

# APR 2022/23

## Board statements and Certificates



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## RING FENCING CERTIFICATE

The regulatory ring-fence provides an important protection for companies and their customers. Its purpose is to ensure that the regulated company maintains sufficient financial and management resources to enable it to carry out its water and sewerage services in a sustainable manner, and it protects the regulated company from the activities of other entities such as other group companies.

The Ring-Fencing Certificate (“RFC”) is a certificate stating that in the opinion of the Board the Company has sufficient resources to enable it to carry out its Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted to Ofwat. Although it is a condition of our Licence to produce a RFC, we consider that it is also the right thing to do and helps us to achieve our Vision of earning the trust of our customers every day.

Information Notice 20/01 published by the Water Services Regulation Authority in February 2020 sets out guidance for water and wastewater companies in England and Wales in preparing their RFC. The reliability and accuracy of data is a matter of great importance to us. Within the business we have well-established governance and accountability processes. To confirm that we have followed this guidance, the information contained within our RFC has been subject to checks by the Regulatory and Compliance Teams, scrutiny at Director level, review by the Audit Committee, and audited by our independent External Auditors.

The Directors have resolved that a Certificate required under Condition P30 of our Licence and prepared in accordance with the latest guidance be issued to the Water Services Regulation Authority confirming that in the opinion of the Directors:

- a) the Company will have available to it sufficient financial resources and facilities to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted;
- b) the Company will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted; and
- c) the Company has available to it sufficient rights and resources other than financial resources; and
- d) all contracts entered into between the Company and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to the Company, to ensure that it is able to carry out the Regulated Activities.

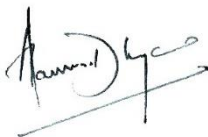



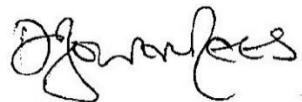

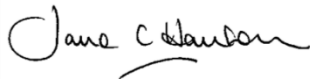



A statement of the main factors that have led to the conclusion that resources are sufficient can be found at Appendix A.

This Certificate has also been reviewed by our financial auditors, KPMG, and a specific statement of assurance on the Ring-Fencing Certificate has been supplied to Ofwat.

## RING-FENCING CERTIFICATE (continued)

The Company has in accordance with the Regulatory Reporting Guidelines and/or our Licence prepared this Ring-Fencing Certificate, which was approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 6 July 2023, as evidenced by the Directors' signatures below.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Graham Edwards Senior Independent Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Non-Executive Director
 Lila Thompson Non-Executive Director	 Barbara Moorhouse Non-Executive Director

6 July 2023

Section P35 of Licence Condition P requires our independent auditors to produce a report that sets out whether they are aware of any inconsistencies between the Ring-Fencing Certificate and either the regulatory accounting statements or any information which the Auditors obtained in the course of their work as the Company's Auditors and, if so, what they are.

A copy of the auditor's report can be found on page 51.

## RING-FENCING CERTIFICATE (continued)

### APPENDIX A

#### A statement of the main factors that have led to the conclusion that resources are sufficient.

AREA	MAIN FACTORS
<b>Financial resources and facilities</b> <ul style="list-style-type: none"> <li>Financial details</li> <li>Performance against Final Determinations (FDs) set at the last price review</li> <li>Credit related factors</li> <li>Business plans, long-term viability statements etc.</li> <li>Relevant reports</li> </ul>	<p>The liquidity position as at 31 March 2023 was very strong with cash on deposit and loan facilities totaling £579 million. The Group is in a strong financial position as at 31 March 2023 with gearing remaining on track at 58%.</p> <p>We have met the 2022-2023 FD targets for 27 of our performance measures. In spite of this, we are reporting a net penalty of £18.343m for 2022-23 as we have missed FD target on some measures such as Water quality compliance (CRI), water supply interruptions, leakage and mains repairs.</p> <p>As at 31 March 2023, the Group had committed undrawn borrowing facilities of £200m and cash and cash equivalents (excluding debt service payments account) of £379m. There is also a £10m overdraft facility renewable on an annual basis. As at 31 March 2023 there was also a special liquidity facility of £135m.</p> <p>The Company's business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p> <p>Ofwat's guidance in relation to preparing a statement on long-term financial viability (IN 19/07) has been followed. This resulted in the Board concluding that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030. The Company has a Licence to operate as a water and sewerage undertaker, which is in place on a rolling 25 year basis.</p> <p>The independent External Auditors review the regulatory reporting information to Ofwat in the Annual Performance Report. Independent Auditor's report and the Reporter's letter of assurance are published within our Annual Performance Report available on our website.</p> <p>The Audit Committee review financial performance in detail at the half year and year end and receive regular reports from the Group's External Auditors, KPMG LLP.</p> <p>The Audit Committee reviews the External Auditor's independence policy, which is included in its half yearly report to the Committee, which sets out the procedures by which the Committee satisfies itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work.</p> <p>The Audit Committee reviewed and approved its policy on non-audit services in September 2022 and was satisfied that it was aligned with current regulatory guidance. The level of non-audit fees in</p>

AREA	MAIN FACTORS
	respect of the year-ended 31 March 2023 was confirmed to be in compliance with the EU Audit Regulation.
<p><b>Management resources</b></p> <ul style="list-style-type: none"> <li>• Management skills, experience and relevant qualifications</li> <li>• Recruitment process, staff engagement</li> <li>• Succession planning for key management/staff</li> <li>• Quality of management/staff induction and other training and development</li> </ul>	<p>As we prepare for PR24, the CEO's priority is to shape the executive team in order to deliver on the commitments for the remainder of AMP7 and to build an ambitious plan for 2025-2030 and beyond.</p> <p>This means being tough with efficiency – the potential for big changes is in the world of innovation and working smartly – ensuring the Company delivers the best services possible, efficiently and at an affordable price for the customer. To help achieve this, new members have been appointed to the Executive Team who can drive this forward and devise new ways of providing high-quality services in an efficient way. During the year a new Director of Water Services joined the executive committee overseeing Water Assets, Production, Networks and Engineering Services.</p> <p>In response to future challenges identified in Welsh Water 2050 a need to attract, develop and inspire people from a diverse range of backgrounds, to deliver an excellent service for our customers was identified. This is set out as Strategic Response 11: becoming an 'Employer of Choice'.</p> <p>After a difficult year dealing with the drought and winter freeze / thaw, we achieved positive results in our most recent Employee Engagement Survey where we achieved an overall satisfaction score of 75% (up from 69% in 2021). Employee Engagement Champions work with the business to respond to local feedback given in the annual Employee Engagement Survey – various Non-Executive Directors meet with them quarterly.</p> <p>The Chief Executive and members of the Executive team hold monthly briefing using Microsoft Teams that all colleagues can join to hear updates on business performance and key developments and to ask questions.</p> <p>The Chair of the Board and Non-Executive Directors undertake regular operational site visits and meet teams across the business for informal meetings and lunches/dinners.</p> <p>An annual Talent &amp; Resource Review is carried out which includes a review of succession planning, career discussions during performance reviews, promoting training opportunities for colleagues and ensuring development plans are in place.</p> <p>All operational roles within the business have a dedicated training plan which incorporates a combination of e-learning modules and training courses. Employees' training performance is continually monitored and an overall percentage of employees that have completed their training is reported annually for the financial year.</p> <p>The average number of people employed by the Group (including Executive Directors) during 2022-23 was 3,554. The Company's success is fundamentally dependent upon highly engaged and motivated people and the Company is committed to developing its people to meet the challenges of operating the business in the</p>

AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>• Process for ensuring diversity of perspectives</li> <li>• Board or management activities, reports or statements</li> <li>• Independence of Board</li> </ul>	<p>future and to encourage a diverse workforce that fully reflects the communities that it serves.</p> <p>There are a number of different development routes offered to those choosing to join our business including, graduates, degree apprenticeships, higher apprenticeships, and apprenticeships.</p> <p>The Company is investing in skills development, competency training, customer service and leadership training.</p> <p>The Company is working to define clearer career pathways through the business for colleagues in the contact centre and there is a focus on supporting every individual to reach their full potential.</p> <p>An annual Leadership Conference is held which provides an opportunity for senior managers to consider in detail, and provide feedback on, the Company's business plan.</p> <p>Regular employee "roadshows" take place. "Future Focus" groups of senior leaders across the business have been established to work on key initiatives.</p> <p>To ensure a diversity of perspectives in our workforce, we take steps in our recruitment process to ensure we have representation from minority groups including Black, Asian and Minority Ethnic people, Females, LGBT+, Non-binary and people with disabilities. We continue to build a workplace that not only celebrates the diverse voices of our colleagues but also represents each customer we serve. Further, by engaging with diverse talent, the Company is able to improve access to skills that are in short supply, creating a larger talent pool, and also enhance our reputation as Employer of Choice.</p> <p>During the year the Board reviewed succession for senior management roles, and for Board members.</p> <p>The Board also reviewed compliance with the UK Corporate Governance Code, in particular the workforce engagement provisions, in the context of developing the Board's engagement strategy.</p> <p>The Board comprises a majority of independent non-executive directors.</p> <p>As a Group owned by a company limited by guarantee, there are no shareholders, instead Membership is made up of individuals drawn from across the Company's supply area (or who have a strong connection with it) who carry out a vital governance role. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of Company assets and for providing an essential public service in a manner which will be sustainable for future generations.</p> <p>The independence of Non-Executive Directors is considered on an ongoing basis and formally on an annual basis. All Non-Executive Directors are deemed to be independent in accordance with the UK</p>

AREA	MAIN FACTORS
	<p>Corporate Governance Code and free from any relationship which would compromise their independent judgement.</p> <p>All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee which is chaired by the Chair of the Board and comprised of a majority of independent Non-Executive Directors.</p>
<p><b>Systems of planning and internal control</b></p> <ul style="list-style-type: none"> <li>Governance procedures, risk management frameworks, oversight procedures</li> </ul>	<p>The Board is responsible for promoting the long-term, sustainable success of the Glas Cymru Group for the benefit of its stakeholders and is the principal decision-making forum for the Group, providing leadership, both directly and through its Committees, and delegating authority to the Executive team.</p> <p>The results from the ongoing monitoring of financial, operational and compliance controls and the risk management process are reported to the Board via eight formal committees; the Audit Committee; the Remuneration Committee; the Nomination Committee; the Quality and Safety Committee; the Technology Committee; the Finance Committee; Cwm Taf Project Committee; and the Environment, Social and Governance Committee. The Group's internal audit function has carried out a programme of work, which incorporates a review of the control environment.</p> <p>The Executive Team comprises individuals representing all of the key functions of the business, and is closely supported by its risk management and internal audit functions.</p> <p>Supporting the Executive team there is a clearly defined organisational management structure and governance framework, consisting of subcommittees and project specific steering groups, which operate within defined terms of reference and in accordance with group policies.</p> <p>By maintaining this structure of management control, the Board gains its assurance that Welsh Water's operations are being run effectively and that decisions are made in line with our commitment to our values to always do the right thing.</p> <p>The Board maintains oversight of the framework of internal control and risk management and ensures that the Company has the necessary financial resources and human resources to function effectively.</p> <p>The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management, and consider risk appetite and progress to target for identified strategic risks in detail every six months, with interim updates every board meeting. These processes involve all areas of the business to identify risks, including new and emerging areas of concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly.</p> <p>Throughout the year the Board reviews risk management processes and discusses and agrees mitigation strategies, for the principal and emerging risks across the business.</p>



AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>Internal and/or external audit policies, processes, activities and/or reports</li> <li>Systems for maintaining supply/business continuity, stated action plans</li> <li>Policies to prevent fraud and other unethical behaviour; whistleblowing policy</li> </ul>	<p>There is an annual review of the effectiveness of internal controls in compliance with the requirements of the UK Corporate Governance Code.</p> <p>The effectiveness of the internal audit function is monitored using a variety of inputs including the Audit Committee's review of the audit reports produced, the Audit Committee's interaction with the Head of Internal Audit, updates at each meeting on progress against the internal audit plan, as well as other periodic quality reporting.</p> <p>The Internal Audit function conducts audits of 1st and 2nd line systems of internal control, which consider the adequacy and effectiveness of risk management, compliance and control activities.</p> <p>All internal audits are conducted in accordance with the standards promulgated by the Chartered Institute of Internal Auditors.</p> <p>The Head of Internal Audit provides an annual opinion on the effectiveness of the internal control framework.</p> <p>Our External Auditors and our Reporter review the Company's approach to risk and request evidence of risk review in the business.</p> <p>We regularly test our business continuity plans against our Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction (SEMD) requirements and carry out exercises covering key disruption risks (e.g. power, cyber and weather-related incidents).</p> <p>Our Incident Response Manual and Incident Command Structure provide our framework to respond effectively to events which threaten our continuity of service.</p> <p>This structure is supported by Business Continuity Plans covering key incidents (e.g. fuel, power, drought, flood and winter events) and wider industry support through the Water UK Platinum Incident Management, which coordinates mutual aid across businesses.</p> <p>During the year the Audit Committee received regular reports on systems of internal control and risk management, in particular on data protection, business continuity, disaster recovery and cybersecurity, and on the progress of programmes to improve compliance and internal controls across the business.</p> <p>The Company's Code of Conduct sets out our focus on "doing the right thing" to Earn the Trust of our Customers and includes reference to the Company's Whistleblowing Policy, which is widely publicised among colleagues and key contractors and provides an opportunity for colleagues to "speak up" on any issues of concern. All colleagues are trained in the Code of Conduct on joining the Company and complete refresher training periodically.</p> <p>The Code is supported by several Group policies, as well as associated procedures and guidance, including: Anti-bribery and corruption; Anti-fraud, Conflict of Interests; Gifts and Hospitality, and Anti-bullying and Harassment.</p>

AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>Risk, compliance other assurance statements</li> </ul>	<p>Since April 2015 the Company has subscribed to a confidential and independent whistleblowing helpline operated by Safecall – an independent company that specialises in handling concerns at work. Safecall are available 24 hours a day and can be contacted by phone or by email.</p> <p>The Audit Committee receives Whistleblowing reports in private meetings with the Head of Internal Audit on a regular basis. Matters are investigated and reported back to the Committee at its next meeting. The Committee also received an ‘annual thematic view’ of whistleblowing and special investigation activity which reviewed all incidents conducted in the period and discussed the observations and themes.</p> <p>The Company also has a comprehensive suite of Employment Policies.</p> <p>During the year the Audit Committee scrutinised the following key regulatory submissions: Annual Performance Report; Risk and Compliance Statement; Data Assurance Summary, and Ring-Fencing Certificate.</p> <p>The Committee also reviewed a report in relation to year end Leakage reporting in May 2022 and received subsequent updates during the year on the progress of the internal compliance reviews undertaken (in private meeting), prior to the establishment of the Leakage Oversight Committee, a purpose-formed task-and-finish committee of the Board.</p>
<p><b>Rights and resources other than financial resources</b></p> <ul style="list-style-type: none"> <li>Corporate missions and/or values</li> <li>Technology and other systems for ensuring checks and balances</li> </ul>	<p>The Company strives for continuous improvement in its services to “Earn the Trust of our Customers Every Day” and this focus on doing the right thing for customers underpins the whole approach to service and everything the Company does.</p> <p>In December 2019 an Extraordinary General Meeting of members was held to consider and subsequently approve the writing of Glas Cymru’s Purpose Statement into our Articles of Association in order to formalise our commitment to public service and our singular customer focus whilst recognising the long-term nature of the business:  <i>To provide high quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.</i></p> <p>The Company continues to innovate in terms of technology and new ways of working. There are partnerships with over thirty organisations and academic institutions each aligned to projects focused on Company priorities for improved performance and reduced cost.</p> <p>The Board Technology Committee maintains oversight of cyber and information security risk and opportunity in the business and ensures increased awareness at Board level.</p>

AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>• Policies to encourage an integrated approach and 'systems thinking'</li> <li>• Planning systems</li> <li>• Assets maintenance/insurance factors</li> </ul>	<p>The Company continues to work to well-documented operational strategies in the clean and waste water businesses, including an Operational Technology cyber risk mitigation programme.</p> <p>Our teams continue to ensure resilience of both Information and Operational Technology services, and, since 2021-22, have continued an elevated focus and resource on cyber security detect, protect and respond capabilities.</p> <p>We're currently completing a move of all our Non-SaaS IT systems to the Microsoft Azure Cloud and have signed New 5 year Framework agreements, with both Security and System Integration partners.</p> <p>The Company has an Integrated Management System that is governed, controlled and continually improved. This includes overarching policies and procedures that help promote cross team working for an integrated approach within all business areas. Frameworks and governance groups have been established for open table discussions. All management system policies are reviewed and approved annually by the Chief Executive and promoted within the business.</p> <p>Investments are planned over five-year periods. We are preparing a Long Term Delivery Strategy to 2050, to be submitted to Ofwat alongside our five-year business plan for 2020-2025 (AMP8) as part of the PR24 process. These two plans are consistent, with the AMP8 plan forming the first part of the delivery of the long-term ambition. Recognising the vital role of planning systems, the company has an Asset Planning Directorate and a Strategic Asset Management Plan.</p> <p>The five year business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p> <p>The five-year programme for 2020-25 involves more than £1.8 billion in capital investment.</p> <p>The company arranges insurances to meet the requirements of Schedule 14 of the business' Common Terms Agreement, including but not limited to the following insurances:</p> <ul style="list-style-type: none"> <li>• Property Damage Business Interruption (PDBI)</li> <li>• Public Liability</li> <li>• Employers' Liability</li> <li>• Motor insurance</li> <li>• Directors and Officers Liability</li> <li>• Construction OCIP insurance</li> </ul> <p>These insurances protect the business against extreme losses outside of management control, subject to policy terms and conditions. The policies are renewed on an annual basis, with coverage and limits reviewed with the business' insurance broker. The insurance renewal is a matter reserved for the Board.</p>
<b>Contracting</b>	

AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>• Position/status of key contracts in place</li> <li>• Contracts between the Appointee and all Associated Companies</li> <li>• Transactions between the Appointee and any Associated Company</li> <li>• Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I)</li> <li>• Guarantees or Cross-Default Obligations</li> </ul>	<p>We work with key suppliers, such as our Capital Alliance and Water Network partners, to find innovative ways of improving efficiency while maintaining standards of service.</p> <p>Not only do teams understand fully the part they have to play in delivering the Company's plans but these have also been built with input and commitment to improved performance from the main supply chain partners.</p> <p>Achieving better service and greater efficiency targets will also require further flexibility from colleagues. A comprehensive programme of change has been agreed with trade unions, covered our April 2020 'Working Together Agreement'.</p> <p>All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards of performance.</p> <p>A detailed Note on transactions between the Appointee and any Associated Company is provided in the Risk and Compliance Statement.</p> <p>Confirmation of compliance with licence provision on cross-subsidies between the Appointee and any Associated Company is contained within the Risk and Compliance Statement.</p> <p>No Guarantees or Cross-Default Obligations have been given without Ofwat's written consent.</p>
<b>Material issues or circumstances</b>	<p>As confirmed in the Long Term Viability Statement, the Board considers that the risk management and forecasting controls in place are robust and that the 2023 plan and stress testing outputs provide an appropriate level of information from which to draw a conclusion on the Group's long-term viability. The Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030.</p>

## COMPANY DIRECTION AND PERFORMANCE STATEMENT 2022-23

**We have a clear commitment to our customers, communities, and wider stakeholders, for the long term.**

This Direction and Performance Statement explains our purpose and Longer-Term Strategy, how the Company sets its aspirations, and how it has performed for all those it serves.

It explains the importance of our ongoing engagement with customers and stakeholders to ensure we continue to understand and meet their changing needs and tailor our services to match those needs.

There are 6 sections to this Statement:

1. The importance of our Company purpose and how this informs our ambitions
2. Our Longer-Term Strategy and Goals and how this informs our business plans
3. How we set our ambitions
4. Ongoing Evaluation – how we monitor performance and make decisions
5. How we have performed in 2022-23
6. How we balance the relationship between delivering our services and rewarding Executives

### **1. The importance of our Company purpose and how this informs our ambitions**

The Boards of Glas Cymru and Dŵr Cymru Welsh Water have established the Company's purpose, strategy, and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The Boards of Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig, the statutory appointee providing essential water and wastewater services to 3.1 million people across our supply area of most of Wales and Hereford, Deeside, and Chester, are unified Boards with identical Directors. The entire focus of our organisation is in fulfilling the Group's purpose:

***“Welsh Water's purpose is to provide high quality and better value drinking water and environmental services so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.”***

At an Extraordinary General Meeting on Friday 6<sup>th</sup> December 2019, the Members of Glas Cymru voted to approve the incorporation of the Company's purpose in the Articles of Association. This followed extensive consultation with our customers and other stakeholders on our long term strategy, Welsh Water 2050, and our business plan for the period 2020-25.

Our purpose is central to everything we do and guides all of our decision making.

Our Company vision is To Earn the Trust of Our Customers Every Day. We set ourselves as a company, and as individuals working to meet our customers' needs, a high bar in terms of providing the highest levels of customer service.

We have deliberately limited our non-regulated activities, these currently constitute around 1% of our turnover, and our strategy for commercial activities is to work towards generating a surplus that can be reapplied back into our business for the benefit of our customers.

### **2. Our Longer Term Strategy and Goals and how this informs our business plans**

When we created our long term strategy, Welsh Water 2050, in 2017, we undertook an extensive process of consultation with our customers and wider stakeholder groups, giving everyone who has an interest in the Company and the essential services we provide, an opportunity to comment and feedback on our draft document addressing the future challenges and our response to them. Our aim in Welsh Water 2050 was to set out our plan “to become a truly world class, resilient and sustainable water service for the benefit of future generations”. We received:

- Over 20,000 customer responses to our survey, through an innovative variety of digital and face to face methods;

- Detailed and ongoing input from customers through our online community, a range of customer focus groups, and our Youth Board;
- A very successful Stakeholder launch event, and another event involving around 50 of the Members of Glas Cymru; and
- 17 detailed responses from Stakeholder Groups and other interested parties.

Welsh Water 2050 sets out the key trends and challenges that we face over the long term, informed by experts, academics and partners. In order to address these long-term trends and challenges we set out 18 Strategic Responses, and committed to update our strategy on a five-yearly basis. The first five-yearly review was undertaken during 2022, and updated Welsh Water 2050 to ensuring that our long-term strategy is optimised given the latest view of the world as it is now and as we expect it to be in the future. This review has supported a review of the strategy and has fed into the preparations of our long-term delivery strategy for PR24. Since 2018, we have seen several dramatic and unexpected 'shocks', including EU Exit, extreme weather events, and the Covid-19 pandemic. These have emphasised the importance of being adaptable and resilient as a business, and of keeping a close eye on current and future trends. In light of this we re-evaluated the Strategic Responses and confirmed that they remain sound as the best way of ensuring we can continue to provide a resilient and sustainable service over the long term. We amended the emphasis in Strategic Response 18 to recognise the evolution in the Company's ambitions around achieving net zero carbon emissions.

Welsh Water 2050 and the update to it have formed the basis of completing Ofwat's new requirement for companies to submit a long-term delivery strategy (LTDS) as part of the PR24 price review process. When the LTDS is published alongside our AMP8 business plan in October 2023 it will set out in detail the outcomes that we are aiming to achieve by 2050, and the key investments that will be required.

The Board established the Environment, Social and Governance (ESG) Committee in June 2021 to develop the Company's ESG Strategy which is derived from, and entirely consistent with, our long term strategy set out in Welsh Water 2050, and includes our roadmap to deliver full Net Zero Carbon by 2040. Our Board, led by the ESG Committee, has tested the reality of the various elements of our Net Zero strategy, and has found them challenging but credible.

Since 2010-11 we have already achieved a 65% reduction in total emissions, comprising operational and embedded carbon. The reduction is underpinned by an electricity supply 25% of which is self-sufficient (either renewables we self-generate or from private wire agreements with local generators) with the remainder REGO-backed using offshore wind. This makes Welsh Water one of the lowest emitters of carbon dioxide per ML of water or wastewater treated in the UK water industry. We aim to be 35% energy self-sufficient by 2025 and to be carbon neutral by 2040.

We also very clearly recognise public concern over river water quality and will continue with our approach of transparency of performance and proactive improvement in this important area. We have already shown that we are more than willing to go the extra mile by helping other sectors, such as agriculture, with expertise and practical support to tackle pollution, and we plan to build on this approach. On river water quality, and CSOs specifically, we have worked with the Welsh Government River Water Taskforce, Nutrient Management Boards and other similar groups to develop our plans, reflected in Our Manifesto for rivers in Wales (see online at <https://dwrcymru.com/rivermanifesto>). In addition to our existing plan to spend over £800 million in wastewater assets in AMP7, we have committed in 2022 an additional £140 million investment in river water quality and CSOs. We have also worked with the Welsh Government and other stakeholders to develop a long-term river nutrient strategy with an aim to ensure future investments maximise environmental improvements.

We will always seek to invest as efficiently as we can. We are, therefore, very open to adopting new ways of structuring the investment we require such as Direct Procurement for Customers ('DPC') introduced by Ofwat as part of PR19. This new delivery model involves a company competitively tendering for the financing and delivery of large infrastructure projects, resulting in the selection of a third-party competitively appointed provider. The aim is to achieve significant benefits for customers through innovation and lower whole-life costs of the project. We will apply this DPC delivery model to achieve our plan to replace three ageing water treatment works by Cwm Taf that together meet a large part of the demand for drinking water

from south Wales, including Cardiff. Ofwat confirmed through a Designation notice published in June 2023 that this project will be delivered through the DPC route, and we are continuing to develop our requirements for the scheme before commencing the procurement process.

We ran our bi-annual virtual Innovation Conference in September 2022, celebrating our innovation successes to date, and looking forward to AMP8 in terms of establishing stronger partnerships to deliver improvements and efficiencies for our customers. Over 500 delegates registered to attend, and we're currently working through the various innovations and research topics raised to pick the best of them for investment and support.

### 3. How we set our ambitions

Working on our Welsh Water 2050 Strategy for the next 30 year period allowed us to examine the role we play in the communities we serve and to have a meaningful dialogue with our customers about how we will meet the external challenges over time. The outputs from this dialogue with customers heavily influenced our business plan submitted to Ofwat as part of the PR19 price review process. We hold a Board Strategy Day every year enabling the Board to spend time debating a number of strategic and long-term business priorities, including reviewing our vision for Welsh Water 2050. A particular focus for the 2022-23 Strategy Day was our preparations for the next five-year price review, PR24, understanding the challenges and opportunities for Welsh Water, together with an update on achieving a more collaborative approach to PR24 in Wales through the PR24 Forum, which will bring us together with Welsh Government, Ofwat and other key stakeholders to agree the right plans for the future.

Our detailed business plan for the five year period 2020-25 seeks to balance ensuring the affordability of the essential services we provide with the investment needed to maintain a resilient infrastructure. As a result of our not-for-shareholder-dividend corporate structure, all gains eventually go to our customers, so that the interests of the Company and of customers are aligned, and the strategic direction of the Company takes this into account.

Our reporting of progress against our key Outcome Delivery Incentives (ODIs) during AMP7 (2020-25) is framed around our customer and colleague promises. The regulatory targets are supplemented by our internal business and financial planning processes. Every year targets are proposed by the Executive Team and agreed by the Board of Directors. The Executive Team is held to account by our Non-Executive Directors to ensure that the targets are sufficiently challenging and to monitor performance in accordance with those targets.

Our Company Vision to Earn the Trust of our Customers Every Day underpins our approach to delivering services, and the Board is conscious of the need to set targets which maintain and build on that trust, to promote the long term success of the Company in accordance with Section 172 of the Companies Act 2006. The ethos and culture of the Company is very much focused on end-delivery for our customers in order to earn their trust.

The Executive Team proposes the Annual Business Plans for the Company and these are signed off by the combined Board of Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig. The Annual Business Plans are based on the regulatory settlement in the form of five year asset investment plans from Ofwat as our economic regulator. In some cases, our internal business plan targets for the year were more stretching than the Ofwat Final Determination targets from the PR19 process, and in other cases, particularly where Ofwat applied standard targets across the sector, the internal business plan targets are lower than those set out in the Final Determination but are as challenging as the Board considers realistic.

In approving the targets proposed by the Executive Team, the Board takes into account the views of our stakeholders. Alongside the regulatory reporting framework, the Board has approved initiatives to address the specific needs and interests of these stakeholder groups:

- **Our Customers** – we continue to engage with our customers directly and seek feedback on the strategic goals that particularly matter to them. We also engage regularly with the Consumer Council for Water and act on feedback we receive from them and from our own Independent Challenge Group (formerly Customer Challenge Group), which is independently chaired by Peter Davies OBE and which is comprised of organisations which represent our wider customer base.

- **Our Communities** – We exist, first and foremost, to serve the communities where we operate. We are determined to act responsibly and believe that building close links with and supporting our communities helps build trust. This is why we carry out a wide range of activities focused on our communities, including:
  - Providing one of the most extensive education outreach programmes in the sector to help teach children about the water cycle and the importance of using water efficiently.
  - Operating 4 visitor attraction sites, offering a range of activities for local communities and tourists. We will open our 5th site, near Cardiff, in summer 2023 (Lisvane and Llanishen) offering an array of water sports, including stand-up paddle boarding, canoeing and kayaking.
  - Hosting annual ‘open days’ at our wastewater sites to help customers learn and understand more about how we operate, linking this to our behavioural change campaigns such as Stop the Block.
  - Operating our £100,000 Community Fund which offers support to local communities with wellbeing and environmental initiatives, and international charities such as WaterAid and Business in the Community.
- **Our People** – during 2022-23 we employed an average of 3,554 people, making us one of the biggest employers in Wales. Our success is fundamentally dependent upon our highly engaged and motivated people. We remain committed to developing our people to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities we serve.
- **Our Suppliers** – we work with over 2,000 supply partners to ensure we can deliver our essential services to customers. Our suppliers play an essential part in enabling us to deliver services. Our Supplier Management Frameworks help us to develop close working relationships which are focused on working in partnership to ensure we deliver excellent service to our customers.
- **Our Environment** – we work with a range of organisations and academic institutions to carry our research and develop innovative methods to minimise our impact on the environment and improve the sustainability of our operations. In 2020-25 we are continuing to develop our approach to catchment management, working with local landowners and other organisations to improve water quality in our catchments and reduce the need for chemical treatment. We are preparing to publish our Drainage and Wastewater Management Plans, which will set out our proposals for future investment prioritised according to environmental evidence on the impact of our wastewater operations, so that we can plan for improvement and agree with customers, investors, and regulators the priorities and pace at which this will take place.
- **Glas Members** – as a Group owned by a company limited by guarantee, we do not have shareholders, but our Membership is made up of individuals drawn from across our supply area (or who have a strong connection with it) who carry out a vital governance role. Members hold the Board to account for the stewardship of our assets and for providing an essential public service in a manner which will be sustainable for future generations.

For further information on our relationships with stakeholders, how we have set out ambitions with reference to their interests and how we are delivering for them, please see pages 54 – 57 of our [Annual Report and Accounts 2022-23](#).

Our Section 172(1) Statement on pages 71-73 of the Annual Report and Accounts sets out how the Board balances the needs and interests of different stakeholders in its decision-making. Examples of where the interests of different stakeholders have had to be weighed include: our Combined Storm Overflow Strategy; Cost-of-Living Increases, PR24 Planning, Baglan Energy Park power switch-off and Leakage reporting. The Independent Challenge Group ensures that the voice of customers is taken into account, through the input of the customer representative organisations who are members of it. The views of the Independent Environmental Advisory Panel, an advisory panel consisting of representatives from front-line environmental organisations and leading academics in specialist areas, are also taken into account by the Quality and Safety Committee of the Board.



#### **4. Ongoing Evaluation – how we monitor performance and make decisions**

The Board met on nine occasions during 2022-23. At each scheduled Board meeting, and on a monthly basis between Board meetings, the Board receives detailed information on Health & Safety lagging and leading indicators and current issues, operational performance and current operational issues, financial performance and all AMP7 Performance Commitments, people and recruitment updates, and regulatory/legal developments. This information is reviewed in detail at each Board meeting and the Quality and Safety Committee of the Board also met on eight occasions in 2022-23 to review operational and regulatory performance issues in more detail.

The Board also meets both formally and informally with members of the Executive Team and senior managers across the business and individual Non-Executive directors have the opportunity to learn about operational issues and visit sites on a regular basis. A number of site visits took place during 2022-23 and meetings with senior management and employee engagement champions drawn from across the business continued to take place regularly via video-conference.

During 2022-23, the Board has challenged the Executive Team on matters including the following:

- environmental performance;
- measures taken to ensure the Health, Safety & Wellbeing of employees and contractors
- the setting of a challenging but deliverable target for net zero carbon emissions;
- development of robust and challenging PR24 plans that delivers against the pillars of Financeability, Affordability and Deliverability.
- development and implementation of a compliant leakage and PCC reporting framework
- operational performance including a focus on the water business
- development of the Long-term Delivery Strategy
- progress of capital projects;
- delivery of dam safety “pipes in dams” projects in a safe manner;
- development of the Enterprise Risk Management Framework;
- the take-up of our social tariff support for customers struggling to pay their bills and communication with customers in debt; and
- progress of the Direct Procurement for Customers project to fund and construct a new Cwm Taf Water Treatment Works.

Where Monthly Management Reports show that performance is lagging behind in a particular area of the business, the reasons for this and the possible actions that can be/are being taken to address it are discussed at meetings of the main Board or the Quality and Safety Committee, as appropriate, and action w plans put in place to assist in monitoring improvement.

#### **5. How we have performed in 2022-23**

In what has been a challenging a year as a result of extreme weather events, we are pleased that we achieved 4<sup>th</sup> place for water and sewerage companies in the Ofwat overall customer satisfaction ranking, CMEx. Similarly, we were encouraged to achieve the highest level of business customer satisfaction in the Consumer Council for Water assessment ‘Testing the Waters’ for 2022-23.

We have been encouraged by improvement in our water quality performance after a dip in 2021. Our bacteriological performance that year saw minor coliform failures at 6 treatment works and 14 service reservoirs. In 2022 this improved to 3 treatment works and 3 service reservoirs. This turnaround moves us back to the industry upper quartile for bacteriological performance, which we achieved for many years prior to 2021. However, while our overall Drinking Water Inspectorate (DWI) measure on the Compliance Risk Index has improved to 5.40 in 2022 compared to 9.77 in 2021, our water network quality, covering iron compliance and instances of discolouration, remains a challenge for us. This is influenced by the predominance of soft upland waters in our operating area and a high proportion of cast iron water mains in our network. We are investing over £165 million to improve network quality in AMP7 and this will be repeated in our PR24 plans.

While we have seen improvement in drinking water quality, our supply interruption performance has deteriorated. This is a challenging measure for us due to our topography, which results in a large number

of discrete supply zones, (making it more difficult to move water between areas when there is, for example, a trunk main burst) and in the need for high operating pressures in our water network. FY 23 was also impacted by the freeze/thaw incident in December 2022. We have reported 44.5 minutes lost, largely as a result of the impact of the drought and freeze/thaw events in 2022.

In last year's Annual Report and Accounts we disclosed that we were reviewing our reported performance data for leakage and per capita consumption. This review was necessary because our independent annual assurance processes identified potential issues with the application of the methodology used for calculating these measures in FY 21 and FY 22. The review concluded that these key measures have been inaccurately reported in those two financial years, with actual leakage being higher than reported during this period, and actual per capita consumption being lower than previously reported. The originally reported and restated data can be found in the Part 3 Commentary of the Annual Performance Report.

This mistake should not have happened, and we apologise unreservedly. While our robust assurance process identified the issue, there were failures in our governance and management processes that should have identified the issue sooner. We have made changes to how we manage our leakage reduction activities and strengthened our reporting and governance processes; and we are investing an additional £54 million to identify and reduce leakage as quickly as possible. Every Welsh Water customer will receive £10 automatically credited to their account due to this error, as compensation for our misreporting and its effects.

On 25 May Ofwat announced it is launching an investigation into our reporting of leakage and per capita consumption. We have shared with Ofwat the findings of our internal investigations, the remedial actions we have taken and our customer redress proposals. We will of course cooperate fully with the investigation.

For our environmental performance, this year we have experienced challenging conditions linked to the summer drought commented on above. We expect to achieve a 2-star rating in the annual Environmental Performance Assessment, which represents a decrease in our performance from 2021.

Despite the challenging summer, it was good to see waste water treatment works compliance improve slightly to 98.50% from 98.32% in 2021. Our overall number of pollution incidents remained broadly the same as 2021 at 89, which is the 2nd lowest level of incidents for any company in England and Wales last year. This did include five serious pollution incidents and we are focussed on addressing and preventing the causes of these incidents in the future.

Our internal sewer flooding performance, (the worst service failure that our customers can experience), also improved, with 165 incidents compared to 201 in 2022. The unusually dry conditions over much of the year influenced this but it has been encouraging to see the development of our smart sewer network plan helping us target improved maintenance and to predict potential problems before they impact customers or cause pollution.

Full details of our performance are set out on pages 48-66 of our Annual Report and Accounts and in this Annual Performance Report.

## **6. How we balance the relationship between delivering our services and rewarding Executives**

The Remuneration Committee sets the Executive Remuneration policy in the context of the approach to pay for the workforce as a whole.

Our pay structure is intended to be simple and transparent and clearly links pay to performance. Remuneration includes a significant element of variable pay, with targets that are stretching, and focused on achieving improved operational performance and excellent customer service. The elements of remuneration are as follows:

#### Fixed Pay

- Base salary
- Pension cash allowance
- Benefits (mainly health insurance)

#### Variable Pay

- Annual Variable Pay Scheme (AVPS) – an annual variable pay scheme, where awards are based on a range of measure relating to Customer Service, Operational Performance, and Strategic Goals. For AMP7, the scheme has been amended to focus on the key performance objectives of the business plan. Personal objectives have been replaced with a suite of Strategic Goals which are selected by the Remuneration Committee each year.
- Long Term Variable Pay Scheme (LTVS) – a five year scheme, to incentivise achievement of the Company's long-term strategy, 50% based on Totex performance and 50% based on overall reward/penalty outcomes for a range of performance development measures relevant to achieving the Company's long-term goals as set out in Welsh Water 2050.

This year, the Committee has continued to focus on implementing the Remuneration Policy approved by Members at the 2020 AGM. This included reviewing how targets are set for Annual Variable Pay awards consistent with incentivising the delivery of the principal performance commitments set by Ofwat in the Final Determination of the PR19 regulatory price review, and taking into account the guidance received from Ofwat on ensuring that performance related executive pay should demonstrate a substantial link to stretching performance delivery for customers including environmental commitments and obligations (letter from David Black to all companies' Remuneration Committee Chairs dated 18 February 2022).

For 2022-23 AVPS awards the formulaic outturn was 41.39% of maximum with Customer Service and Operational Performance both under target level. The strategic goals element was at target. However both the CEO and the CFO offered to waive their variable pay this year and the Remuneration Committee accepted. Therefore no payment was made in respect of the AVPS scheme for Executive Directors.

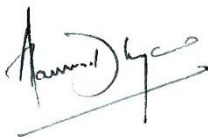



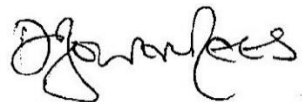

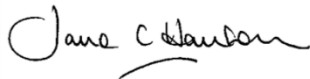



The LTVPS outcome for 2022-23 was 10.1% of maximum with the totex element below target but above threshold level, and the performance development threshold limit not being met. However both the CEO and the CFO offered to waive their variable pay this year and the Remuneration Committee accepted. Therefore no payment was made in respect of the LTVPS scheme for Executive Directors.

Further details of our Directors' pay policy and implementation are set out in the Directors' Remuneration Report (see pages 173 –194 of the Annual Report and Accounts). This includes details of the proposed Executive Pay Policy for AMP7, which was approved by Glas Members at the 2020 AGM. In setting policy, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance and the UK Corporate Governance Code. All awards are subject to malus and clawback provisions (see page 184 of the Annual Report and Accounts for further details).

## Statement Approval

The Company has in accordance with its Licence prepared this Company Direction and Performance Statement, which was approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 6 July 2023, as evidenced by the Directors' signatures below.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Graham Edwards Senior Independent Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Non-Executive Director
 Lila Thompson Non-Executive Director	 Barbara Moorhouse Non-Executive Director

6 July 2023

## **BOARD STATEMENT ON THE ACCURACY AND COMPLETENESS OF DATA AND INFORMATION.**

We pride ourselves on conducting our business in an open and transparent manner. This means that we need to ensure that the data and information we publish is high quality. By high quality we mean data and information that is reliable, accurate and complete within the bounds specified.

It is also important that we provide information to customers and stakeholders that is customer-led, accessible, clear, accurate, transparent and timely. Our ongoing objective therefore is to make available information that is easy to follow and navigate and enables customers and stakeholders to understand how we are performing. We also recognise that this helps build trust and confidence in the business. Although it is a condition of the Company's Instrument of Appointment to produce this Statement, we consider that it also helps us to achieve our Vision of earning the trust of our customers every day.

Within the business we have well-established governance and accountability processes to produce high quality information. To confirm that we have followed guidance issued by the Water Services Regulation Authority the information contained within our Annual Performance Report is subject to checks by the Regulatory and Compliance Teams, scrutiny at Director level, review by the Audit Committee, and is audited by our independent External Auditors.

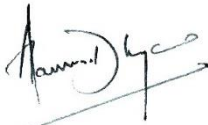


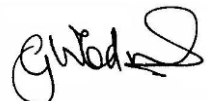

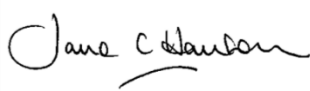


During the year, the Board has engaged and challenged the assurance approaches that the company has undertaken. The Board takes action to ensure the company addresses exceptions and weaknesses in the assurance approaches and is satisfied that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas.

Last year, our assurance processes identified an issue with our leakage and PCC reporting. We commissioned a detailed independent review that identified failures in our governance and management processes that should have identified the issue sooner. We have made changes to how we manage our leakage reduction activities and strengthened our reporting and governance processes for our APR submission as a whole. The updated approach has been reviewed and approved by the Audit Committee as part of this year's APR process.

The Board considers that the Company has in place an assurance framework and adequate systems of control appropriate for a Water and Sewerage Undertaker acting diligently, to allow the Board to discharge its responsibilities under Condition F6.2 of the Instrument of Appointment and Regulatory Accounting Guideline 3.14. The Board confirms that the data and information which the company has provided to Ofwat in the reporting year and which we have published in our role as a water undertaker is accurate and complete.

The Company has in accordance with the Regulatory Reporting Guidelines and/or our Licence prepared this Board statement on the Accuracy and Completeness of Data and Information, which was approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 6 July 2023, as evidenced by the Directors' signatures below.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Graham Edwards Senior Independent Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Non-Executive Director
 Lila Thompson Non-Executive Director	 Barbara Moorhouse Non-Executive Director

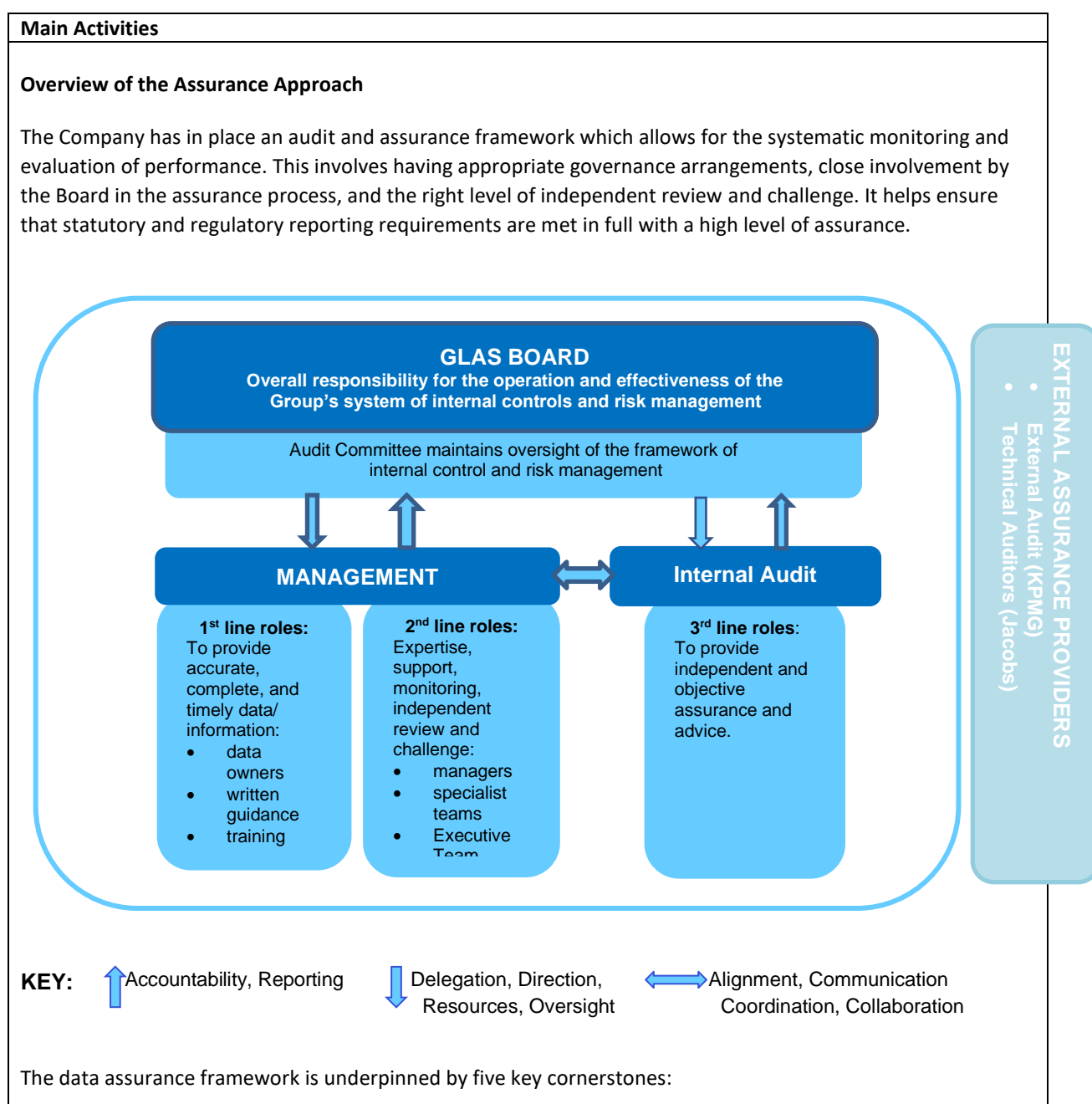
6 July 2023

## Appendix i

### A description of the activities which the Board has considered to allow it to make the Board Statement on the Accuracy and Completeness of Data and Information.

To produce the Statement on the accuracy and completeness of data and information the Board addressed four key areas and considered the Board's main activities in these areas:

1. How the Board has engaged and challenged on the assurance approaches which have been taken.
2. How the Board has taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed.
3. How the Board has satisfied itself that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas.
4. How the Board has utilised individual directors and committees in carrying out its activities in this area.



**1. Robust assurance principles** – the Company operates a “three-lines of assurance” model, targeted at areas of greatest risk.

**2. Clear ownership and accountability** – the Company has clear lines of ownership and accountability for both the delivery of performance and the accuracy and reliability of the data provided.

- Strong personal and collective ownership is critical for ensuring the accuracy of the data and information produced, driving improvements.
- Regular internal performance reporting to the Executive monthly and Board (at every meeting), and updates on performance to the Independent Challenge Group and CCW, reinforces this culture of ownership and accountability.
- Every year, the compliance framework is refreshed to ensure that individual accountabilities are linked to regulatory and statutory obligations.
- There is also a rigorous process of sign-off for regulatory data contained within the Annual Performance Report, including sign-off by the data owner, the responsible senior manager (where appropriate) and the accountable director. This is in addition to our Board governance arrangements.
- The ‘three lines of defence model’ ensures that there is clear separation of accountabilities between those responsible for delivery of a performance commitment or a regulatory/statutory obligation and those responsible for ensuring the integrity of that data. This delineation is mirrored in the governance arrangements.

**3. Effective governance** – the Company’s Assurance Plan provides for governance of all performance commitments and other external reporting with a clear delineation of accountabilities and has the following key features:

- the Board’s role is to meet its obligations to the Company’s stakeholders. It reviews performance in the light of the Company’s strategic objectives and business plan commitments – ensuring that any necessary corrective action is taken;
- the Board’s Audit Committee assists the Board in discharging its responsibilities for the integrity of the Company’s financial statements, the assessment and effectiveness of internal controls for both financial and non-financial data and the effectiveness of internal and external auditors; and
- the Independent Challenge Group provides independent external challenge of both our performance against our commitments and any supporting information we provide on it. Our Regulators, DWI, EA and NRW, and the consumer watchdog CCWater, also provide independent scrutiny and challenge.

**4. Transparency and accountability** – the Company publicly reports on its performance and hold itself to account where it does not meet its commitments.

**5. Company culture** – the Company’s culture is a cornerstone of the data assurance process and is based on shared values and beliefs. It helps shape the way the Company conducts its everyday business and ensures it strives to “do the right thing”. Because of its importance, company culture is sometimes described as a layer of control even preceding the first line of defence against inaccurate information. Maintaining a positive culture is important to the Board because:

- everyone is aware of the expectations regarding high quality information;
- other controls will focus on checking and correcting errors, but in a positive corporate culture, errors are less likely to arise because individuals create, record and transmit information completely and accurately as part of the way they work;
- other controls are laid over the top of the information-reporting process, but cultural controls are embedded within it;
- other controls might be occasional or periodic, but culture is ongoing and permanent; and
- everyone knows that they can be honest about data errors.

#### **Risk Based Approach to the provision of accurate and complete data and information in particular areas**

The risk-based assurance approach in operation examines the Company’s end-to-end reporting processes to identify the risks, strengths and weaknesses associated with providing information that is of a high quality and which customers and stakeholders can trust. It also examines the probability of these risks materialising and the



potential impact that they may have. This ensures that the Company focuses on the areas which would have the greatest impact and allows it to take action to monitor and actively manage any relevant risks. For APR 2022-23 we have enhanced our existing risk assessment process by moving to an objective approach that focusses on the number of data reports and the amount of processing required to generate the final value as these are the greatest source of risk.

Even though the Company was promoted to the self-assurance (highest) category in the last and final Company Monitoring Framework assessment carried out by Ofwat January 2019, the Company continues to follow similar robust and transparent assurance processes that have served it so well over recent years.

The Company has again undertaken a reporting risk assessment for all relevant data that will be contained in the Annual Performance Report (and other key documents). This year we have enhanced this process as a result of the review into our leakage and PCC reporting. Where we identify data items that are more complex and higher risk, we ensure that there are proportionally greater levels of control and governance in place, and an increased level of scrutiny through deep dive process reviews by our external assurer. This was an important exercise and formed the basis of the Company's Data Assurance Summary.

As in previous years, the Data Assurance Summary includes a wide variety of controls and mitigating actions designed to ensure that customers and stakeholders can trust the information the Company publishes.

#### **Data Assurance and the culture and governance framework**

In terms of data assurance, the Board considers that the following features of our culture and governance framework are key strengths:

- Colleagues in the business understand and appreciate the value attached to data quality and the processes used to generate the data. The Regulation Department provides an annual update to data owners and guidance in the form of an information pack on the process and timeline for the Annual Performance Report;
- The Company's Corporate Behaviours Framework and Code of Conduct actively encourages colleagues to 'have the confidence to raise any concerns' and 'speak up' about inaccurate information or suggest improvements to existing processes that will improve data quality. The options available to colleagues wishing to raise any concerns are detailed in the 'Whistle Blowing' procedure;
- Reviews of performance are conducted regularly throughout the Company from Board level to individuals. This includes those carried out by the Board, the Audit Committee, the Chief Executive Officer, the Quality and Environment Committee and the Executive team;
- The Technical Auditor (Jacobs) carries out a formal review and certification of 54 of the current 56 Performance Commitments (the other 2 are audited by KPMG) and a selection of other regulatory data and provides a detailed report commenting on compliance with procedures and relevant regulatory reporting requirements and highlights any issues with the reported figures. This includes checking the source of data, compilation of the data including the process of any extrapolation and assessing the adequacy of reported data. In addition, the Technical Auditor reviews and if required scores the Methodology Statements where they exist for all of our key measures and other relevant regulatory data;
- Ahead of the publication of the Annual Performance Report, the Internal Audit team carry out a high level audit and evaluation of the systems in place on the reporting framework within the Company and review the effectiveness of the system of risk management, control and governance;
- A programme of internal audits is approved and overseen by the Audit Committee to assess the adequacy of control, governance and risk management processes. The results of these audits are reported to the Audit Committee, which ensures that actions arising from internal audits are completed on a timely basis;
- The Company has a well embedded risk management process that identifies, assesses, and manages our risks. All colleagues play a part in risk management. Individual teams within the business take responsibility for managing risks within their areas of responsibility. The Business Area Risk Registers are reviewed quarterly by the Executive. The Executive update on strategic risks affecting the business is reviewed at every Board meeting;

- Robust financial control monitoring processes provide assurance that the Company's key financial controls are operating effectively and that the financial information produced by our accounting system can be trusted; and
- The Company's Integrated Management System, which has certification to various ISO Standards, has been established to reinforce the management of risks and opportunities associated with many areas of the business and compliance with regulatory and legislative obligations. Audits of compliance with this system are conducted both internally and by our third party certifiers (SGS).

### **Key assurance activities during 2022/2023**

#### **Data providers, their managers and business unit directors**

During the year nominated data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trails to support the reported performance and demonstrate the control checks that have been applied.

#### **Methodology Statements**

Comprehensive Methodology Statements are in place for all performance commitments. They are updated to reflect comments received from the Regulation Team and the Technical Auditor and changes in process or obligations which may have occurred in the year.

#### **The Regulation Team**

The Regulation team undertake their own reviews, and this includes a rigorous process of internal due diligence to test: the application of the appropriate Methodology Statements and reporting requirements; challenge information, judgements and assumptions associated with both financial and non-financial data; and to ensure compliance with the relevant guidance. This provides a good opportunity to highlight to management areas where judgements were required, or assumptions needed to be tested.

Information packs containing all relevant information are provided to all data owners. This is supplemented with several group question and answer training sessions.

#### **Independent Technical Auditors**

Jacobs (the Company's Technical Auditor) undertake a full data review in accordance with an agreed Audit Plan. This involves:

- a) A review of documentation including Methodology Statements already in place for individual data items;
- b) A process review which involved face to face discussion via Teams with the data owner; and
- c) A year-end audit involving document review and face to face discussions via Teams with data owners covering: - adherence to internal processes; - tracing to source data; - sample checks; - confidence grade reviews; - calculation of rewards/penalties (where appropriate); and - commentaries.

Jacobs prepare reports for each audit and the risks are scored. Jacobs also produce a letter to the Board summarising their findings and attend both the Audit Committee meeting in June and the Board meeting in July to report their conclusions and to answer any questions.

#### **Financial Auditors**

The independent financial auditors (KPMG) undertake their audit and assurance procedures and substantially complete them by the time of the Audit Committee meeting on 29 June 2023. KPMG attends the Board meeting in July and provide their assurance confirmations and audit opinion.

#### **Internal Audit**

The Internal Audit Team undertook a high-level review of governance processes put in place to ensure the accuracy and completeness of non- financial data reported in the Annual Performance Report for 2022-23. The report concluded that there was an effective governance framework for the completion, review and approval of Data Tables and assigned an overall rating of “Full Assurance”.

### **Independent Challenge Group**

Updates on our performance are shared with the Chair of the Independent Challenge Group (formerly known as Customer Challenge Group).

### **The Executive Team**

The Executive Team review all data reported in the Annual Performance Report during two review meetings on 30 May and 13 June. This is also attended by Jacobs and the Internal Audit team. Members of the Regulation team and selected data owners (and/or their managers) are also present. For each performance commitment and data table, a summary containing current year’s performance, historical performance and data owners’ and Jacob’s/KPMG’s issues is produced and forms the basis of discussions. Key judgements and material assumptions are reviewed.

### **The Audit Committee**

During 2022/2023 the Audit Committee received and reviewed the Company’s key regulatory submissions and assurance processes relating to:

- the Annual Performance Report, and Assurance Reports from Jacobs and KPMG. At the same time the Committee received the Company’s annual Risk and Compliance Statement (and associated Ring-Fencing Certificate), and Assurance Report from Jacobs, together with the Internal Controls paper from the Executive, and
- the publication of our Charging Schemes for 2023/2024

The Board received feedback from the Audit Committee on the assurance processes followed for the 2022/23 Annual Performance Report, together with the updates from Jacobs and KPMG, in advance of the Board’s formal approval of the Annual Performance Report prior to publication in July 2023.

The Audit Committee reviewed financial performance in detail at the half year and year end (financial statements) and received regular reports from the Group’s external auditors, KPMG and the Company’s Group Financial Director in relation to accounting treatments.

The Audit Committee recommended that the financial statements be approved by the Board, it also confirmed, in respect of the 2022/23 Annual Report and Accounts, that it was fair, balanced and understandable.

Both the Audit Committee and the Board review the overall process, the operation of the systems of internal and external controls and reviewed the key judgements required in compiling the Annual Performance Report.

The Audit Committee and the Board make appropriate enquiries of the Executive Team and the relevant experienced colleagues involved, in particular the Strategy and Regulation Director and also the Technical Auditor and the independent financial auditor.

## **RISK & COMPLIANCE STATEMENT 2022-2023**

### **Scope of the Risk and Compliance Statement**

The Water Services Regulation Authority (Ofwat) requires all water companies to provide a statement setting out how they have complied with their relevant statutory, licence, and regulatory obligations for which Ofwat is the relevant enforcement authority, or failing that, to explain why they are unable to do so. The Risk and Compliance Statement is one of Ofwat's key regulatory tools and allows companies to evidence their accountability to their customers and demonstrate to Ofwat that they are complying with their obligations.

### **The Risk and Compliance Statement**

We recognise the importance of demonstrating to our customers, stakeholders, and regulators that we are meeting the statutory, licence, and regulatory obligations that apply to our activities. We have set out in this Statement, and in our Annual Performance Report and Annual Report, our compliance with and performance against certain key performance measures, legal requirements, and regulatory outputs. We have also identified the risks that we are facing and the steps we are taking to manage and mitigate those risks.

In preparing this Statement we have considered our compliance with those legal, licence, and regulatory obligations for which Ofwat is the enforcement authority. In respect of these obligations, subject to the matters set out in this Statement, we confirm that:

- We have a full understanding of, and are meeting, our relevant statutory, licence and regulatory obligations.
- We have taken steps to understand and meet our customers' expectations.
- We are satisfied that we have sufficient processes and internal systems of control fully to meet our obligations.
- We have appropriate systems and processes in place to allow us to identify, manage, mitigate, and review our risks.

In this Statement we also:

- explain links between the standards of performance we achieve, and directors' and senior executives' pay (s35A Water Industry Act Statement);
- confirm that the auditors have been made aware of all relevant information (Companies Act 2006);
- explain our dividend policy (Licence Condition P29 and Regulatory Accounting Guideline 3.14);
- confirm that we have sufficient financial resources and facilities, management resources and systems of planning and internal control available to us for at least the next 12 months to meet our obligations as a water and sewerage undertaker and outline the main factors taken into account when making this statement (Licence Condition P12);
- confirm that a report has been prepared by the companies' auditor and addressed to Ofwat, stating whether they are aware of any inconsistencies between the P30 Ring-fencing Certificate and the financial statements or any information obtained in the course of their work (Licence Condition P35);
- confirm we will be able to continue in operation and meet our liabilities as they fall due over the period to March 2030 (UK Corporate Governance Code and Ofwat requirement);
- confirm that we have maintained an issuer credit rating which is classed as an Investor rating (Licence Condition P26);
- confirm that if a special administration order were to be made, we would have available sufficient non-financial resources to enable a special administrator to manage the affairs, business, and property of our regulated activities (Licence Condition P14);
- confirm that transactions with associated companies are at arm's length (except where agreed by Ofwat) with no cross subsidy occurring (Licence Condition P19); and
- confirm that we provided a statement to confirm the number of disposals of protected land (Licence Condition K and Regulatory Accounting Guideline 3.14).

## The Individual Statements

Dŵr Cymru fully recognises its accountability to its customers, its regulators and its other stakeholders and is pleased to provide the following Statements to demonstrate that it complies with its obligations and is managing its risk in an appropriate manner.

### 1. The Company considers it has a full understanding of, and is meeting, its relevant obligations.

Our primary obligations and duties as a Water and Sewerage Undertaker are set out in the Water Industry Act 1991, the Water Resources Act 1991, and our Licence.

We keep our assurance processes continually under review to ensure they remain appropriate. A key emphasis is on ensuring the Company has sufficient processes and internal systems to fully meet its obligations. Our Legal Team works with colleagues throughout the business to identify new legal obligations and amendments to existing legislation. Colleagues in the Regulation Team keep abreast of developments or changes to our regulatory and Licence obligations. The Compliance Team provides advice, guidance, and support to the whole business on understanding the extent of any regulatory or Licence obligation and implementing an appropriate internal control framework to ensure compliance with those obligations.

During 2022-23 Ofwat modified Condition N (Fees) to replace the Regulation Fee Cap. The licence modifications Ofwat made set a new limit on the total of the Annual General Fee and any Special Fee payable by each water company in a Charging Year (a year beginning on 1 April) in relation to the costs that Ofwat incurs in carrying out its functions. There is no impact on the Risk and Compliance Statement.

It is essential that all concerned in ensuring Licence Condition compliance continue to understand their individual responsibilities and appropriate checks and controls are in place to meet our obligations. To achieve this, it was important to build upon the existing knowledge of the Licence Owners and to discuss the application of any new modifications with them. Consequently, and building on the processes we have developed over the last few years to ensure 'ownership' of Licence conditions and legal/regulatory obligations, for each individual Licence Condition covered within the Risk and Compliance Statement we have now:

- Established who the Licence Condition 'owner' is;
- Established the relevant Dŵr Cymru Executive (DCE) Member;
- Produced a PowerPoint Guide outlining the purpose of the Condition and our obligations;
- Developed a proforma that:
  - Reviews the Licence Condition in detail to establish all requirements;
  - Establishes how compliance with the individual requirement is achieved;
  - Contains a 'compliance statement' which is signed by the Licence Condition Owner; and
  - Contains a 'compliance declaration' signed by the relevant DCE Member.

For the 2022-23 Risk and Compliance Statement the Compliance Team mapped Company processes against our statutory obligations. This was a desk exercise combined with consultation with operational managers. In each case the outcome of the process followed demonstrated that the obligation in question was recognised and that there were processes in place likely to ensure compliance. We continue to use a common reporting format which includes:

- responsible Member of the DCE Team;
- formal description of the obligation, including hyperlinks to the actual legislation referred to;
- description of the obligation in plain English;
- details of policies, procedures and responsible Departments;
- internal governance and assurance arrangements;
- external assurance arrangements; and
- any material performance departures in the report year.

Each individual statutory obligation has a Compliance Proforma (similar to the Licence Condition Proforma) that evidences how compliance is achieved.

Ofwat required our Board to provide assurance that the Company's PR19 Business Plan would enable it to meet its statutory and licence obligations and that we had taken into account the Welsh Government's Strategic Priorities and Objectives Statement.

In their 2019 (most recent) price review methodology statement Ofwat specifically mentioned two areas of compliance:

1. The Environment Agency and Natural England's water industry strategic environmental requirements (WISER) document; and
2. Natural Resources Wales's 'PR19 expectations and obligations' document.

The Compliance Team assisted colleagues on this aspect of the PR19 process and reviewed both documents in detail and listed all the statutory obligations mentioned. These obligations were then mapped against the statutory obligations already identified in the Company's Risk and Compliance Statement to reinforce the assurance that we have a full understanding of, and are meeting, our statutory obligations.

The Compliance Team liaise with colleagues throughout the business to discuss the obligations they contribute to deliver as part of our focus on continuing to embed compliance within "business as usual" processes.

A quarterly Compliance Report is received by the Board highlighting exceptions to the Company's compliance with its statutory, licence and regulatory obligations. Further detail about each of these exceptions is provided later in this Statement.

## **2. The Company has taken steps to understand and meet customer expectations.**

Our customers are at the heart of everything we do. We are constantly striving to improve the quality of the service we provide. Customer feedback helps us improve our services and achieve our Vision to 'earn the trust of our customers every day'. This is an ongoing process as we bring together and analyse data from our customer research and also our daily operations, thereby enhancing our understanding of our customers and their needs.

Over the last 12 months, we have concentrated our efforts on:

- Managing customer expectations: the introduction of the 'Track My Job' facility provides appointment reminders, updates, and live tracking of our engineers. This helps improve communication with customers and our understanding of their needs. We have also redesigned induction training for our new starters, with greater emphasis on customer journeys rather than business process, which has resulted in higher satisfaction scores for our telephony service.
- Resolution: our new 'Jeopardy Management' tool provides colleagues with an operational single customer view which helps us resolve issues much quicker, often on the first contact or visit, and making the customer aware of the next steps if this is not possible.
- Timescales: prioritising work based on the impact on the customer and responding consistently and quickly.
- Accessibility: the introduction of BS 18477 Inclusive Service Standard for our customer facing teams and establishing our mobile Community Hub, where our customer service teams base themselves in towns across Wales, making it easier for customers that are less likely to call us to get access to the help that is available.

Our customer research programme has looked at a variety of subject areas, including a monthly 'Trust Tracker' that asks for customers' views relating to a number of issues including trust, overall customer satisfaction, and perception of value for money as well as other factors such as care for the environment. After completing the initial phase of customer priorities research to inform the PR24 business plan in 2021-22, we've commissioned further research to understand the long term customer priorities and test the pace and ambition of our plans.

We have also:

- Consulted with customers (and other stakeholders) on key business documents published this year, including our latest Water Resources Management Plan and our first ever Wastewater Resources Management Plan. We now have an established group of 30 customers who take part

in our quarterly longitudinal panel where we can track customer views with an informed group of customers.

- Attended flagship national events in Wales (Royal Welsh Show in July) and National Eisteddfod (in August) where we discussed the importance of water efficiency and promoted the availability of our Welsh language service provision.
- Completed a number of projects to support the operational business, such as a review of customer perceptions of the Temporary Use Ban (introduced in Pembrokeshire last summer) and the freeze-thaw that impacted our drinking water services to Ceredigion and parts of Carmarthenshire in December 2022. This will help inform how we manage future incidents and how we also communicate with customers.
- Hosted our first 'Your Water, Your Say' public event to allow customers and other stakeholders to pose questions about issues that are important to them, including priorities for the future as we develop our business plan for 2025-30.

Our recent review of Welsh Water 2050 identified a number of future trends that are likely to have the most significant impact on service provision over the long term. Customer expectations are likely to continue to change with an increasing desire for a more personalised service and control over their use of services and less tolerance of service outages. We expect our customers as a whole will increasingly be concerned about our environmental performance.

Another key long-term trend we recognise is that our customers' expectations are driven by the best service that they experience regardless of sector. We need to respond in terms of customer service as rapid innovation occurs in other retail and service sectors. Over the past 12 months, we've made good progress delivering the agenda set out in our Innovation Strategy which we refreshed and published in 2022 with links to over 100 academic and other institutions, technology specialists, and global innovation concerns. Our refreshed strategy confirms the original driver of developing and progressing new technologies to improve customer service, create efficiencies and reduce resource use, carbon, and costs is still very much fit for purpose. Our specific areas of focus are the development of our digital services, including establishing a mobile app, and introducing new and more flexible payment technologies.

## **Welsh Water 2050**

Five years ago, we launched our Welsh Water 2050 document with a mission statement 'to become a truly world class, resilient and sustainable water service for the benefit of future generations'. We committed to review Welsh Water 2050 every five years with the aim to ensure that our long-term strategy is optimised given the latest view of the world, as it is now and as we expect it to be in the future, taking into account the latest evidence.

In March 2022 we consulted with our Members and published our Review which began the process of developing our plans for the next Ofwat price review, PR24. This will determine our investment objectives and the level of bills for 2025-30. We will submit our business plan proposals to Ofwat in October 2023. Between now and then, we will be working closely with stakeholders to further define the vision for water in our supply area, and the long-term outcomes that we, working together, wish to achieve for customers and for the environment.

Given that we will not be able to do everything at once, we will set out a long-term plan with the key expenditure required in each five-year period, resulting in an optimised and efficient plan for 2025-30. In all this we, will take into account customer views and priorities, paying particular attention to questions of affordability and the needs of vulnerable customers.

## **Independent Challenge Group**

The Independent Challenge Group (ICG) comprises customer and environment advocates from a broad variety of backgrounds. It meets regularly to review and comment on customer research, strategy, policy and initiatives. The customer voice is represented through the ICG and the Chair of the ICG attended the PR24 Customer Insight item on the Board's Strategy Day agenda in November 2022.

## **The Wellbeing of our Customers and our Communities**

The nature of the services we provide, and our clear purpose to support our communities and the environment, as set out in our Articles of Association since 2019, means that Environmental, Social and Governance (ESG) issues are at the heart of what we do.

In 2020 we launched our Wellbeing Commitments (see our Annual Report and Accounts for 2022-23 available at [www.dwrcymru.com](http://www.dwrcymru.com)) which after agreement with our ICG have been amalgamated into our ESG Strategy and underlying key performance indicators. The ICG reviews performance against these metrics and provides an annual report to the ESG Committee.

Over the past 12 months, we've continued to build on the success of earlier rounds of Water Resilient Communities Project activities in south Wales (Maerdy and Rhymney) and north Wales (Rhyl) and we've now moved to the western area of Newport city. An important part of the Project's success involves developing a deeper understanding of the challenges facing customers and communities, as well as exploring opportunities to collaborate with partners as we look to increase the impact of our activities the area. We've now connected with 30 groups and organisations active within the area.

To help address a lack of employment opportunities for autistic people, the Company launched Safe Shred Wales, an accredited document shredding service which provides training and employment, improving social and economic wellbeing. Funds were used to buy equipment to provide more opportunities for autistic people.

### **Vulnerable Customers**

We expect recent demographic trends to continue until 2050, including an ageing population. This underlines the importance of our vulnerable customer strategy. Welsh Water 2050 explains how we're responding to this challenge, working effectively with partners and other service providers to give appropriate and effective support to customers in vulnerable circumstances.

Our Specialist Support Team brings together our affordability support with Priority Services, which ensures that those customers who are in need receive assistance with all aspects of our service. This team of specialist advisors is trained to deal with the most complex situations facing our customers and ensure that they get all the support we can provide. A new development this year was to establish our mobile Community Hub, where members of our Specialist Support Team visited towns across Wales to talk to customers about our social tariffs and help those who are in debt or worried about their finances. We are now supporting more than 145,000 households with one of our financial assistance schemes which, proportionate to our company size, is more than most companies in the sector (in 2021-22 we were providing the highest level of support, but industry data for 2022-23 is not available at the time of writing) and have announced plans to support a further 40,000 households over the coming year. We also help over 144,000 customers through our Priority Services Register.

### **Business Customers**

We have dedicated teams that support all our business customers, large and small. This includes around 110 customers who are participants in the competitive retail services for water (for water companies based wholly or mainly in Wales, only customers who use more than 50Ml per year at a single site can choose their water retailer). There are, therefore, around 110,000 business customers for whom we remain the monopoly provider. We provide a tailored service to those business customers who request our expert knowledge and support to ensure we meet their expectations and help them manage their water and wastewater processes. We also offer business customers a range of additional services that complement our core service provision, such as leak detection and network optimisation, and we offer advice on issues such as water quality and cold weather preparations. Over each of the last four years we have achieved an excellent business customer satisfaction rating of 88% in our independently run random customer surveys. We also achieved the highest level of business customer satisfaction in the Consumer Council for Water 'Testing the Waters' survey conducted in 2022 and reported in 2023.

### **Developer Services**

One of Dŵr Cymru's key priorities is to provide the essential water and wastewater infrastructure and services to support and promote economic growth and development across our supply area. Our dedicated expert team supports our developer customers, whether concerned with providing new housing, commercial or industrial premises. The customer service experience of our developer services customers is measured by D-MeX, a mechanism introduced by Ofwat in 2020-21. We were rated 13th in the sector for D-MeX in 2022-23 (2021-22: 12th) and although we recognise that some of our developer customer responses are impacted by additional regulation affecting these customers operating in Wales, we remain keen to further improve our D-MeX rating. The team also supports the many major infrastructure projects



being undertaken in our area, such as those relating to new highways and rail, that typically require investments in water and wastewater infrastructure totalling around £50 million in committed works on a rolling annual basis.

### **3. We have satisfied ourselves that we have sufficient processes and internal systems of control fully to meet our Obligations.**

The Board has overall responsibility for setting the risk appetite of the business and ensuring the adequacy and efficacy of the Group's system of internal control and risk management. The Audit Committee reviews the integrity, adequacy, and effectiveness of the Group's system of internal control and risk management and related compliance activities on behalf of the Board.

The system of internal control is designed to ensure compliance with our obligations and manage the risk of failure to achieve business objectives. The operational policies and procedures which set out these controls are housed in the Integrated Management System or similar repositories and achieve international quality standards for Asset Management, Competence Management, Environmental Management, Laboratory Testing and Calibration, Occupational Health and Safety, Quality Management, and Vulnerable Customers. Our three lines of defence work together to provide confidence to the Board and its Committees, senior management, and our stakeholders over the adequacy of the design and operation of the controls.

During the year the Audit Committee has:

- maintained oversight of the operation of the Company's systems of internal controls and assurance of regulatory reporting;
- received reports from the Head of Internal audit on the outcomes of internal audits, special investigations, and whistleblower investigations;
- critically reviewed the responses from management on internal audit investigations and closely monitored the status of overdue management actions;
- reviewed whistleblowing and special investigation incidents during private meetings held immediately after each Committee meeting. The Committee received and discussed an 'annual thematic view' of whistleblowing and special investigation activity which reviewed insights from 36 reviews covering the period 1 April 2020 to 31 October 2022;
- monitored the effectiveness of the internal audit function using a variety of inputs including the Committee's review of the audit reports produced, the Committee's interaction with the Head of Internal Audit, and updates at each meeting on progress against the internal audit plan;
- reviewed Business Systems and Quality Audit Plans, which cover largely compliance activity in the operational water and waste businesses prior to being presented to the Quality and Safety Committee for approval;
- reviewed the Internal Audit Charter which sets out the scope of work for the internal audit function and confirms its independence; and
- received proposals for embedding risk appetite within the Enterprise Risk Management Framework.

In considering the development of the system of controls, the management team reviews the materiality and the relative cost benefit associated with each identified significant risk. The internal control systems are designed to provide reasonable assurance against misstatements, loss, or failure. The process to review the effectiveness of internal control includes discussion with management on significant risk issues and a review of plans for, and results from, internal and external audit.

On behalf of the Board, the Quality and Safety Committee monitors the operational performance of the Company on a quarterly basis and provides oversight of the management and mitigation of risks to the business arising from operational, environmental and health and safety related issues. This Committee also reviews the Company's operational systems and quality assurance audit programme and receives the findings of audit reports relating to water and wastewater service provision.

The Audit Committee reports the results of its review of regulatory reporting to the Board which then draws its collective conclusion on the effectiveness of the system of internal controls. In fulfilling this responsibility, the Board considers regular reports from the Audit Committee, the Quality and Safety Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of

financial and operational performance. The Board receives independent assurance from internal audit, and where relevant, external specialist consultants, and also from Dŵr Cymru's technical advisor on regulatory reporting issues (Jacobs Engineering Group).

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year.

Our culture is also a cornerstone of the internal control framework and is based on shared values and beliefs. It helps shape the way we conduct our everyday business and ensures we strive to 'do the right thing'. Because of its importance, company culture is sometimes described as a layer of control against inaccurate information, even preceding the first line of defence. Maintaining a positive culture is important to us because other controls might be occasional or periodic, but culture is ongoing and permanent.

The culture of our Company is defined by the values we adopt and the knowledge, skills, and attitudes of our employees. We have made it our Vision to earn the trust of our customers every day. It is vitally important that we act responsibly as individuals and as a company at all times - not only when we are required to do so by law, but also generally, in our working lives.

Through direct engagement with employees within employee engagement sessions, informal meetings with managers and by conducting operational site visits, the Board is able to see and experience first hand how our culture and values are applied across the business. Maintaining an effective culture within Welsh Water is a key component to support the delivery of our strategies and the Board's decision making to promote the long-term success of the Company.

#### **4. We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.**

During the second half of 2021-22 the Board approved an enhanced Enterprise Risk Management (ERM) Framework and after that year end appointed a Chief Risk Officer to manage its development. The ERM process describes how risks are identified, evaluated, mitigated, monitored, and governed across Dŵr Cymru. The Board continues to monitor its impact on the Company's risk management and reporting.

The Glas Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound Risk Management Framework which includes risk identification, assessment, mitigation, and monitoring throughout Dŵr Cymru at an asset, project, function, and strategic level. It is also responsible for ensuring that Group policies which address specific risk areas are aligned to the Group's risk appetite and clearly inform the business as to how it should conduct its activities to remain within risk appetite.

Dŵr Cymru operates the Three Lines of Defence model. Under this model:

##### First Line

Operational management has ownership, responsibility, and accountability for directly assessing, managing, and mitigating risks.

##### Second Line

Specialist control functions and internal governance bodies provide the frameworks for, and monitor and support, effective risk management by the first line. They also ensure the flow of information on risk up and down the organisation, including risk escalation protocols.

##### Third Line

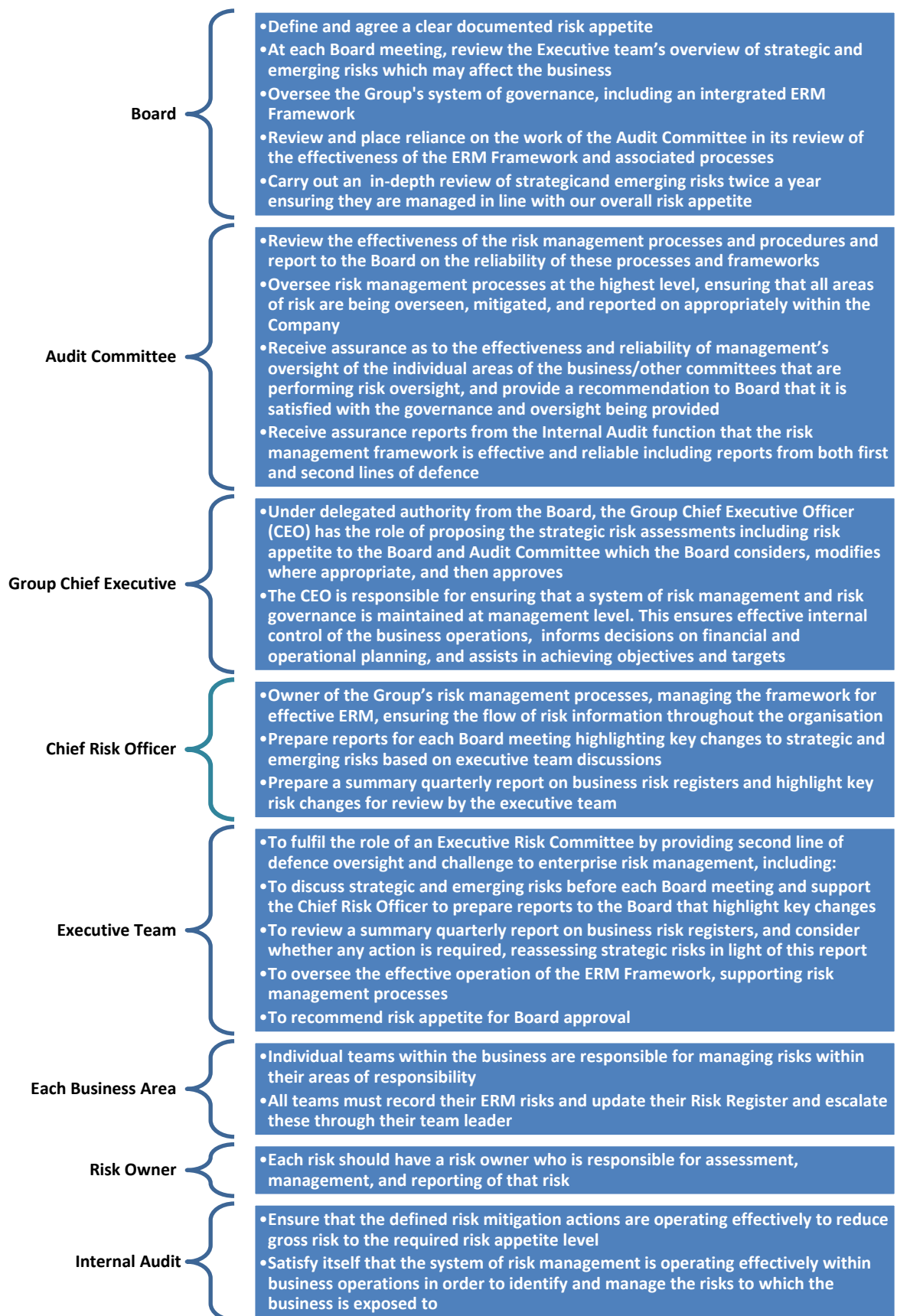
Independent assurance over the adequacy of design, effectiveness of operation and sustainability of the systems of internal control.

The Board and Audit Committee sit outside the Three Lines of Defence and receive reports and assurance from the three lines.

It is the responsibility of every colleague to identify the risks associated with their own area of operation and robustly to operate/comply with any controls designed to mitigate those risks. Risks which cannot be managed at an individual level should be escalated. Each risk has a risk owner who is accountable. The risk management framework supports Dŵr Cymru's commitment to earn the trust of our customers every

day through delivering excellent customer service. The effectiveness of risk management depends on this integration in the governance and decision-making of the organisation.

Risk management is integrated into organisational activities and governance, with responsibilities and accountabilities assigned at appropriate levels within Dŵr Cymru.



## **DISCLOSURE OF DEPARTURES FROM THE STATEMENT OF COMPLIANCE WITH OUR OBLIGATIONS**

Our Vision is to earn the trust of our customers every day. Strong governance and leadership, with the correct focus on customers at the heart of everything we do, together with properly transparent reporting, can play an important part in helping us achieve this Vision.

The Board notes that the following specific matters have been identified. In all instances of potential non-compliance, a thorough review was undertaken to identify the root cause and to obtain assurance that there were no significant risks to future compliance with the particular obligation. Further details on our performance can be found in our Annual Performance Report for 2022-23 available at [www.dwrcymru.com](http://www.dwrcymru.com)

### **Environmental Permitting Regulations 2016**

- On 18 January 2021 we made an Enforcement Undertaking offer to the Environment Agency in respect of four breaches of the Environmental Permitting Regulations 2016 at Ross-on-Wye, Leominster, and Eign. As part of the terms of the Enforcement Undertaking put forward, and in addition to the mitigation already undertaken at both sites, Dŵr Cymru proposed a payment of £50,000 to the Wye and Usk Foundation to support the Courtaulds 2025 Water Ambition Initiative, developed and supported by the Waste & Resources Action Programme (WRAP) and UK Governments. This was accepted by the Environment Agency on 7 December 2022 and the monies were paid on 13 January 2023.
- During 2022-23 we have received correspondence from Natural Resources Wales requiring responses to questions raised under caution in response to alleged pollution incidents at the following sites:
  - Crundale SPS (Pollution into the Cartlett Brook).
  - Kingstone, Madely, Clehonger WWTWs (Look Up Table exceedances for final effluent quality).
  - Cadoxton River, Dinas Powys (discharge from a sewer main).
  - St Clears SPS (3 discharges into Afon Cynin).
  - Longwood Grange, Nant Glandulas (pumping from an excavation on a housing development).
  - Trebanos WWTW (Pollution into local stream).
- The number of pollution incidents for 2022 was 134 (89 from wastewater assets and 45 from water assets).

In relation to the pollutions from our assets, during 2022, five serious incidents occurred, all of which related to wastewater assets and were classified as High – Significant (Category 2) incidents. Three of these incidents occurred during the summer drought period and were caused by: a blockage of rags; a blockage of rags and fats; and an emergency overflow spilling as a result of pump failure exacerbated by third party trade discharge. The other two were caused by a storm tank spilling after a period of heavy rain, and a new housing estate being connected in error to a previously abandoned sewer.

All serious incidents are followed up by a Serious Incident Review which is Director-led and provides detailed reports on the identified root cause(s), any wider implications of the incident and the action plans to address any ongoing issues. The conclusions of the review are then presented to the Quality and Safety Committee of the Board. The purpose of the incident review is to gather information that in turn may reduce the potential for future incidents. During the reviews the incident is analysed and lessons learnt disseminated, with recommendations, information and process changes instigated. We are continuing to invest in new technology to reduce this risk of serious pollution incidents from burst rising mains. Pressure monitoring and analysis of this data provides early warnings of bursts that would previously have taken time to identify, reducing the volume and duration of any escape of sewage.

Our Pollution Reduction Strategy provides a sustainable approach to long term pollution performance improvement. Based around the themes of Assets, People and Communication, and Data and Technology, the objectives included in the Strategy drive a planned approach to achieving zero serious pollution incidents. We continue to participate in the Environment Agency's Joint Workshop On (Pollution) Incidents, to ensure that we are implementing national industry best practices to improve understanding of asset bases in order to drive future improvements in pollution performance.

Discharges of dechlorinated water from water treatment works – known as “run to waste” incidents, are classified by Natural Resources Wales as pollution incidents, even though we consider there is a statutory provision allowing such discharges and that in most cases there is no discernible impact on the environment. We are currently engaged in correspondence with Natural Resources Wales as to whether “run to waste” incidents from water treatment works which do not have permits to discharge

should continue to be classified as pollution incidents. We are working towards setting out key principles which could form the basis for Natural Resources Wales to develop its policy in this area to be more consistent with the approach taken by the Environment Agency.

## **Treating Wastewater**

The Urban Waste Water Treatment Regulations and the Environmental Permitting Regulations set standards for sewage treatment. For each of our wastewater and water treatment works there is a permit which regulates the quality of wastewater we are allowed to discharge into rivers and coastal waters.

During the 2022 calendar year we achieved 98.50% compliance with nine non compliant works out of the 602 permitted treatment works. These related to six wastewater treatment works and three water treatment works.

The 2022 calendar year was Dŵr Cymru's third best performance to date for treatment works compliance and continues the overall upward trend for compliance seen over the last few AMPs. The Company is committed to making further progress towards the 100% goal and will achieve this through new and ongoing strategies that focus on key areas such as People Competency, Solids Management and Equipment Reliability.

Additionally, greater focus than ever is being given to ensure Potable Water discharges remain compliant. Potable Water have now adopted similar practices to the Wastewater side of the business when it comes to monitoring of discharges. During 2023 more collaboration particularly in data and reporting will occur improving the capability to identify emerging water treatment works discharge issues.

## **Flow Compliance**

In November 2021, Ofwat wrote to us requesting information about Pass Forward Flow compliance and our previous disclosures of non-compliances. We provided detailed responses to all of Ofwat's requests for information in December 2021. In March 2022, Ofwat announced it had opened enforcement cases in respect of five other companies, and a sixth company was then added at the end of June, however in common with all Water and Wastewater companies, we understand that Ofwat's investigation is ongoing as it reviews the information submitted.

In November 2021 we also received a request from the Environment Agency for data related to Pass Forward Flow compliance in respect of certain of our Wastewater Treatment Works in England. We responded to this. A small number of further English sites have been recently added to this data request. The Environment Agency indicated that this industry wide investigation would likely take two years to complete. In April 2023, we responded to a further request from the Environment Agency for supplementary information.

## **Combined Storm Overflows (CSOs)**

We operate a network of Combined Storm Overflows (CSOs) that were originally designed to protect properties by diverting storm water (rain water mixed with effluent) away from them when the capacity of these combined sewers is beaten, discharging instead into water courses and relying on dispersal to minimise impact on the environment. We are preparing to publish our first Drainage and Wastewater Management Plan, which will set out our proposals for future investment prioritised according to environmental evidence on the impact of our wastewater operations, so that we can plan for improvement and agree with customers, investors and regulators the priorities and pace at which this will take place. We have over 2,300 of these CSOs in our operating area and with Event and Duration Monitors (EDMs) at 99% of these we have been leading the industry with data that we voluntarily publish on their performance. With the West of the UK being the area that receives the most rainfall, some of these operate more frequently than the majority in the UK. However, given the low population density, the higher rainfall, the greater dilution in our rivers, the impact is lower than in some places in the UK, with more rivers in Wales meeting good ecological status than in England.

On privatisation, we inherited many CSOs that did not have the required Environmental Permit by Natural Resources Wales or the Environment Agency, and some that were permitted but were not in use. Extensive review of the asset types, existing permits and investigation have reduced the number of CSOs operating without a permit from 174 to 153. We have worked with Natural Resources Wales on a process for the

permit applications and Natural Resources Wales have issued us with a letter setting out their expectation for permit applications for all CSOs with no current permit over a 2 year timescale. However, Natural Resources Wales are now insisting we have designs for any CSO not deemed as satisfactory under guidance which will increase the investigation time by a further 18 to 24 months. In addition, whilst work is continuing on assessing the classification of the CSOs against the current guidance, Natural Resources Wales are in the process of revising this guidance and this will change all current classifications significantly. We are yet to agree the timescale programme for improvements, which will be written into the permit.

With the increased focus on CSOs and as a requirement of the Better River Quality Taskforce, we have been assessing existing CSO permit requirements for level of screening and the project is due to complete by the end of July 2023.

### **Combined Storm Overflow operation on “dry days”**

The Environment Agency wrote to us on 26 October 2021 asking for reports on the operation of overflows subject to Event Duration Monitoring relating to Combined Storm Overflows discharging on a dry day. The required information was provided on 1 November 2021. Correspondence was then received from the Environment Agency on December 2022 noting that three sites were perceived to be discharging on a dry day. Detailed reports on each of the three sites were sent to the Environment Agency in January 2023. We await a response.

### **Operator Self Monitoring Programme**

Our sampling team for both Urban Waste Water Treatment Directive and Environmental Permitting Regulations compliance reports sample outcomes to Natural Resources Wales and the Environment Agency. During 2020, the team encountered some operational difficulties, in part related to an internal reorganisation, and in part related to COVID absences, which meant that around one third of all samples related to the Environmental Permitting Regulations were rescheduled. We kept Natural Resources Wales and the Environment Agency informed of these rescheduled samples. On 10 May 2021 we received a letter from Natural Resources Wales which notified us that they were investigating a number of non-compliances with regard to samples taken during 2020. We submitted our report to Natural Resources Wales on 30 June 2021.

On 7 January 2022 Natural Resources Wales issued a letter asking questions under caution regarding the Environmental Permitting Regulations and breaches of multiple permits under the Operator Self Monitoring programme during 2020. A detailed response was sent on 21 February 2022. Natural Resources Wales has subsequently asked further questions under caution, and a response was submitted at the end of June 2022.

We submitted our compliance data return to Natural Resources Wales for the 2021 Operator Self Monitoring programme, which demonstrated far fewer issues for 2020 (around 75% reduction in the number of descriptive non compliances at water treatment works and wastewater treatment works). The Natural Resources Wales investigation into the 2020 performance is yet to be concluded.

### **Control of Pollution, Oil Storage (Wales) Regulations 2016**

Natural Resources Wales wrote to us on 14 April 2022 requesting responses to questions raised under caution in relation to a fuel leak at the Llangefni Industrial Estate pumping station. The incident/leak occurred on 3 March 2022 and was due to a failure of solenoid valves caused by a faulty float switch/probe which resulted in them remaining in an open position. This led to fuel being continually fed to the day fuel tank for the operation of the generator (internal within generator building) from the external storage tank causing the internal fuel tank to overflow within the building. This spill then continued through gaps in the generator building to a surrounding concrete compound area. The fuel storage tank was emptied and taken offline permanently which eliminated the risk of this incident occurring in the future. The event was categorised as low impact by Natural Resources Wales. We have also reviewed our arrangements for compliance at other sites.

On 14 November we made an Enforcement Undertaking offer to Natural Resources Wales proposing payments of £6,000 to each of the three bodies that are adjacent to the Afon Cefni (Cors Ddyga Nature

Reserve, Lon Las Cefni, and Nany y Pandy Nature Reserve). We await a response from Natural Resources Wales.

## **Water Quality**

Under Section 68 of the Water Industry Act 1991, water companies are under a statutory duty to supply wholesome water. Regulation 4 of the Water Supply (Water Quality) Regulations 2018 in Wales provides that water is wholesome if it contains concentrations or values in respect of various properties, elements, organisms and substances that do not contravene the prescribed maximum, and in some cases, minimum concentrations or value.

Each year we carry out sampling at water treatment works, service reservoirs, and customer taps to ensure our water meets the European and National Standards. During the 2022 calendar year we carried out 238,085 tests and found 61 had failed the required Standard (0.03%).

An investigation report is completed for each failure, and this is shared with the Drinking Water Inspectorate (DWI). Any recommendations or suggestions made by DWI are recorded in action plans with agreed timescales to enable progress to be tracked.

## **Drinking Water Safety Plans**

A continuous supply of safe clean drinking water is vital to maintain public health. Ensuring the quality of that drinking water is fundamental to the service we provide to our customers. We do this by ensuring that the risks to drinking water quality are identified and managed. A Drinking Water Safety Plan (DWSP) is the most effective way of ensuring that a water supply is safe for human consumption and that it meets the health based standards and other regulatory requirements. It is based on a comprehensive risk assessment and risk management approach to all the steps in a water supply chain from catchment to consumer.

All water quality failures trigger a review of the asset specific DWSP to enable the capture of new risks and the review of existing risk scores. If any of our DWSPs identify a potential danger to human health, we inform DWI immediately. The DWI may consequently issue a legal Notice, under Regulation 28(4) of the Water Quality (Water Supply) Regulations 2018, requiring the company to complete a programme of remedial actions.

We currently have 20 Improvement Programmes in place and the last Notice received from DWI was in March 2023. All are currently reported as 'on track' against delivery/completion dates for the associated improvement programmes. Seventeen Regulatory Notices require improvement in customer contact rates related to discolouration of water supply (customer acceptability) requiring delivery by the end of AMP7. Of the remaining three: one involves the construction of a new treated water tank (service reservoir) at Pengarnddu (completion due October 2023); one is the notice for the construction of Cwm Taf Water Treatment Works with a completion date of April 2031; and the final one is the regulatory notice issued during April 2022 for Treated Water Storage Tanks, that will be in force until March 2025. We hold quarterly meetings with DWI to discuss progress.

## **Abstracting Water**

We currently hold 151 Licences issued by the Environment Agency/Natural Resources Wales which govern how much water can be taken from reservoirs, rivers, or groundwaters. During 2022 there were eight instances of abstraction licence non-compliance. We are currently awaiting the final classification from Natural Resources Wales but have been informed that they will all be Category 3 incidents ("minor impact to the environment") or Category 4 incidents ("no potential environmental impact").

## **Leakage and Per Capita Consumption**

Welsh Water's Annual Report and Accounts published in 2022, and the Risk and Compliance Statement published in 2022, noted that the leakage and per capita consumption data was subject to an ongoing review. This review was necessary because our independent annual assurance processes identified potential issues with the application of the methodology used for calculating these measures in FY 21 and FY 22. The review concluded that these key measures have been inaccurately reported in those two financial years, with actual leakage being higher than reported during this period, and actual per capita consumption being lower than previously reported.



While our robust assurance process identified the issue, there were failures in our governance and management processes that should have identified the issue sooner. We have made changes to how we manage our leakage reduction activities and strengthened our reporting and governance processes; and we are investing an additional £54 million to identify and reduce leakage as quickly as possible. Every Dŵr Cymru customer will receive £10 automatically credited to their account due to this error, as compensation for our misreporting and its effects. On 25 May 2023 Ofwat announced it is launching an investigation into our reporting of leakage and per capita consumption. We have shared with Ofwat the findings of our internal investigations, the remedial actions we have taken and our customer redress proposals. The timing of the investigation is uncertain, but we will of course cooperate fully.

### **Industrial Emissions Directive**

Natural Resources Wales and the Environment Agency have recently enforced Industrial Emissions Directive (IED) related permitting for discharges from our six sludge treatment centres. In order to meet permit conditions, we have invested significantly in physical measures at these sites, and we have been working with NRW on the timescales for the issuing of these permits. We met the Environmental Agency to discuss a permit for Eign and compliance expected by end of 2024. Cog Moors, Cardiff, Afan and Five Fords IED permits are in place, and we are compliant with conditions. We have responded to requests for interviews under caution from Natural Resources Wales in relation to alleged ongoing non-compliance at Queensferry. Cardiff already had an IED permit for combustion, and we have complied with an improvement notice to improve in other areas such as containment. These capital improvements have been completed and inspected by the Natural Resources Wales and we are awaiting formal sign off.

### **General Data Protection Regulation**

We continue to monitor our programme of compliance across the business. We have significant numbers of interactions with our customers, and we have experienced a number of technical breaches of our data protection policies. Out of the breaches notified internally during 2022-23, we have not deemed any to be serious and therefore notifiable to the Information Commissioner's Office (ICO). In each case of a reported suspected breach, we ensure that any lessons learnt are taken into account, that the individual's training on data protection is up to date, and that the specific circumstances which led to the breach or "near miss" have been addressed with their manager. As regards a small number of customer complaints to the ICO about how we have handled their personal data, we have cooperated fully with the ICO, and where necessary amended our practices and/or updated our policies (including our Privacy Policy) to increase transparency.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR REGULATORY INFORMATION**

The following confirmations from our Directors are provided to comply with the requirements of Condition F of our Licence, which requires that accounting statements are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat and Condition P (Ring Fencing). In particular, Regulatory Accounting Guideline 3.14 issued in March 2023 requires the following Statements to be made by our Directors:

- Statement on executive pay and performance.
- Statement on disclosure of information to auditors.
- Statement on Dividend Policy for the appointed business.
- Statement on sufficiency of resources and systems (Ring-fencing Certificate).
- Statement on Long Term Viability.

### **Statement on Executive Pay and Performance**

The Company is required under s35A of the Water Industry Act 1991 to provide a Statement that the remuneration paid to Executive Directors is linked to standards of performance. This Statement is provided within the Report from the Chair of the Remuneration Committee which can be found in our Annual Performance Report for 2022-23 available at [www.dwrcymru.com](http://www.dwrcymru.com).

### **Statement on disclosure of information to auditors**

In the case of each of the persons who are Directors at the time when the Annual Performance Report is approved under Section 418 of the Companies Act 2006 the following applies:

- a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

This Statement can be found in our Annual Performance Report for 2022-23 available at [www.dwrcymru.com](http://www.dwrcymru.com).

### **Statement on Dividend Policy for the appointed business**

Licence Condition P29 and Section 3.13 of Regulatory Accounting Guideline 3.14 requires companies to report on the value of any dividend paid and provide a comprehensive explanation of the basis of the dividend.

Dŵr Cymru's ultimate parent undertaking is Glas Cymru Holdings Cyfyngedig, a company formed with the single purpose to manage Dŵr Cymru. As a company limited by guarantee, and having no shareholders, all financial surpluses are retained for the benefit of customers. The reserves built up from retained profits help to insulate Dŵr Cymru and its customers from any unexpected costs and also to improve credit quality to keep the cost of finance as low as possible.

Our 2016 Dividend Policy was revised and approved by the Board in February 2022 and Ofwat confirmed in April 2022 that the Dividend Policy is consistent with the requirements stated in Condition P29. No monies are transferred out of the Glas Cymru group of companies under this Policy and all financial surpluses are retained for the benefit of customers. Our Dividend Policy expressly provides that dividends will not be paid unless the Directors are satisfied that this would not impair Dŵr Cymru's ability to finance its regulatory activities. The Dividend Policy permits up to £100 million of funds to be paid intra-Group, outside the regulatory ring-fence, in order to enable the funding of commercial projects.

During the year to 31 March 2023 no dividends were paid or received by the Company.

This Statement can be found in our Annual Report and Accounts for 2022-23 and in our Annual Performance Report for 2022-23 which are available at [www.dwrcymru.com](http://www.dwrcymru.com).

## **Statement on sufficiency of resources and facilities (Ring-fencing Certificate)**

Information Notice 20/01 published by Ofwat in February 2020 sets out guidance for water and wastewater companies in England and Wales in preparing their Ring-fencing Certificate. The regulatory ring-fencing framework provides an important protection for companies and their customers. The Directors have resolved that a Certificate required under Condition P30 of our Licence and prepared in accordance with the latest guidance be issued to Ofwat confirming that in the opinion of the Directors the Company will have available to it sufficient:

- financial resources;
- management resources; and
- non-financial resources,

to enable it to carry out the Regulated Activities, for at least the next twelve month period.

In providing this Certificate, the Directors have also made a statement of the main factors that have led to the conclusion that resources are sufficient. This can be found at Appendix 1 of the Ring-fencing Certificate.

A copy of the Directors' Certificate together with the supporting main factors can be found in our 2022-23 Annual Performance Report available at [www.dwrcymru.com](http://www.dwrcymru.com).

This Directors' Certificate also confirms that in the opinion of the Directors all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to the Company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

Section P35 of Licence Condition P requires our independent auditors to produce a report that sets out whether they are aware of any inconsistencies between the Ring-fencing Certificate and either the accounting statements or any information which the Auditors obtained in the course of their work as the Company's Auditors and, if so, what they are.

A copy of the auditor's report can be found in our 2022-23 Annual Performance Report available at [www.dwrcymru.com](http://www.dwrcymru.com).

Under Section 14 of Condition P of the Licence, the Company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the Financial Statements for the year ended 31 March 2023 have been prepared on a going concern basis. The Directors also confirm this as part of the Ring-fencing Certificate.

## **Long-Term Viability Statement**

Our customers need to know they can rely on the services we provide over the long term. Ensuring the long-term resilience of our business, including financial resilience, is therefore a key area of focus for us. The Board's consideration of the Group's long-term viability is embedded in our business planning process. This includes robust risk management controls, financial forecasting and sensitivity analysis, as well as regular budget reviews. Risks are identified and assessed through a continuous cycle of bottom-up reporting and review and top down feedback and horizon scanning. The Board has analysed the efficacy and robustness of its internal control framework in managing the likely causes and consequences of each risk. We have stress-tested our business plan forecasts to 2030 against a variety of financial scenarios.

Ofwat expects companies to confirm that they are financially viable over the longer term. Our approach to doing this complies fully with Ofwat's latest guidance contained within Information Notice 19/07 published in April 2019 as well as Provision 31 of the UK Corporate Governance Code.

As a result of their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030. The Long-Term Viability Statement is provided at pages 100 - 104 of our Annual Report and Accounts for 2022-23 which is available at [www.dwrcymru.com](http://www.dwrcymru.com).

## **Licence Condition P26 – Maintaining an Investment Grade Rating**

The Directors confirm that throughout 2022-23 the Company, or an Associated Company as issuer of debt on its behalf, has ensured that it has maintained at all times an issuer credit rating which is an Investment Grade Rating. We have successfully retained our credit ratings at A3, A- and A from credit-rating agencies, Moody's, S&P and Fitch respectively. These continue to be among the best in the UK utility sector.

## **Licence Condition P19 – Trading with Associate Companies at Arm's Length**




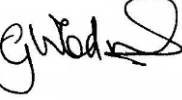


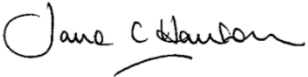
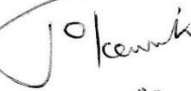
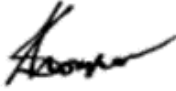

We have an Obligation to ensure that every transaction between the Appointed Business and any Associated Company is at arm's length so neither gives to nor receives from the other any cross-subsidy. There were no transactions with any associated companies except for:

- the Executive Directors of Dŵr Cymru Cyfyngedig (DCC) are also directors of other companies within the Glas Cymru Group. However, the emoluments of the Directors are paid in full by Dŵr Cymru Cyfyngedig as their activities are predominantly related to the regulated water and sewerage business. During the year the Directors' emoluments amounted to £1,695,000 (2022: £1,683,000) (including pensions accruals);
- no dividends were paid or received by the Company during the year (2022: none);
- intercompany interest payable to Dŵr Cymru (Financing) UK plc ("DCF"), another member of the Glas Cymru Holdings Cyfyngedig group, was £223,724,205 during the year (2022: £128,361,000). As at 31 March 2023 the balance outstanding on the intercompany loan from DCF stood at £3,226,711,324 (2022: £3,085,276,653);
- all borrowings raised by DCF are immediately on-lent to the company on an arm's length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%;
- an intercompany loan to Glas Cymru Anghyfyngedig of £1,971,000 (2022: £1,971,000) remains outstanding as at 31 March 2023. Interest payable on this loan has been waived; and
- as at 31 March 2023 intercompany trading balances owing to the Company were: Welsh Water Infrastructure Limited £3,560 (2022: £13,350), Welsh Water Organic Energy (Cardiff) Limited £2,098,786 (2022: £1,153,352), Cambrian Limited £25,419 (2022: £20,239), Glas Cymru Anghyfyngedig £8,481 (2022: £8,481), Glas Cymru Holdings Limited £74,290 (2022: £18,901), and Welsh Water Organic Waste Limited £480,661 (2022: £55,131).

## **Licence Condition K – Land Sales**

In Section 3.45 of Regulatory Accounting Guideline 3.14 Ofwat introduced a new requirement for companies to include a statement alongside table 2L of the Annual Performance Report to confirm the number of disposals of protected land and to confirm how many of these were above the financial threshold for reporting such disposals to Ofwat. A copy of this statement can be found in our 2022-23 Annual Performance Report available at [www.dwrcymru.com](http://www.dwrcymru.com).

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Graham Edwards Senior Independent Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Non-Executive Director
 Lila Thompson Non-Executive Director	 Barbara Moorhouse Non-Executive Director

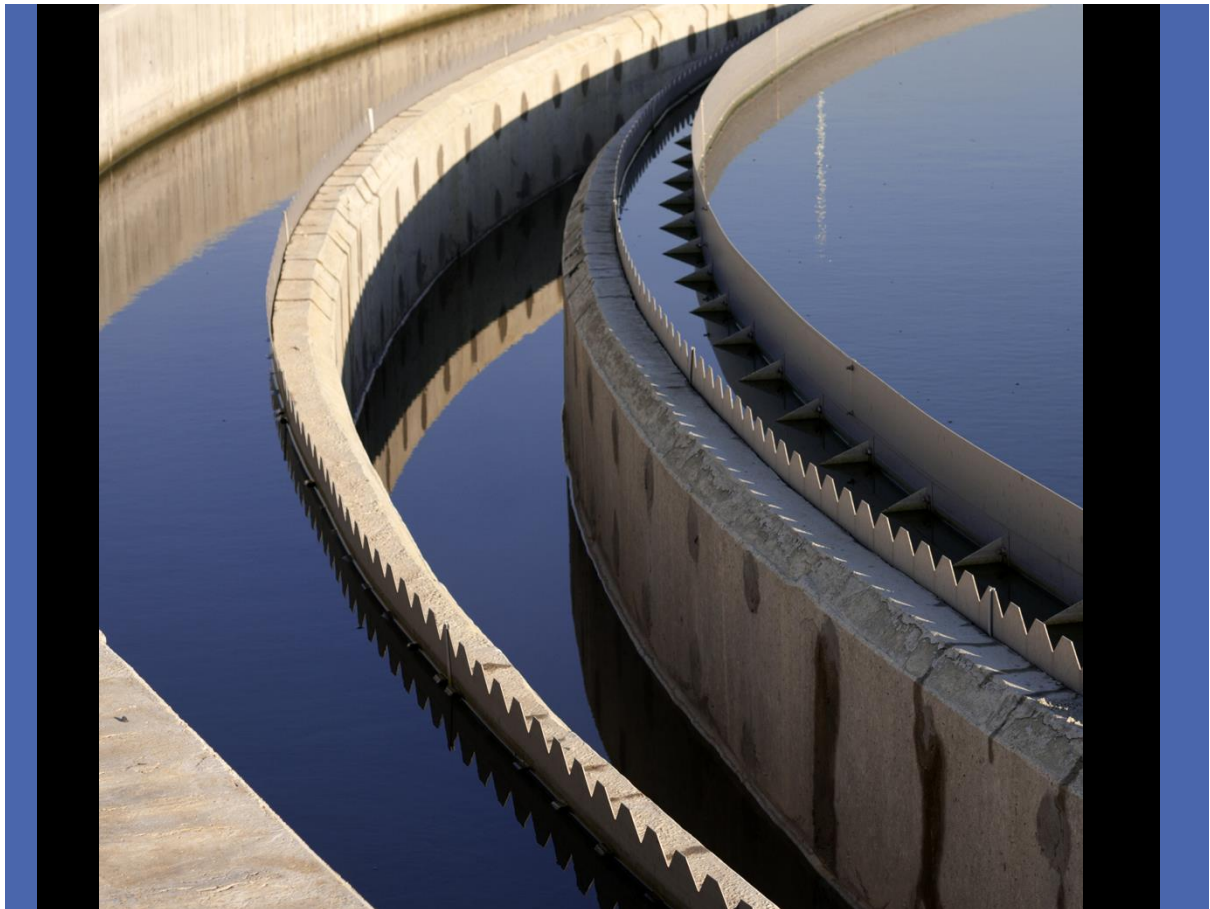
6 July 2023

## APR23 Risk and Compliance Assurance Letter

Revision no: 0.2

Dŵr Cymru Welsh Water

Non-financial Assurance Services Framework  
30 June 2023



## APR23 Risk and Compliance Assurance Letter

**Client name:** Dŵr Cymru Welsh Water  
**Project name:** Non-financial Assurance Services Framework  
**Client reference:** **Project no:** B2271302  
**Document no:** **Project manager:** Jose Colino  
**Revision no:** 0.2 **Prepared by:** Steve Ballantine  
**Date:** 30 June 2023 **File name:** APR23 Risk and Compliance Assurance Letter  
**Doc status:** Final

## Document history and status

Revision	Date	Description	Author	Checked	Reviewed	Approved
0.1	08/06/2023	Draft for client comment	SGB	JL	AM	
0.2	30/06/2023	Final issue	SGB	JL	AM	JC

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30 June 2023

Attn: The Board, Dŵr Cymru Welsh Water

Project name: Non-financial Assurance Services Framework  
Project no: B2271302

**Subject: APR 2022-23 Risk and Compliance Statement non-financial assurance**

## Overview

This letter provides an overview of our assurance activity relevant to your Risk and Compliance Statement to be submitted as part of the Annual Performance Report (APR) for 2022/23.

We have provided separate assurance letters for Part 3 of the APR, Parts 4 to 11 of the APR, and for the Bioresources Market Information Return.

## Scope of our assurance

As part of our assurance activities for your Annual Performance Report (APR) 2023 you asked us to review the processes that support the declarations in the annual risk and compliance statement that you intend to submit with your APR23. Our assurance is designed to support your own first and second line assurance activity.

## Our scope and assurance approach

Our review focused on the approach and processes you follow to assess your compliance with your obligations. You interpret the scope of the risk and compliance statement to be those obligations for which Ofwat is the relevant enforcement authority. This is consistent with your approach in prior years. We are aware that you have processes to manage compliance with other obligations and duties, but that they are not explicitly covered as part of your risk and compliance statement (e.g. compliance with health and safety legislation and requirements).

We held a meeting on 25/05/2023 with Paul Marsh and Debi Parfitt from your Compliance Team. The meeting was held remotely using MS Teams. Your team had provided some information prior to the audit and we reviewed further documentation off-line following the meeting. Our work entailed a review of the approach taken to prepare the risk and compliance statement. We inspected a sample of the compliance proforma and other evidence that demonstrated completion and sign-off of the various tasks. We also reviewed at a high level your approach to risk management.

We did not review the processes used to assess compliance directly with any owners or nominated individuals associated with each obligation. However, we note that as part of our assurance of the information you are submitting in your Annual Performance Report (APR) and your annual scheme of charges, we have directly examined a number of the processes and controls you have in place to support your obligations in relation to reporting information and compliance with specific licence obligations.

## Findings

Our main observations are as follows:

- The process is largely unchanged from last year and through our work assuring your APR and annual scheme of charges and submissions in 2022-23, we have continued to see evidence of appropriate systems and controls;



## APR23 Risk and Compliance Assurance Letter

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- At the time of the audit all proforma had been signed off by the owners but some had yet to be signed off by the responsible Executive Team member. We reviewed a sample of the compliance proforma and identified no material issues;
- We note that over the past year the Compliance Team has not undertaken any independent reviews to confirm the obligation owner's view of the compliance risk. This is the second year we have noted this and we consider this to be a significant shortcoming in your approach;
- You have documented the approach to preparing the Risk and Compliance Statement as a formal procedure and loaded it into the Integrated Management System. We note that we have not reviewed this document;
- You confirmed and we saw evidence that your strategy for the preparation of the 2023 risk and compliance statement was approved by the Executive Team;
- The level of detail included in your disclosures of potential non-compliance with your obligations helps customers and other stakeholders clearly understand the context of the issues disclosed and provides transparency on your plans to address these areas.

## Recommendations

We recommend that the Compliance Team introduce a prioritised programme of independent reviews of compliance risk for individual obligations in order to confirm the obligation owners' assessments. We made the same recommendation in 2022 following the additional control you introduced in 2021 in the form of a review of one of the obligation owner's view of the compliance risk. We consider that the ongoing lack of independent confirmation of the obligation owner's assessment of compliance represents an increasing risk.

## Assurance Statement

We consider that:

- you have a full understanding of the Company's relevant obligations (as you have interpreted the scope required for this exercise); and
- you have appropriate systems and processes in place to run your business and identify and manage risks in a way that meets the relevant obligations (as you have interpreted the scope of these).

Yours sincerely,



Alexandra Martin  
Director of Operations

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alexandra.martin@jacobs.com

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Your ref

Our ref **jl/**

10 July 2023

Dear Directors

**Report of KPMG LLP to Dwr Cymru Cyfyngedig ('the Company') and the Water Services Regulation Authority ('the WRSA') under Licence Condition P**

In accordance with the terms of our engagement letter dated 16 June 2023, we have examined the Company directors' certificate - Condition P dated 6 July 2023 (the "Certificate") which is attached to this report and initialled for identification purposes, in conjunction with the completion of our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2023.

**Respective duties of directors and auditors**

The directors of the Company have sole responsibility for the preparation of the Director's Certificate – Condition P in accordance with Section 35 of the Licence. The Certificate is presented as set out in the instrument of appointment by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Act 1989.

As specified in our engagement letter dated 16 June 2023, it is our responsibility to examine the Certificate and report to you whether we are aware of any inconsistencies between that Certificate and the Regulatory Accounting Statements within the Company's Regulatory Accounts and any information which we obtained in the course of our work as the Company's Auditors.

For the avoidance of doubt, our audit of the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2023 was and is not directed towards meeting the requirements of the Company or the directors under the terms of Condition P35. We have not carried out and will not carry out specific procedures designed to verify the substance of the matters certified by the directors of



the Company. Our sole responsibility is to examine the Certificate for consistency with our knowledge of the Company's financial affairs gained in the course of our normal audit work. Furthermore, we have not carried out any audit procedures on the Company since 10 July 2023, the date of our audit opinion on the Regulatory Accounting Statements within the Company's Regulatory Accounts of the Company for the year ended 31 March 2023.

This report is made solely to the Company as a body and the WRSRA in accordance with the Regulatory Accounting Guidelines and other relevant material issued by the WRSRA and the terms of our engagement with the Company. Our examination has been undertaken so that we might state to the Company and the WRSRA those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company as a body, and the WRSRA, for our report, or for the opinions we have formed. We will accept such responsibility to the WRSRA on condition that the WRSRA agrees in writing to the WRSRA's Contract by signing the WRSRA's Contract. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

### **Basis of our findings**

Our work consisted of an examination of the Certificate signed by the Directors, to determine whether there were any inconsistencies with our findings arising from the audit of the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our work as the Company's Auditors.

### **Findings**

Nothing has come to our attention during the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report for the year ended 31 March 2023 that would indicate any inconsistencies, in all material respects, between the Certificate and the Regulatory Accounting Statements within the Company's Annual Performance Report and any information which we obtained in the course of our audit work on the Regulatory Accounting Statements within the Company's Annual Performance Report of the Company for the year ended 31 March 2023.

**KPMG LLP**  
*Chartered Accountants*  
3 Assembly Square  
Britannia Quay, Cardiff  
CF10 4AX

## RING FENCING CERTIFICATE

The regulatory ring-fence provides an important protection for companies and their customers. Its purpose is to ensure that the regulated company maintains sufficient financial and management resources to enable it to carry out its water and sewerage services in a sustainable manner, and it protects the regulated company from the activities of other entities such as other group companies.

The Ring-Fencing Certificate (“RFC”) is a certificate stating that in the opinion of the Board the Company has sufficient resources to enable it to carry out its Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted to Ofwat. Although it is a condition of our Licence to produce a RFC, we consider that it is also the right thing to do and helps us to achieve our Vision of earning the trust of our customers every day.

Information Notice 20/01 published by the Water Services Regulation Authority in February 2020 sets out guidance for water and wastewater companies in England and Wales in preparing their RFC. The reliability and accuracy of data is a matter of great importance to us. Within the business we have well-established governance and accountability processes. To confirm that we have followed this guidance, the information contained within our RFC has been subject to checks by the Regulatory and Compliance Teams, scrutiny at Director level, review by the Audit Committee, and audited by our independent External Auditors.

The Directors have resolved that a Certificate required under Condition P30 of our Licence and prepared in accordance with the latest guidance be issued to the Water Services Regulation Authority confirming that in the opinion of the Directors:

- a) the Company will have available to it sufficient financial resources and facilities to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted;
- b) the Company will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted; and
- c) the Company has available to it sufficient rights and resources other than financial resources; and
- d) all contracts entered into between the Company and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to the Company, to ensure that it is able to carry out the Regulated Activities.

A statement of the main factors that have led to the conclusion that resources are sufficient can be found at Appendix A.

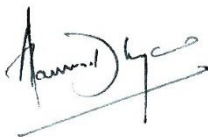



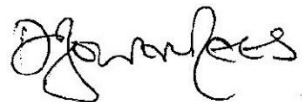

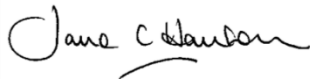



This Certificate has also been reviewed by our financial auditors, KPMG, and a specific statement of assurance on the Ring-Fencing Certificate has been supplied to Ofwat.



## RING-FENCING CERTIFICATE (continued)

The Company has in accordance with the Regulatory Reporting Guidelines and/or our Licence prepared this Ring-Fencing Certificate, which was approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 6 July 2023, as evidenced by the Directors' signatures below.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Graham Edwards Senior Independent Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Non-Executive Director
 Lila Thompson Non-Executive Director	 Barbara Moorhouse Non-Executive Director

6 July 2023

Section P35 of Licence Condition P requires our independent auditors to produce a report that sets out whether they are aware of any inconsistencies between the Ring-Fencing Certificate and either the regulatory accounting statements or any information which the Auditors obtained in the course of their work as the Company's Auditors and, if so, what they are.

A copy of the auditor's report can be found on page 46.



## RING-FENCING CERTIFICATE (continued)


### APPENDIX A

A statement of the main factors that have led to the conclusion that resources are sufficient.

AREA	MAIN FACTORS
<b>Financial resources and facilities</b> <ul style="list-style-type: none"><li>Financial details</li><li>Performance against Final Determinations (FDs) set at the last price review</li><li>Credit related factors</li><li>Business plans, long-term viability statements etc.</li><li>Relevant reports</li></ul>	<p>The liquidity position as at 31 March 2023 was very strong with cash on deposit and loan facilities totaling £579 million. The Group is in a strong financial position as at 31 March 2023 with gearing remaining on track at 58%.</p> <p>We have met the 2022-2023 FD targets for 27 of our performance measures. In spite of this, we are reporting a net penalty of £18.343m for 2022-23 as we have missed FD target on some measures such as Water quality compliance (CRI), water supply interruptions, leakage and mains repairs.</p> <p>As at 31 March 2023, the Group had committed undrawn borrowing facilities of £200m and cash and cash equivalents (excluding debt service payments account) of £379m. There is also a £10m overdraft facility renewable on an annual basis. As at 31 March 2023 there was also a special liquidity facility of £135m.</p> <p>The Company's business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p> <p>Ofwat's guidance in relation to preparing a statement on long-term financial viability (IN 19/07) has been followed. This resulted in the Board concluding that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030. The Company has a Licence to operate as a water and sewerage undertaker, which is in place on a rolling 25 year basis.</p> <p>The independent External Auditors review the regulatory reporting information to Ofwat in the Annual Performance Report. Independent Auditor's report and the Reporter's letter of assurance are published within our Annual Performance Report available on our website.</p> <p>The Audit Committee review financial performance in detail at the half year and year end and receive regular reports from the Group's External Auditors, KPMG LLP.</p> <p>The Audit Committee reviews the External Auditor's independence policy, which is included in its half yearly report to the Committee, which sets out the procedures by which the Committee satisfies itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work.</p> <p>The Audit Committee reviewed and approved its policy on non-audit services in September 2022 and was satisfied that it was aligned with current regulatory guidance. The level of non-audit fees in</p>






AREA	MAIN FACTORS
	<p>respect of the year-ended 31 March 2023 was confirmed to be in compliance with the EU Audit Regulation.</p>
<p><b>Management resources</b></p> <ul style="list-style-type: none"> <li>• Management skills, experience and relevant qualifications</li> <li>• Recruitment process, staff engagement</li> <li>• Succession planning for key management/staff</li> <li>• Quality of management/staff induction and other training and development</li> </ul> 	<p>As we prepare for PR24, the CEO's priority is to shape the executive team in order to deliver on the commitments for the remainder of AMP7 and to build an ambitious plan for 2025-2030 and beyond.</p> <p>This means being tough with efficiency – the potential for big changes is in the world of innovation and working smartly – ensuring the Company delivers the best services possible, efficiently and at an affordable price for the customer. To help achieve this, new members have been appointed to the Executive Team who can drive this forward and devise new ways of providing high-quality services in an efficient way. During the year a new Director of Water Services joined the executive committee overseeing Water Assets, Production, Networks and Engineering Services.</p> <p>In response to future challenges identified in Welsh Water 2050 a need to attract, develop and inspire people from a diverse range of backgrounds, to deliver an excellent service for our customers was identified. This is set out as Strategic Response 11: becoming an 'Employer of Choice'.</p> <p>After a difficult year dealing with the drought and winter freeze / thaw, we achieved positive results in our most recent Employee Engagement Survey where we achieved an overall satisfaction score of 75% (up from 69% in 2021). Employee Engagement Champions work with the business to respond to local feedback given in the annual Employee Engagement Survey – various Non-Executive Directors meet with them quarterly.</p> <p>The Chief Executive and members of the Executive team hold monthly briefing using Microsoft Teams that all colleagues can join to hear updates on business performance and key developments and to ask questions.</p> <p>The Chair of the Board and Non-Executive Directors undertake regular operational site visits and meet teams across the business for informal meetings and lunches/dinners.</p> <p>An annual Talent &amp; Resource Review is carried out which includes a review of succession planning, career discussions during performance reviews, promoting training opportunities for colleagues and ensuring development plans are in place.</p> <p>All operational roles within the business have a dedicated training plan which incorporates a combination of e-learning modules and training courses. Employees' training performance is continually monitored and an overall percentage of employees that have completed their training is reported annually for the financial year.</p> <p>The average number of people employed by the Group (including Executive Directors) during 2022-23 was 3,554. The Company's success is fundamentally dependent upon highly engaged and motivated people and the Company is committed to developing its people to meet the challenges of operating the business in the</p>





AREA	MAIN FACTORS
<div data-bbox="165 315 523 678" data-label="Image"> </div> <ul style="list-style-type: none"> <li data-bbox="165 898 501 958">• Process for ensuring diversity of perspectives</li> <li data-bbox="165 1308 483 1397">• Board or management activities, reports or statements</li> <li data-bbox="165 1554 494 1583">• Independence of Board</li> </ul>	<p data-bbox="576 226 1347 286">future and to encourage a diverse workforce that fully reflects the communities that it serves.</p> <p data-bbox="576 315 1382 409">There are a number of different development routes offered to those choosing to join our business including, graduates, degree apprenticeships, higher apprenticeships, and apprenticeships.</p> <p data-bbox="576 439 1299 499">The Company is investing in skills development, competency training, customer service and leadership training.</p> <p data-bbox="576 528 1374 622">The Company is working to define clearer career pathways through the business for colleagues in the contact centre and there is a focus on supporting every individual to reach their full potential.</p> <p data-bbox="576 651 1347 745">An annual Leadership Conference is held which provides an opportunity for senior managers to consider in detail, and provide feedback on, the Company's business plan.</p> <p data-bbox="576 775 1358 869">Regular employee "roadshows" take place. "Future Focus" groups of senior leaders across the business have been established to work on key initiatives.</p> <p data-bbox="576 898 1374 1245">To ensure a diversity of perspectives in our workforce, we take steps in our recruitment process to ensure we have representation from minority groups including Black, Asian and Minority Ethnic people, Females, LGBT+, Non-binary and people with disabilities. We continue to build a workplace that not only celebrates the diverse voices of our colleagues but also represents each customer we serve. Further, by engaging with diverse talent, the Company is able to improve access to skills that are in short supply, creating a larger talent pool, and also enhance our reputation as Employer of Choice.</p> <p data-bbox="576 1308 1257 1368">During the year the Board reviewed succession for senior management roles, and for Board members.</p> <p data-bbox="576 1397 1337 1523">The Board also reviewed compliance with the UK Corporate Governance Code, in particular the workforce engagement provisions, in the context of developing the Board's engagement strategy.</p> <p data-bbox="576 1554 1315 1615">The Board comprises a majority of independent non-executive directors.</p> <p data-bbox="576 1644 1382 1917">As a Group owned by a company limited by guarantee, there are no shareholders, instead Membership is made up of individuals drawn from across the Company's supply area (or who have a strong connection with it) who carry out a vital governance role. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of Company assets and for providing an essential public service in a manner which will be sustainable for future generations.</p> <p data-bbox="576 1946 1374 2036">The independence of Non-Executive Directors is considered on an ongoing basis and formally on an annual basis. All Non-Executive Directors are deemed to be independent in accordance with the UK</p>

AREA	MAIN FACTORS
	<p>Corporate Governance Code and free from any relationship which would compromise their independent judgement.</p> <p>All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee which is chaired by the Chair of the Board and comprised of a majority of independent Non-Executive Directors.</p>
<p><b>Systems of planning and internal control</b></p> <ul style="list-style-type: none"> <li>Governance procedures, risk management frameworks, oversight procedures</li> </ul>	<p>The Board is responsible for promoting the long-term, sustainable success of the Glas Cymru Group for the benefit of its stakeholders and is the principal decision-making forum for the Group, providing leadership, both directly and through its Committees, and delegating authority to the Executive team.</p> <p>The results from the ongoing monitoring of financial, operational and compliance controls and the risk management process are reported to the Board via eight formal committees; the Audit Committee; the Remuneration Committee; the Nomination Committee; the Quality and Safety Committee; the Technology Committee; the Finance Committee; Cwm Taf Project Committee; and the Environment, Social and Governance Committee. The Group's internal audit function has carried out a programme of work, which incorporates a review of the control environment.</p> <p>The Executive Team comprises individuals representing all of the key functions of the business, and is closely supported by its risk management and internal audit functions.</p> <p>Supporting the Executive team there is a clearly defined organisational management structure and governance framework, consisting of subcommittees and project specific steering groups, which operate within defined terms of reference and in accordance with group policies.</p> <p>By maintaining this structure of management control, the Board gains its assurance that Welsh Water's operations are being run effectively and that decisions are made in line with our commitment to our values to always do the right thing.</p> <p>The Board maintains oversight of the framework of internal control and risk management and ensures that the Company has the necessary financial resources and human resources to function effectively.</p> <p>The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management, and consider risk appetite and progress to target for identified strategic risks in detail every six months, with interim updates every board meeting. These processes involve all areas of the business to identify risks, including new and emerging areas of concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly.</p> <p>Throughout the year the Board reviews risk management processes and discusses and agrees mitigation strategies, for the principal and emerging risks across the business.</p>



AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>Internal and/or external audit policies, processes, activities and/or reports</li> <li>Systems for maintaining supply/business continuity, stated action plans</li> <li>Policies to prevent fraud and other unethical behaviour; whistleblowing policy</li> </ul> 	<p>There is an annual review of the effectiveness of internal controls in compliance with the requirements of the UK Corporate Governance Code.</p> <p>The effectiveness of the internal audit function is monitored using a variety of inputs including the Audit Committee's review of the audit reports produced, the Audit Committee's interaction with the Head of Internal Audit, updates at each meeting on progress against the internal audit plan, as well as other periodic quality reporting.</p> <p>The Internal Audit function conducts audits of 1st and 2nd line systems of internal control, which consider the adequacy and effectiveness of risk management, compliance and control activities.</p> <p>All internal audits are conducted in accordance with the standards promulgated by the Chartered Institute of Internal Auditors.</p> <p>The Head of Internal Audit provides an annual opinion on the effectiveness of the internal control framework.</p> <p>Our External Auditors and our Reporter review the Company's approach to risk and request evidence of risk review in the business.</p> <p>We regularly test our business continuity plans against our Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction (SEMD) requirements and carry out exercises covering key disruption risks (e.g. power, cyber and weather-related incidents).</p> <p>Our Incident Response Manual and Incident Command Structure provide our framework to respond effectively to events which threaten our continuity of service.</p> <p>This structure is supported by Business Continuity Plans covering key incidents (e.g. fuel, power, drought, flood and winter events) and wider industry support through the Water UK Platinum Incident Management, which coordinates mutual aid across businesses.</p> <p>During the year the Audit Committee received regular reports on systems of internal control and risk management, in particular on data protection, business continuity, disaster recovery and cybersecurity, and on the progress of programmes to improve compliance and internal controls across the business.</p> <p>The Company's Code of Conduct sets out our focus on "doing the right thing" to Earn the Trust of our Customers and includes reference to the Company's Whistleblowing Policy, which is widely publicised among colleagues and key contractors and provides an opportunity for colleagues to "speak up" on any issues of concern. All colleagues are trained in the Code of Conduct on joining the Company and complete refresher training periodically.</p> <p>The Code is supported by several Group policies, as well as associated procedures and guidance, including: Anti-bribery and corruption; Anti-fraud, Conflict of Interests; Gifts and Hospitality, and Anti-bullying and Harassment.</p>

AREA	MAIN FACTORS
 <ul style="list-style-type: none"> <li>• Risk, compliance other assurance statements</li> </ul>	<p>Since April 2015 the Company has subscribed to a confidential and independent whistleblowing helpline operated by Safecall – an independent company that specialises in handling concerns at work. Safecall are available 24 hours a day and can be contacted by phone or by email.</p> <p>The Audit Committee receives Whistleblowing reports in private meetings with the Head of Internal Audit on a regular basis. Matters are investigated and reported back to the Committee at its next meeting. The Committee also received an ‘annual thematic view’ of whistleblowing and special investigation activity which reviewed all incidents conducted in the period and discussed the observations and themes.</p> <p>The Company also has a comprehensive suite of Employment Policies.</p> <p>During the year the Audit Committee scrutinised the following key regulatory submissions: Annual Performance Report; Risk and Compliance Statement; Data Assurance Summary, and Ring-Fencing Certificate.</p> <p>The Committee also reviewed a report in relation to year end Leakage reporting in May 2022 and received subsequent updates during the year on the progress of the internal compliance reviews undertaken (in private meeting), prior to the establishment of the Leakage Oversight Committee, a purpose-formed task-and-finish committee of the Board.</p>
<p><b>Rights and resources other than financial resources</b></p> <ul style="list-style-type: none"> <li>• Corporate missions and/or values</li> <li>• Technology and other systems for ensuring checks and balances</li> </ul>	<p>The Company strives for continuous improvement in its services to “Earn the Trust of our Customers Every Day” and this focus on doing the right thing for customers underpins the whole approach to service and everything the Company does.</p> <p>In December 2019 an Extraordinary General Meeting of members was held to consider and subsequently approve the writing of Glas Cymru’s Purpose Statement into our Articles of Association in order to formalise our commitment to public service and our singular customer focus whilst recognising the long-term nature of the business:</p> <p><i>To provide high quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.</i></p> <p>The Company continues to innovate in terms of technology and new ways of working. There are partnerships with over thirty organisations and academic institutions each aligned to projects focused on Company priorities for improved performance and reduced cost.</p> <p>The Board Technology Committee maintains oversight of cyber and information security risk and opportunity in the business and ensures increased awareness at Board level.</p>

AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>• Policies to encourage an integrated approach and 'systems thinking'</li> <li>• Planning systems</li> <li>• Assets maintenance/insurance factors</li> </ul> 	<p>The Company continues to work to well-documented operational strategies in the clean and waste water businesses, including an Operational Technology cyber risk mitigation programme.</p> <p>Our teams continue to ensure resilience of both Information and Operational Technology services, and, since 2021-22, have continued an elevated focus and resource on cyber security detect, protect and respond capabilities.</p> <p>We're currently completing a move of all our Non-SaaS IT systems to the Microsoft Azure Cloud and have signed New 5 year Framework agreements, with both Security and System Integration partners.</p> <p>The Company has an Integrated Management System that is governed, controlled and continually improved. This includes overarching policies and procedures that help promote cross team working for an integrated approach within all business areas. Frameworks and governance groups have been established for open table discussions. All management system policies are reviewed and approved annually by the Chief Executive and promoted within the business.</p> <p>Investments are planned over five-year periods. We are preparing a Long Term Delivery Strategy to 2050, to be submitted to Ofwat alongside our five-year business plan for 2020-2025 (AMP8) as part of the PR24 process. These two plans are consistent, with the AMP8 plan forming the first part of the delivery of the long-term ambition. Recognising the vital role of planning systems, the company has an Asset Planning Directorate and a Strategic Asset Management Plan.</p> <p>The five year business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p> <p>The five-year programme for 2020-25 involves more than £1.8 billion in capital investment.</p> <p>The company arranges insurances to meet the requirements of Schedule 14 of the business' Common Terms Agreement, including but not limited to the following insurances:</p> <ul style="list-style-type: none"> <li>• Property Damage Business Interruption (PDBI)</li> <li>• Public Liability</li> <li>• Employers' Liability</li> <li>• Motor insurance</li> <li>• Directors and Officers Liability</li> <li>• Construction OCIP insurance</li> </ul> <p>These insurances protect the business against extreme losses outside of management control, subject to policy terms and conditions. The policies are renewed on an annual basis, with coverage and limits reviewed with the business' insurance broker. The insurance renewal is a matter reserved for the Board.</p>
<b>Contracting</b>	

AREA	MAIN FACTORS
<ul style="list-style-type: none"> <li>Position/status of key contracts in place</li> <li>Contracts between the Appointee and all Associated Companies</li> <li>Transactions between the Appointee and any Associated Company</li> <li>Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I)</li> <li>Guarantees or Cross-Default Obligations</li> </ul>	<p>We work with key suppliers, such as our Capital Alliance and Water Network partners, to find innovative ways of improving efficiency while maintaining standards of service.</p> <p>Not only do teams understand fully the part they have to play in delivering the Company's plans but these have also been built with input and commitment to improved performance from the main supply chain partners.</p> <p>Achieving better service and greater efficiency targets will also require further flexibility from colleagues. A comprehensive programme of change has been agreed with trade unions, covered our April 2020 'Working Together Agreement'.</p> <p>All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards of performance.</p> <p>A detailed Note on transactions between the Appointee and any Associated Company is provided in the Risk and Compliance Statement.</p> <p>Confirmation of compliance with licence provision on cross-subsidies between the Appointee and any Associated Company is contained within the Risk and Compliance Statement.</p> <p>No Guarantees or Cross-Default Obligations have been given without Ofwat's written consent.</p>
<b>Material issues or circumstances</b>	<p>As confirmed in the Long Term Viability Statement, the Board considers that the risk management and forecasting controls in place are robust and that the 2023 plan and stress testing outputs provide an appropriate level of information from which to draw a conclusion on the Group's long-term viability. The Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2030.</p>

