those introduced following the opening of the non-household retail market. Companies that fail to meet their legal obligations are failing their customers. In referring to obligations, we mean those covered by the Water Industry Act 1991 and our Instrument of Appointment (the Licence).

To make sure that we comply with these obligations, we will follow a robust process to review and approve:

- The duties and obligations covered by the relevant legislation.
- The business owners and sponsors for each of the obligations.
- A risk assessment of each duty/obligation.

- Documentation of the policies and procedures which we rely on to ensure compliance.
- The effectiveness of the governance of these policies and procedures.

GUARANTEED STANDARDS SCHEME

We believe world class customer service is about getting it right first time, every time. We must meet certain standards by law, but aim to improve on many of these and include others that we believe demonstrate an unrivalled customer experience. The guaranteed standards scheme (GSS) sets out the minimum standard of service our customers can expect, and how we will compensate them if things go wrong. **'Our Promise'** contains all our guaranteed standards, including those required by legislation as minimum.

Any miscalculation of GSS payments could have a significant financial and reputational impact.

Following Ofwat's 'Out in the Cold' review of water companies' performance in response to the 'Beast from the East', the regulator expressed concern that customer compensation wasn't enough. We have acted on Ofwat's recommendations and made changes to our GSS payments from 1 October 2019.

Therefore, this area remains a risk and consequently a priority for assurance. Our processes for identifying, reporting and issuing failure payments to customers are well established. We have a full time GSS Compliance Auditor to focus on this specific area.



PERIODIC REVIEW 2019 (PR19) (NEW)

Every five years all water (and wastewater) companies in England and Wales submit their plans for the future to Ofwat. This is known as the Periodic Review. The most recent submission, PR19, took place in September 2018, when all companies submitted their draft business plans to Ofwat. Ours can be found [here](#). Chapter Ten contains full details on our assurance approach for our Business Plan.

Ofwat scrutinises all companies' plans to make sure that they are efficient, affordable, provide resilience in the round, offer great customer service and meet companies' statutory and licence obligations. Based on its assessment, Ofwat placed companies into four categories; 'significant scrutiny', 'slow-track', 'fast-track', or 'exceptional'. This assessment was based on Ofwat's view of the level of quality, ambition and innovation demonstrated by each company. In our initial

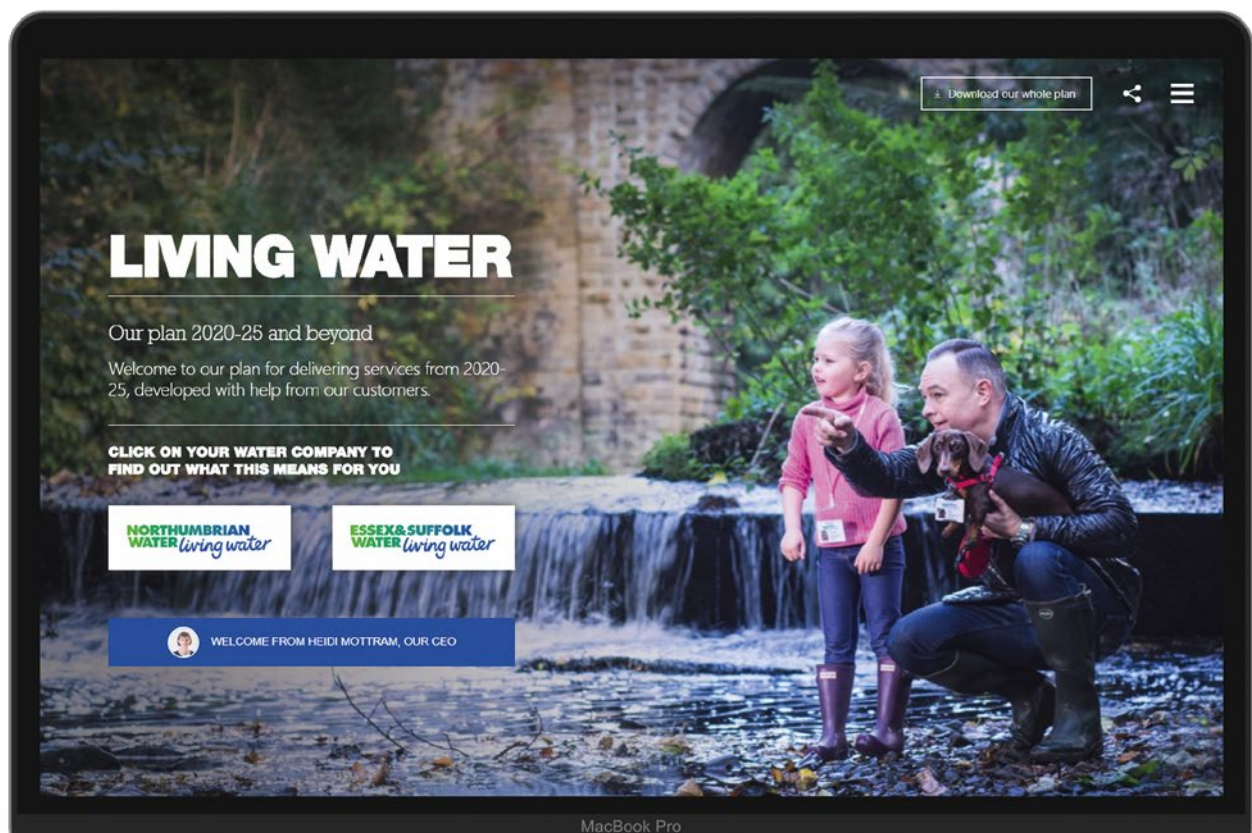
assessment, Ofwat categorised us as 'slow-track', so this is an area of focus for our Draft and Final Assurance Plan.

The Draft Determinations (DDs) issued by Ofwat in July 2019 are still being disputed by most water and sewerage companies (including NWL), who say that on the basis of the DDs their plans are not financeable. Therefore unprecedented further uncertainty is ongoing, with some companies potentially taking their cases to the Competition and Markets Authority (CMA).

CYBER SECURITY

Customers have indicated that they would like to know more about how we protect their personal data and prevent and manage cyber-attacks on our information systems.

We take cyber security extremely seriously and are committed to making sure we manage our systems securely.



As a Critical National Infrastructure company, we must also comply with the Networking and Information Systems Directive to make sure our systems that control the production and distribution of water are secure.

To mitigate the risk associated with this area, we:

- Make sure information is protected to an appropriate level, based upon the impact of its disclosure, modification or loss.
- Comply with all relevant information management legislation, regulations and standards.
- Make sure that employees are trained and clear about their responsibilities around cyber security, and that we expect them to take their legal and moral role seriously.
- Manage the security of all computer systems and supporting infrastructure through the implementation of appropriate technical security controls.
- Control access, through the implementation of user names, passwords and system privileges.
- Make sure that security is an integral part of information systems, including segregation of duties, change control procedures and approval processes.
- Ensure information security events and weaknesses are formally managed, to allow timely corrective action to be taken.
- Have processes to encrypt data, where appropriate.
- Protect critical information systems from the effects of major failures or disasters, by deploying appropriately resilient infrastructure.
- Ensure redundant equipment, media and papers are disposed of securely.
- Use regular and up to date training to ensure a robust Cyber Security culture is embedded right across the business and is led from the top.
- Ensure Board review and approval of the Cyber Security policy.
- To assure this, we comply with ISO270001 for cyber security, liaise with the National Cyber Security Council to ensure that we are responding appropriately to new and emerging threats, and take action to reduce any risks identified by the regular external audits and independent security tests we will commission.

For more information see our [Information Security Policy Statement](#).

DATA PROTECTION

Information about our customers and employees (personal data) is one of our most valuable assets. Whenever we use personal data, we are committed to protecting everyone's privacy rights. Respecting those rights, and meeting our obligations under the General Data Protection Regulation (GDPR) is essential if we are to maintain our reputation as an ethical and trustworthy company.

To mitigate the risk associated with this area, we are:

- Making sure we are ethical, fair, transparent and lawful when we use personal data.
- Only using personal data where we have a specified, explicit and legitimate reason for doing so.
- Making sure we have the personal data we need, but no more, to make the right decisions.
- Keeping personal data accurate and up-to-date.
- Only keeping personal data for as long as we need it to meet our purposes, and disposing of it promptly, and securely, afterwards.
- Allowing everyone access to their personal data when they wish, not using it in a way which may cause inappropriate harm or distress, and respecting their rights under the GDPR.
- Making sure that personal data is always protected under our Information Security Policy, and following best practice procedures and guidance to prevent its unauthorised use, disclosure, damage, or loss.
- Ensuring that personal data is not transferred outside the European Economic Area, unless privacy rights are adequately protected in the recipient territory.
- To assure this, we have an Information Access Team who work across the business to ensure all departments follow privacy procedures and undertake spot audits, a Privacy Impact Assessment tool for new procedures and projects, content security tools. We also commission external audits and independent security

tests to identify improvements we can make to our data protection.

For more information see our [Data Protection Policy Statement](#).

QUALITY OF FINANCIAL DATA

Under our assurance framework, the following will be externally assured: Our Annual Report and Financial Statements, Regulatory Accounting Statements, Statement of Sufficiency, Long Term Viability Statement and any additional regulatory information.

ENSURING RESILIENCE

As well as meeting our PCs in the short term, another important aspect of maintaining trust and confidence is ensuring that we can maintain service levels for customers in the longer term, or in the face of shocks or unexpected events. We call this resilience.

Our customers tell us that resilience means a strong, reliable and affordable service that will stand the test of time, cope with change and bounce back from difficult situations.

We manage a large and complex asset base; if we fail to invest in its resilience our customers and the environment could experience a significant impact. We will continue to deliver reliable and resilient services by anticipating change, planning ahead, and by making the right long-term decisions about how to run our business.

Our activities will also ensure that we comply with customer and regulatory expectations on resilience. This means making sure that robust governance and processes are in place to allow us to deal effectively with short-term shocks to our systems and operations, as well as planning for the long term.

Our Resilience Framework (see [Figure 5](#)) is an effective way to show the interdependency and complexity of our business systems across corporate, financial

and operational aspects. It provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas.

The concentric circles in the framework illustrate lines of defence between external threats and the challenges to resilience, and our ability to maintain delivery of our services. The outer ring represents our approach to corporate resilience through managing corporate risk. We view this as the first line of defence, and as being essential to good operational and financial resilience. The inner rings show our approach to managing operational and financial risks, both now and in the future. To be resilient in the round, each of the areas in our Resilience Framework must contribute to resilience.

To provide regional resilience leadership, we are in the process of recruiting a Chief Resilience Officer to manage 'resilience in the round' through the Resilience Framework described in our recent Business Plan. Since drafting our Business Plan 2020-25, we have developed a Resilience Action Plan to strengthen our approach further. This will ensure closer links between our resilience actions and investments, associated risks and mitigations, and outcomes for customers.

To assess resilience within our business, our Risk & Compliance Committee regularly reviews current and emerging risks and challenges to our business systems, critical assets and operational processes. We record these risks in our Corporate Risk Register and publish the principal risks in our Annual Report and Financial Statements. This ensures that we are open and transparent with customers regarding the risks we face and manage each day.

More information can be found in our Business Plan: www.nwgourplan.co.uk.

Figure 5: Our Resilience Framework.

WE ARE RESILIENT AND PROVIDE CLEAN DRINKING WATER AND EFFECTIVE SEWERAGE SERVICES; NOW AND FOR FUTURE GENERATIONS

- 1 Resilient wastewater services
- 2 Resilient water services
- 3 Understanding customer priorities
- 4 Business continuity and recovery
- 5 Planning for resilient services in the long-term

WE TAKE CARE TO PROTECT AND IMPROVE THE ENVIRONMENT IN EVERYTHING WE DO, LEADING BY EXAMPLE

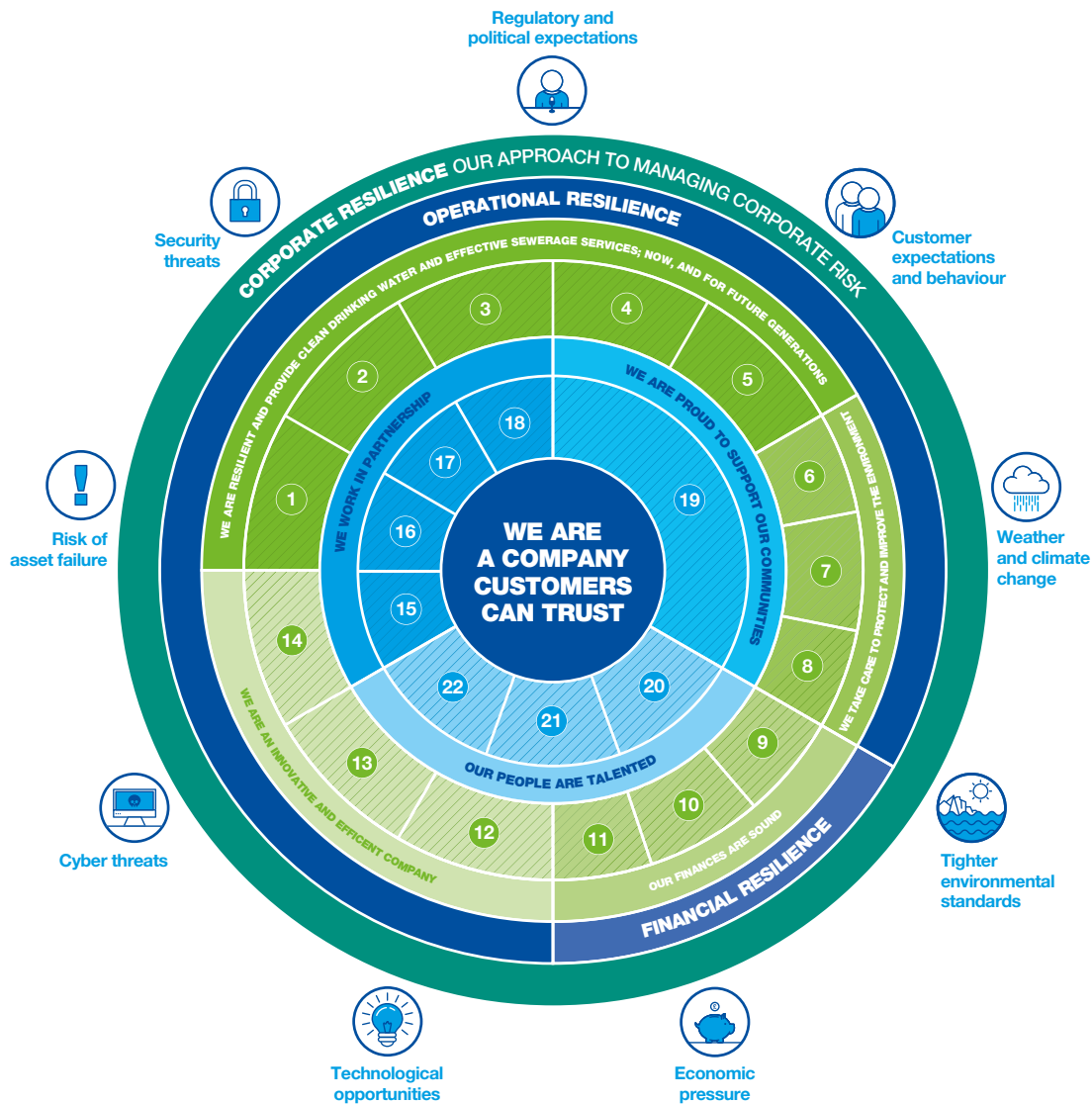
- 6 Resilient water environment and ecosystems
- 7 Sustainable and efficient use of energy
- 8 Sustainable management of our wastes

OUR FINANCES ARE SOUND, STABLE AND ACHIEVE A FAIR BALANCE BETWEEN CUSTOMERS AND INVESTORS

- 9 Affordable services for customers
- 10 Long-term financial planning
- 11 Financial monitoring and reporting

WE ARE AN INNOVATIVE AND EFFICIENT COMPANY

- 12 Intelligent asset management
- 13 Innovation and new technology
- 14 Enhanced cyber security and data protection



WE WORK IN PARTNERSHIP WITH COMPANIES AND ORGANISATIONS TO ACHIEVE THE GOALS THAT ARE MOST IMPORTANT TO OUR CUSTOMERS

- 15 Integrated Approach
- 16 Reliable supply chain
- 17 Integrated catchment-based approach
- 18 Co-creation with our partners

WE ARE PROUD TO SUPPORT OUR COMMUNITIES BY GIVING TIME AND RESOURCES TO THEIR IMPORTANT CAUSES

- 19 Building successful and resilient economies within our regions

OUR PEOPLE ARE TALENTED, COMMITTED AND INSPIRED TO DELIVER GREAT SERVICES TO OUR CUSTOMERS

- 20 Providing a healthy and safe place to work
- 21 Our people acting in line with our values
- 22 Providing a great place to work

AREAS OF WEAKNESS

We have robust governance, assurance and risk management arrangements in place on an ongoing basis which cover operations, planning and regulatory reporting. Our processes highlight points of detail which we address in the spirit of continuous improvement, to enhance the robustness of our data and the quality of information we provide to customers and stakeholders.

We have identified one area of weakness associated with meeting Performance Commitments this year. This is achieving maximum compliance with Drinking water quality standards. This section details this area of weakness, and the arrangements we have in place to strengthen our performance.

As you're reading about our areas of weakness, you might like to think about whether there are any other weaknesses you think we should include?

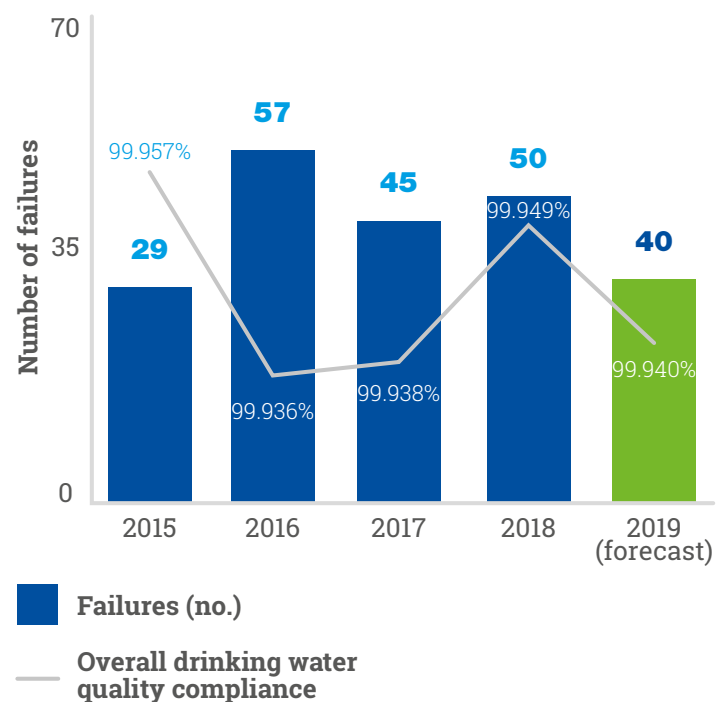
ACHIEVING MAXIMUM COMPLIANCE WITH WATER QUALITY STANDARDS

We supply drinking water that must meet strict quality standards. Performance against these standards is monitored by us and reported to the Drinking Water Inspectorate, in line with the regulations they stipulate. A perfect overall drinking water quality compliance score would be 100%, and we routinely score very high levels of compliance - greater than 99.9%.

Each year a small number of water sample test failures impact our performance. Of the 80,000 or so tests carried out each year, a small number can fail. Both the type and number of failures are considered in the compliance calculation. Therefore, it is possible to reduce the overall number of failures, but still achieve the same or worse compliance, depending on the types of failures that have occurred.

None of these failures are a risk to health, as safeguards are built into the strict standards. Our best performance was in 2015, with 29 failures and compliance of 99.957%.

Figure 6: Number of drinking water quality compliance failures.



Our performance commitment for this outcome is measured as a three year average. The target has tightened for the 2017 to 2019 average, and our forecast performance for 2019 now means that it is not possible for us to achieve this more stringent target. We will therefore have to pay a financial penalty.

We are committed to sustaining, and where possible improving, water quality. However, water quality performance is also influenced by weather, operational issues like damage to our network, and customer plumbing.

We work very hard to deliver improvements to our treatment works, our distribution network, and keeping our water close to customers' properties healthy by regularly flushing the system. Our current improvements include managing the land surrounding where we abstract water from, and ensuring we take the right amount of water from each source. This ensures we take the best quality raw water for treatment. We are also investing £89m to replace four water treatment works, improve chemical dosing, and install new filters and other treatment equipment.

Some of our investment highlights include:

- Investing £21m to build two new water treatment works in north Northumberland to help improve drinking water quality for more than 25,000 people.
- Refurbishing our water treatment works, including £60m to modernise our Horsley works, which supplies Tyneside.
- Abstraction management projects in Essex, to reduce the risk of water samples failing drinking water quality tests because of pesticides.

We are also removing iron pipes from our networks, and lead pipes (which connect the water main to the kitchen tap in properties built before 1970), and we undertake routine maintenance of our whole network. From 2015 to 2019, these network improvements will have cost £59m.

All these actions will improve the quality of water entering our network, and maintain that quality throughout our water's journey. This will help ensure that when tested at the end of the network in customers' homes, it achieves 100% compliance with drinking water quality standards.

Investment in our network is only a part of the picture - our systems and processes are just as important. We want our people to have the right skills, values and behaviours to deliver our ambitious goals around water quality.

We therefore have a programme of continuous improvement for our treatment and network teams, to make sure we always make the right decisions in order to provide safe water, of a consistent quality. In 2018, we were one of the first companies to be awarded the revised Competent Operator Scheme certification by Energy & Utility Skills, which assesses operators against "trailblazer" standards.

We have a Food Factory vision for water treatment. This makes sure that everyone complies with strict food hygiene standards and understands their performance on a daily basis. We have embedded continuous improvement techniques and lean manufacturing processes into these teams. For example, our performance framework encourages behavioural conversations about site scorecards. These ensure that everyone is aware of company targets and takes responsibility for caring for our equipment.

As water leaves our treatment works, our Keep It Right principle encourages network teams to sustain these high standards, right up to our customers' taps.

To minimise the amount of lead and nickel entering our drinking water, we optimise the amount of phosphate we add at our treatment works. Phosphate forms a protective mineral layer within plumbing systems and therefore reduces how much our water comes into contact with metals such as lead or nickel often found in older systems or those recently refurbished.

We also correct the acidity of our drinking water at most of our Northern water treatment works to reduce the risk of corrosion of our water mains and stabilise our water's chemistry. This reduces the amount of iron and lead in our drinking water, as well as customer complaints about discoloured drinking water. We are enhancing this capability at four of our Northern water treatment works.

We will continuously focus on stabilising the amount of acidity, phosphate and chlorine in our drinking water, to ensure that we consistently add the right amount of chemicals to ensure it remains safe and clean, as it moves through our network and into customers' homes.

We target our cleaning of water mains by flushing areas where we can see minor deteriorations in water quality. This will reduce the risk of positive tests for metals, which adversely affects the Compliance Risk index (CRI).

From 2020, we will use the DWI's Compliance Risk Index measure as our performance commitment. The DWI is measuring water companies against the new measure now, and has stopped reporting Drinking water quality compliance. All the work described above, along with our plans for 2020-25, will enable us to achieve upper quartile (top 25%) Compliance Risk Index performance. This new measure is aimed at giving a better indication of risks to meeting water quality standards.



OUR RECENT ASSURANCE ACTIVITY AND DRAFT PLAN FOR FUTURE ASSURANCE ACTIVITY

Our governance and assurance processes are embedded into the management and culture of the company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation prioritised to meet the risk appetite.

We also use our risk based approach to ensure that an appropriate balance of varied assurance providers are selected. These include our own Internal Audit Team as well as external technical assurance by PwC and financial assurance provision by Deloitte.

In general, areas of risk that already form part of our annual or cyclic audit activity are assured by our Internal Audit Team. For example, assurance of the Guaranteed Standards Scheme (GSS) entails coverage across many processes and systems (e.g. Interruptions to water supply, sewer flooding,

SIM) and we therefore include these in the Internal Audit Team's annual assurance programme.

Newly emerging areas of risk are assured by our external auditors, PwC. Similarly, areas of risk that require a more technical approach (e.g. leakage) also form part of PwC's agreed assurance programme.

Our financial auditor, Deloitte, provides independent audit and assurance on financial reporting in our [Annual Report and Financial Statements](#) and our [Annual Performance Report](#).

The following tables contain a summary of the findings of the assurance activity we carried out for the reporting period 2018/19. The tables also detail our planned assurance activity that will apply to the reporting period 2019/20.



QUALITY OF DATA RELATING TO MEASURES OF SUCCESS AND PERFORMANCE COMMITMENTS FOR 2015-20

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>DRINKING WATER QUALITY</p> <p>This is our overall drinking water quality compliance based on 39 water quality parameters determined by the Drinking Water Inspectorate.</p>	<ul style="list-style-type: none"> Successful external assessment of procedures and UKAS accreditation retained. Internal HSEQ Team review of water quality QA procedures. PwC performed independent assurance procedures in relation to specific Drinking Water Quality annual performance information. The independent assurance report from PwC, including their assurance opinion, can be found in our 'Data Assurance Summary' which can be viewed here. 	<ul style="list-style-type: none"> Robust quality assurance procedures audited by our QA Team. External assessment of above processes to retain UKAS certificate. PwC to confirm understanding of the reporting process for this area by performing interviews, walkthroughs and evidence inspection. PwC will ascertain how regulatory guidance has been interpreted and assess whether it is appropriate. Test procedures carried out by PwC will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>INTERRUPTIONS TO WATER SUPPLY</p> <p>This measure is calculated using the total duration of all water supply interruptions of more than three hours, divided by the number of properties the company supplies, to give an average interruption time in minutes and seconds per year. The measure includes planned interruptions, unplanned interruptions and interruptions caused by the actions of third parties, for example resulting from a power cut.</p> <p>The measure will be assessed on the company's regulatory year performance.</p>	<ul style="list-style-type: none"> Our Internal Audit Team successfully carried out a system audit and reviewed final regulatory year end performance data. There were no material issues identified. Our Internal Audit Team has also worked closely with the systems reporting team to make sure we are compliant with new regulatory guidance due to be introduced from 1 April 2020. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the reporting process for interruptions to supply by performing interviews, walkthroughs and evidence inspection. Our Internal Audit Team will ascertain how regulatory guidance for reporting interruptions to supply has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data. Our Internal Audit Team will also audit progress against revised reporting guidance due to be introduced from 1 April 2020. The review in 2019/20 will assess whether we are on track to meet 2020 targets (glide path approach to meeting future reporting requirements). See also 'Shadow Reporting' on page 14.
<p>POLLUTION INCIDENTS</p> <p>This measure is the number of category 3 pollution incidents attributable to our operations. It includes the number of category 3 pollution events from a discharge or escape of a pollutant from the company's water and sewerage assets affecting rivers or coastal waters.</p>	<ul style="list-style-type: none"> PwC performed independent assurance procedures in relation to specific pollution incidents and annual performance information. The independent assurance report from PwC, including their assurance opinion, can be found in our 'Data Assurance Summary' which can be viewed here. 	<ul style="list-style-type: none"> PwC to confirm understanding of the reporting process for pollution incidents by performing interviews, walkthroughs and evidence inspection. PwC will ascertain how regulatory guidance for pollution incidents have been interpreted and assess whether it is appropriate. Test procedures by PwC will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>SEWER FLOODING</p> <p>Includes internal and external flooding and repeat flooding.</p> <p>These measures track the number of properties that have been affected by an escape of sewage from the company's sewerage network.</p>	<ul style="list-style-type: none"> Our Internal Audit Team carried out a system audit and successfully reviewed final year end performance data. No inconsistencies were identified in the data. Our Internal Audit Team also reviewed progress to meet future reporting requirements due to be implemented from 1 April 2020. This review confirmed progress is on track to fully comply. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the reporting process for sewer flooding by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how regulatory guidance for sewer flooding has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data. Our Internal Audit Team will audit progress against revised reporting guidance due to be introduced from 1 April 2020. The review in 2019/20 will assess whether we are on track to meet 2020 targets (glide path approach to meeting future reporting requirements).

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>SATISFACTION WITH TASTE AND ODOUR OF TAP WATER</p> <p>This is the number of complaints received from customers because they are dissatisfied with the taste or odour of their tap water. The measure matches Drinking Water Inspectorate reporting guidance.</p>	<ul style="list-style-type: none"> Our Internal Audit Team found no material issues or exceptions in the data reported from the recording system. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the reporting process for this area by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how regulatory guidance has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>DISCOLOURED WATER COMPLAINTS</p> <p>This is the number of complaints received from customers because they are dissatisfied with the appearance of their water because it is discoloured; described as black, orange or brown.</p>	<ul style="list-style-type: none"> Our Internal Audit Team found no material issues or exceptions in the data reported from the recording system. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the reporting process for this area by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how regulatory guidance has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>SEWER COLLAPSES</p> <p>This measure counts the number of collapsed sewers that we experience. We report separately on collapses relating to assets which transferred into water company ownership in October 2011.</p>	<ul style="list-style-type: none"> Our Internal Audit Team found no material issues or exceptions in the data reported from the recording system. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the sewer collapses reporting process by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how regulatory guidance for sewer collapses has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>SEWAGE TREATMENT WORKS DISCHARGE COMPLIANCE</p> <p>This is a measure of the effectiveness of our Sewage Treatment Works to treat wastewater to an appropriate standard before it is returned to the environment, as stipulated in Environment Agency consents.</p>	<ul style="list-style-type: none"> PwC independently assured our specific Sewage Treatment Works Discharge Compliance and annual performance information. The independent assurance report from PwC, including their assurance opinion, can be found in our 'Data Assurance Summary' which can be viewed here. 	<ul style="list-style-type: none"> PwC to confirm understanding of the reporting process for this area by performing interviews, walkthroughs and evidence inspection. PwC will ascertain how regulatory guidance has been interpreted and assess whether it is appropriate. Test procedures by PwC will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data. In light of the investigations by Ofwat into Southern Water's failings in relation to their management, operation and performance of its wastewater treatment works, we are confident that the strong safeguards in place at NWL would prevent any such misconduct occurring here. Our Internal Audit Team will conduct assurance work in respect of current Wastewater Treatment Works sampling regime to ensure compliance.
<p>BATHING WATER COMPLIANCE</p> <p>This is the number of designated bathing waters that meet the regulatory 'sufficient' standard based on the results of the independent testing of seawater by the Environment Agency during the bathing water season.</p>	<ul style="list-style-type: none"> No issues were identified when verifying the final designated bathing water numbers against those reported independently by the Environment Agency. 	<ul style="list-style-type: none"> No additional assurance is planned at this stage by our Internal Audit Team other than to check the final designated bathing water numbers as reported by the Environment Agency.

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>PROPERTIES EXPERIENCING POOR WATER PRESSURE</p> <p>The measure is the number of properties regularly experiencing water pressure below the minimum standard.</p>	<ul style="list-style-type: none"> PwC independently assured our data on properties experiencing poor water pressure and annual performance information. The independent assurance report from PwC, including their assurance opinion, can be found in our 'Data Assurance Summary' which can be viewed here For 2019-20 reporting, assurance for this area of risk will revert back to our Internal Audit Team. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the poor water pressure reporting process by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how regulatory guidance for poor water pressure has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>WATER MAINS BURSTS</p> <p>This is the annual number of water mains bursts and is determined by the number of completed repairs to burst water mains.</p>	<ul style="list-style-type: none"> Our Internal Audit Team found no material issues or exceptions in the data reported from the recording system. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the water mains bursts reporting process by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how regulatory guidance for water mains bursts has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>CUSTOMER SURVEYS</p> <p>This includes surveys undertaken by CCWater and other independent bodies. A number of surveys are conducted that ask customers independently about their overall satisfaction with the service the company provides.</p> <ul style="list-style-type: none"> Overall customer satisfaction. Keeping customers informed. Domestic customer satisfaction (Net Promoter Score). Value for money (water services) Value for money (sewerage services). 	<ul style="list-style-type: none"> Assurance checks by our Internal Audit Team confirmed customer survey numbers matched back to source data provided by our external accredited research providers. 	<ul style="list-style-type: none"> Our Internal Audit Team will verify customer survey numbers used for publishing are consistent with the customer surveys carried out by our accredited external organisations and recognised industry bodies (e.g. CCWater).
<p>GREENHOUSE GAS EMISSIONS</p> <p>This is a measure of the annual amount of operational greenhouse gas emissions the company produces based on the Carbon Accounting Workbook. It is reported in kilotonnes of carbon dioxide equivalent (ktCO₂e).</p> <p>From April 2019, there is a requirement for all larger UK companies to report publicly on their global energy use and carbon emissions within their Directors' Report. Known as Streamlined Energy & Carbon Reporting (SECR), this new requirement has been implemented by the Department for Business, Energy and Industrial Strategy (BEIS).</p>	<ul style="list-style-type: none"> Our Internal Audit Team found no material issues or exceptions in the data reported from the recording systems to produce our overall greenhouse gas emissions information. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the reporting process by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how the guidance has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data. We are working with our external partners to ensure we will be compliant with SECR reporting requirements from 1 April 2019 onwards.

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>LEAKAGE</p> <p>The measure is based on the volume of water leaking from the company's water supply assets. The annual average is applied to give a figure for mega litres per day (ML/d).</p> <p>It includes any uncontrolled losses between water treatment works and customers' internal stop taps. It does not include customers' internal plumbing losses.</p>	<ul style="list-style-type: none"> PwC performed independent assurance procedures in relation to leakage incidents and annual performance information. The independent assurance report from PwC, including their assurance opinion, can be found in our 'Data Assurance Summary' which can be viewed here. PwC also performed enquiries with responsible teams to gain an understanding of our revised approach to leakage from 1 April 2020. 	<ul style="list-style-type: none"> PwC will confirm understanding of the leakage reporting process by performing interviews, walkthroughs and evidence inspection. PwC will ascertain how regulatory guidance for leakage has been interpreted and assess whether it is appropriate. Test procedures by PwC will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>OUTCOME DELIVERY INCENTIVE CALCULATION</p> <p>Calculation of rewards or penalties for performance commitments which have financial incentives attached.</p>	<ul style="list-style-type: none"> Our Internal Audit Team verified that the outputs from our ODI model were consistent with Ofwat Table 3a. This included a review of the potential penalty / reward areas. No material issues were identified. 	<ul style="list-style-type: none"> For reporting year 2019/20, we will include final penalty/reward calculations for the full period 2015-16 to 2019-20. We will engage PwC to provide assurance of the calculation inputs and outputs from our internal ODI model and ensure completeness and consistency with Ofwat Table 3a.
<p>ANNUAL ENVIRONMENTAL REPORT (OUR CONTRIBUTION REPORT)</p> <p>The company is committed to publishing an independent annual review of its environmental performance which was originally undertaken by The Corporate Responsibility Groups (CRAGs).</p> <p>Full responsibility was formally transferred to our Water Forums in 2016 which ensured an independent review of our social and environmental activity is maintained going forward.</p>	<ul style="list-style-type: none"> In their roles to represent customers, the Water Forums were able to challenge our thinking and be actively involved in seeing and interacting with many examples of our environmental, social and economic projects and initiatives. The Water Forums' position statement is described in our annual report called "Our Contribution" which can be viewed here. 	<ul style="list-style-type: none"> The Water Forums will continue to be actively involved and seek to understand and constructively challenge our plans. The Water Forums will review our activities and performance and report back on them in our environmental, social and economic impact report (known as "Our Contribution"). Our Internal Audit Team will also provide verification on data included in the report to ensure consistency across our external publications.

QUALITY OF DATA RELATING TO NEW MEASURES OF SUCCESS AND PERFORMANCE COMMITMENTS FOR PERIOD 2020-25

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>2020-25 READINESS</p> <p>In September 2018, companies published their business plans for the 2020-25 period. These set out their proposed service and investment levels for the period.</p> <p>Our business plan contains a new suite of performance commitments and outcome delivery incentives, which will replace the current set of 2015-20 performance commitments. Many of the performance commitments contain metrics that are included within our existing measures, however, there are also a number of new metrics and measures that we will be required to deliver and to report our progress against.</p> <p>To ensure that we are able to report future performance against these new metrics in a reliable, accurate and transparent way, we will implement a process alongside our existing reporting processes to ensure we are ready for 2020-25 reporting from the start.</p>		<ul style="list-style-type: none"> • This is a new area of risk for inclusion in our Draft Assurance Plan. We want to incorporate our new performance commitments for 2020-155 into existing regulatory reporting processes. • It will be important that clear guidance for the measures are in place and understood at all levels of the business. • Any issues associated with production or delivery of the performance commitments needs to be independently reviewed and action plans put in place to resolve recommendations made from this process. • Both PwC and our Internal Audit Team will confirm understanding of the new guidance and new processes to ensure we are compliant with reporting of the performance commitments from April 2020.
<p>SHADOW REPORTING</p> <p>Companies have been working together, co-ordinated by Water UK and supported by Ofwat, to develop consistent definitions and reporting guidance for a number of metrics to help inform the setting of outcome performance commitments from 2020 onwards. These include:</p> <ul style="list-style-type: none"> • Leakage • Supply Interruptions • Mains Bursts • Unplanned Outage • Per Capita Consumption • Risk of severe restrictions in a drought • Internal sewer flooding incidents • External sewer flooding incidents • Sewer Collapses • Risk of sewer flooding in a storm C-MeX • D-MeX <p>Information has been collected alongside APR reporting since 2017 through "shadow" (i.e. "unpublished") reporting and the data has been subjected to the same level of assurance as other regulatory reporting areas.</p> <p>Companies are expected to demonstrate full compliance with the new reporting guidance by the end of March 2020 in order to commence regulatory reporting as from 1 April 2020.</p>	<ul style="list-style-type: none"> • We have provided assurance for the 'shadow reporting' metrics annually for the period 2016-17 to 2018-19. We have included the metrics in our Assurance Plan for 2019/20 as there is a requirement to be fully compliant with the new reporting guidance which becomes effective from 1 April 2020. • Following recommendations made from an initial pilot exercise conducted during 2018-19, a shadow reporting year has been introduced for C-MeX and D-MeX, which will run from 1 May 2019 to 31 March 2020. This shadow reporting year will inform Ofwat on how future reporting will run for 2020-2025. 	<ul style="list-style-type: none"> • Both PwC and our Internal Audit Team will confirm understanding of the reporting processes for "Shadow Reporting" metrics. This will include performing interviews, walkthroughs and evidence inspection. • PwC and our Internal Audit Team will ascertain how regulatory guidance has been interpreted and assess whether it is appropriate. • Test procedures will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.

OTHER RISKS

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>TARIFFS AND CHARGES</p> <p>The bills paid by our customers and the wholesale charges paid by non-household customers in both our areas of supply are determined by the tariffs and charges published in January and February each year.</p> <p>We are required to publish our tariffs and charges to comply with our legal obligations. These set out the company's charges for the services we provide and the terms and conditions of those charges.</p>	<ul style="list-style-type: none"> • Reviews of our tariffs and charges production were followed as per the timetable set out and approval was provided by our Charges Steering Group (CSG) and Board. • Assurance checks by an Independent firm of accountants were performed as set out in the tariffs and charges statement. • Assurance checks of allowed revenue and charge multiplier inputs by our Internal Audit Team resulted in no exceptions being reported. 	<ul style="list-style-type: none"> • Our governance and assurance processes for setting 2020/21 charges will follow a similar approach to previous years with our internal Charges Steering Group (CSG) being responsible for overseeing the charges setting process. • We have engaged Ernst & Young to build a new tariff model incorporating new price controls that we intend to use for 2020/21 tariff setting. The model will be assured by our external partner and the model assumptions reviewed by our CSG. • Our Internal Audit Team will provide assurance of allowed revenue and charge multiplier inputs as well as the final 2020/21 charges publication of average bill information. • Compliance with legal and regulatory obligations will be reported to the Board.
<p>INFORMATION PUBLISHED DIGITALLY</p> <p>The information we publish on our websites helps to inform our customers and stakeholders of the many services we provide and how we are performing.</p> <p>We want our information to be accurate and reliable and ensure that it is easy for customers and stakeholders to access the documents that they are interested in.</p> <p>As we make some major changes to our websites we will incorporate good governance and assurance procedures as well as making sure that the website content is easy to read and understand for our customers and stakeholders.</p>	<ul style="list-style-type: none"> • Our Internal Audit Team have been actively involved in providing guidance to the project team to ensure appropriate controls and mitigating actions were in place throughout the course of the website development and in readiness for the new website going live in October 2019. 	<ul style="list-style-type: none"> • Following the launch of our newly developed websites in October 2019, our Internal Audit Team will provide assurance on the new processes and procedures in place.

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>COST ASSESSMENT TABLES</p> <p>Since 2016, we have provided cost assessment tables to Ofwat which cover all aspects of performance, including financial and operational metrics. The cost assessment information has helped inform Ofwat's cost modelling for the PR19 process.</p> <p>Our approach to providing governance and assurance to the cost assessment tables follows the same process as we currently have in place for Annual Performance Reporting (APR).</p>	<ul style="list-style-type: none"> • Our audit programmes are assigned to PwC and our Internal Audit team in line with our Data Risk model which helps inform the appropriate assurance provider for each item of data in the regulatory Cost Assessment Tables. • Both PwC and our Internal Audit Teams confirmed understanding of the reporting processes for their agreed audit programmes by performing interviews, walkthroughs and evidence inspection. • This was followed by performing test procedures to agree data back to underlying systems and undertaking sample testing to verify that data had been appropriately measured, recorded, collated and reported. • Confidence grades provide a reasoned basis for us to qualify the reliability and accuracy of the data we publish. It also helps us identify areas where our data is of a high standard and to have action plans in place to improve data where it falls below the standard confidence grade level. For 2018/19, we assigned confidence grades to all non-financial cost assessment data lines. We will work with teams to improve the data going forward where these fall below the standard level. • Recommendations made by both our PwC and Internal Audit Teams to improve the quality of the information reported where areas of risk were highlighted are to be monitored through to completion. • We have assured key asset data in relation to pumping stations, used by Ofwat as cost drivers, which was resubmitted as part of the PR19 process following Ofwat's initial assessment plans. 	<ul style="list-style-type: none"> • Both PwC and our Internal Audit Team will confirm understanding of the reporting process for this area by performing interviews, walkthroughs and evidence inspection. • PwC and our Internal Audit Team will ascertain how regulatory guidance has been interpreted and assess whether it is appropriate. • Test procedures will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data. • We will follow up on the recommendations made by PwC to improve the quality of the information reported from our asset records where areas of risk were highlighted last year. We anticipate marked improvement in our asset information through our ongoing intelligent asset management (iam) programme. The iam programme aims to help us become consistently leading in asset management by having better quality, more reliable and readily available data so that we can make better, faster and more proactive decisions. • During 2019/20 improvements have been made in cleansing data from legacy systems. This has also included site surveys to confirm and collect additional information about our assets where gaps exist e.g. capacities, flows etc. • Our Internal Audit Team are monitoring this progress to help improve the reporting of this data going forward.
<p>BIORESOURCES AND WATER RESOURCES MARKET INFORMATION</p> <p>In 2015-16, Ofwat carried out analysis and consulted on a regulatory approach designed to promote market development in Bioresources (also known as sludge) and Water Resources activities.</p> <p>Since then, companies are required to provide Ofwat with standardised and defined information to enable potential market participants to identify opportunities to supply services in these areas.</p> <p>We publish market information so that stakeholders can have trust and confidence in the information and to reflect current market status.</p>	<ul style="list-style-type: none"> • Our audit programme was revised to allow both PwC and our Internal Audit Team to undertake reviews in their respective areas of responsibility for these reporting areas. • As part of their ongoing programme PwC independently assured our Water Resources Market Information. • The independent assurance report from PwC, including their assurance opinion, can be found in our 'Data Assurance Summary' which can be viewed here • Assurance checks of the Bioresources Market Information by our Internal Audit Team found no material issues or exceptions. 	<ul style="list-style-type: none"> • Both PwC and our Internal Audit Team will confirm understanding of the reporting process for Bioresources (Internal Audit) and water resources market information (PwC). This will include performing interviews, walkthroughs and evidence inspection. • PwC and our Internal Audit Team will ascertain how regulatory guidance has been interpreted and assess whether it is appropriate. • Test procedures will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>MARKET PERFORMANCE INFORMATION</p> <p>The Market Performance Framework (MPF) is intended to provide confidence to trading parties and the Market Operator (MOSL) that they and their peers are complying with their obligations.</p> <p>The MPF consists of a number of elements that monitor and report performance against a range of pre-defined standards and timescales. These standards are the Market Performance Standards (MPS) and the Operational Performance Standards (OPS).</p> <p>The MPS measure both retailer and wholesaler performance, whilst the OPS solely measures wholesaler performance.</p> <p>We are required to submit a number of key performance indicators to the market operator MOSL who then publish the information on their website. The information is used by retailers, Ofwat and MOSL to ensure service to all customers in the market is compliant.</p>	<ul style="list-style-type: none"> • Our Internal Audit Team carried out an audit of the key controls and processes in place within our Wholesale Operations and Compliance Teams. This looked at the effectiveness of processing retailer requests and performance reporting to ensure we meet market framework compliance. • The findings from the audit were shared with our Audit Committee and recommendations made will be monitored through to completion and reported back to management. • Contact was also made with MOSL for clarification on some aspects of the market code. MOSL has subsequently requested information from companies regarding interpretation of some aspects of the market performance standards to help them understand the extent of differences in interpretation. 	<ul style="list-style-type: none"> • Our focus of assurance will be targeted towards compliance with OPS. Our Internal Audit Team will confirm understanding of the reporting process by performing interviews, walkthroughs and evidence inspection. • Internal Audit will ascertain how the guidance has been interpreted and assess whether it is appropriate. • Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>OUR LICENCE OBLIGATIONS</p> <p>As part of our Risk and Compliance Statement we must ensure we have a full understanding of and are meeting all of our relevant statutory license and regulatory obligations.</p> <p>We must also ensure that there are sufficient processes and internal systems of control to fully meet those obligations and have appropriate systems and processes in place to allow us to identify, manage and review key risks.</p>	<ul style="list-style-type: none"> • Following Ofwat's simplification and modification of all instruments of Appointment, a review of the revised licence and statutory obligations was carried out by our Internal Audit Team. • Our revised list of our high/medium risks was updated by our Internal Audit Team and shared with our Executive Leadership Team. 	<ul style="list-style-type: none"> • Our Internal Audit Team will review the systems and processes in place to ensure obligations are being met. • Our assurance process includes review of our high/medium risks by Senior Managers in the business and approval by our Executive Leadership Team members.

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>GUARANTEED STANDARDS SCHEME (GSS)</p> <p>Customers of water and sewerage companies are entitled to guaranteed minimum standards of service, as set out by the Secretary of State.</p> <p>Where a company fails to meet a standard then it is required to make a specified payment to the customer affected. The scheme applies to all customers of water and sewerage companies. Some companies operate schemes that go further than GSS.</p> <p>Following Ofwat's 'Out in the Cold' review of water companies' performance in response to the 'Beast from the East', they expressed concern that the compensation customers were getting was not enough. Ofwat made recommendations designed to address these concerns and expected companies to reflect on them when setting their own compensation schemes.</p> <p>We have acted on the recommendations made by Ofwat and have implemented changes to our GSS payments with effect from 1 October 2019. This involves changes to our systems for recording failures and the automation of payments to customers.</p>	<ul style="list-style-type: none"> As part of their annual audit programme our Internal Audit Team carried out a review of GSS compliance. This covers areas such as customer contact, complaints and supply interruptions. The results from this review highlighted recommendations to improve the service we provide to our customers. These were reported to the Audit Committee and agreed actions will be monitored until completion by our Internal Audit Team. 	<ul style="list-style-type: none"> Our Internal Audit Team will confirm understanding of the GSS reporting processes following implemented recent changes by performing interviews, walkthroughs and evidence inspection. Internal Audit will ascertain how GSS guidance has been interpreted and assess whether it is appropriate. Test procedures by our Internal Audit Team will agree data back to underlying systems as well as sample testing to verify that it has been appropriately measured, recorded, collated and reported. Testing will take into account the accuracy and completeness of the reported data.
<p>CYBER SECURITY</p> <p>This measure was highlighted by customers that they would like to know more about. This risk already appears on our Corporate 'Risk' register but is also included here to demonstrate our commitment to providing assurance in a very important area.</p> <p>We take the threat of cyber security extremely seriously and we are committed to ensuring we manage our systems securely.</p>	<ul style="list-style-type: none"> Following the introduction of the Network and Information Systems Directive (NIS-D), we have liaised with DWI to enhance the security of our operational infrastructure. Our NIS-D reports have been submitted and reviewed by the DWI and this remains one of our top priorities going forward. The strength of our cyber security across all three domains (technical, people and process) has been enhanced, in line with compliance with ISO27001. We have had external audits and independent security testing to assess our cybersecurity. Findings from this process have been risk assessed and acted upon accordingly. We continue to place significant focus on employee awareness of cybersecurity, and regularly deliver cyber security training across the entire business. 	<ul style="list-style-type: none"> We liaise closely with the DWI and National Cyber Security Council (NCSC) to confirm that our strategy and risk mitigation is proportionate to the new and emerging threats we face. We will regularly check and test our security controls and educate employees about potential attempts they may face to manipulate them into divulging confidential or personal information. We continue to enhance our technical security solutions, including implementing new controls where improvement is identified. Our priorities for enhancing security take into account the ever changing external threats to our business, legislation, and technology landscape. We will continue to focus on employee awareness of cyber security. Ensuring all our employees receive robust and up to date training embeds cyber security across the business.

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>DATA PROTECTION</p> <p>This measure was also highlighted by customers as a concern. Information about our customers and employees (personal data) is one of our most valuable assets.</p> <p>We include data protection as a Corporate 'Risk' and are committed to protecting privacy rights.</p>	<ul style="list-style-type: none"> Both external audits and independent security testing have been undertaken on our data protection. Findings from these have been risk assessed and acted upon accordingly. We place significant focus on employee awareness, and provide regular data protection training across the entire business. 	<ul style="list-style-type: none"> Our Information Access Team will continue to work closely with teams across the business to ensure processes and procedures are implemented with privacy in mind. They will also carry out 'spot' audits to ensure compliance. By continuing to use Privacy Impact Assessments, we will maintain good visibility of our data processing. Content security tools also provide the visibility we need to protect personal data. We will continue to focus on employee awareness of data protection. Ensuring all employees receive robust and up to date training embeds data protection across the business.
<p>RESILIENCE</p> <p>Resilience is the ability to cope with, and recover from, disruption, and anticipate trends and variability in order to maintain services for people and protect the natural environment, now and in the future.</p>	<ul style="list-style-type: none"> We provided Ofwat with our Action Plan for developing and implementing an integrated approach to resilience in August 2019. Given the complex and changing nature of this topic we will also commit to ongoing updates to keep Ofwat informed. Our Action Plan outlines our approach to developing and implementing a systems based approach to resilience. 	<ul style="list-style-type: none"> We will progress implementation of our resilience action plan. We intend to appoint a Chief Resilience and Sustainability Officer who will lead on developing and implementing our resilience strategy. Assurance against resilience risks will be strengthened through delivery of our resilience Action Plan. This will be overseen by PA Consulting who will continue to bring independent expertise to this area.

QUALITY OF FINANCIAL DATA

We also have a number of financial areas where assurance is provided by our financial auditors, Deloitte. These are included in our Annual Report and Financial Statements and elements of our Annual Performance Report (APR).

Areas of risk	Assurance activity completed during 2019/20	Planned assurance activity for 2020/21
<p>ANNUAL REPORT AND FINANCIAL STATEMENTS</p> <p>We have a legal obligation, under the Companies Act, for our Annual Report and Financial Statements to be externally audited. This is to ensure that they are properly prepared in accordance with Generally Accepted Accounting Principles and the Companies Act and that they represent a true and fair view of our financial position and profits.</p>	<ul style="list-style-type: none"> Deloitte carried out their audit and reported their findings to our Audit Committee. They produced an unqualified audit opinion which can be found in the Annual Performance Report and Financial Statements on our websites. 	<ul style="list-style-type: none"> Deloitte will audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).
<p>REGULATORY ACCOUNTING STATEMENTS</p> <p>We have a requirement under our Instrument of Appointment and Ofwat's Regulatory Accounting Guidelines, for the Regulatory Financial Statements in the APR to be externally audited. This covers:</p> <ul style="list-style-type: none"> The regulatory policies and disclosures. Regulatory Financial Statements (tables 1A to 1E). Appointed business taxation. Price review and other segmental reporting (tables 2A to 2J). Transactions with associated companies. 	<ul style="list-style-type: none"> Deloitte carried out their audit and reported their findings to our Audit Committee. They produced an unqualified audit opinion which can be found in the Annual Performance Report and Financial Statements on our websites. 	<ul style="list-style-type: none"> Deloitte will audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).
<p>ADDITIONAL REGULATORY INFORMATION</p> <p>We report additional regulatory information in tables 4A to 4I of the APR. This includes:</p> <ul style="list-style-type: none"> Non-financial information on households billed and volumes of water produced. Additional analysis of totex and unit costs. Key financial metrics. 	<ul style="list-style-type: none"> Deloitte carried out the agreed upon procedures. No exceptions were noted. 	<ul style="list-style-type: none"> Deloitte will carry out the agreed procedures which broadly comprise confirming that the information contained in the tables has been calculated in a consistent manner with Ofwat's Regulatory Accounting Guidelines, agreeing information back to supporting documentation and verifying the accuracy of calculations. For tables 4D to 4F Deloitte will also confirm that the information has been prepared in accordance with the Company's accounting separation methodology.
<p>STATEMENT OF SUFFICIENCY OF FINANCIAL RESOURCES</p> <p>We have a requirement, under our Instrument of Appointment, to submit a certificate from the Directors stating that we have available sufficient financial resources and facilities to allow us to carry out our regulated activities for at least 12 months and sufficient management resources to enable us to carry out our functions.</p>	<ul style="list-style-type: none"> Deloitte carried out the agreed upon procedures. They confirmed that no matters had come to their attention to indicate any inconsistency between this Statement and information obtained during the course of their audit work on the Regulatory Financial Statements, in respect of financial resources. 	<ul style="list-style-type: none"> Deloitte will carry out the agreed upon procedures. Deloitte will review the statement of sufficiency of financial resources and identify any inconsistencies between the statement and information obtained during its audit of the Regulatory Financial Statements.
<p>FINANCIAL RESILIENCE</p> <p>We have a requirement, under Ofwat's Regulatory Accounting Guidelines, to produce a long term viability statement, confirming that the Company is financially viable over the longer term.</p> <p>This includes stress testing our forward looking financial plans under a number of adverse scenarios.</p> <p>Our viability statement can be found in the Annual Report and Financial Statements on our websites.</p>	<ul style="list-style-type: none"> Deloitte carried out the agreed upon procedures. No exceptions were noted. 	<ul style="list-style-type: none"> Deloitte will carry out the agreed procedures to review the impact of the stress test scenarios on the Company's financial plan and key financial ratios.

HAVE YOUR SAY

We welcome your thoughts on this document. The feedback we receive will enable us to review our assessment of strengths, risks and weaknesses and assurance arrangements, before publishing our Final Assurance Plan in March 2020. Our focus will be on making sure our Final Plan fully responds to customer and stakeholder needs and priorities.

If you'd like to take part in this consultation, all you need to do is read this document, or **our shorter summary**, then share your views with us by completing this **short survey**.

In order for your views to influence our Final Assurance Plan please complete your survey before 5pm on Friday 10 January 2020.

Our full Final Assurance Plan and a shorter summary document will be published on our website: nwg.co.uk in March 2020 and will reflect the feedback we receive on this consultation.

Join our [Have Your Say forums](#).



HAVE YOUR SAY

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