

Ref 4.2

PR19 Corporate Resilience

September 2018

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1. Introduction

Strengthening resilience so that our customers can depend on their water and sewerage services, both now and in the future, is a major feature of our PR19 Business Plan. As set out in our overview (see *PR19 Resilience in the Round: Overview Ref 4.1*), resilience is the quality that enables us to continue to achieve our aims in the face of sudden shocks and longer-term stresses. We take a ‘whole business’ approach to resilience, and as such our plans for resilience are embedded in almost every element of our PR19 Business Plan. However, in this and the associated resilience documents we are drawing out the main strands of our approach and our plans so that they are clearly visible in line with Ofwat’s guidance.

1.1. Background: the Resilience Wheel

In January 2017, we developed a comprehensive framework to assess resilience across the business, based on international good practice and national guidance. The resulting Welsh Water ‘Resilience Wheel’ has three themes: people; infrastructure and environment; and finance and governance. It highlights how the whole of our business has a role to play in maintaining and strengthening resilience.

The Resilience Wheel also reflects the three Ofwat themes of resilience, operational, corporate and financial resilience under a variety of indicators, as shown in [Figure 1](#).

Further explanation of the Resilience Wheel is provided in our overarching approach to resilience (see *PR19 Resilience in the Round: Overview Ref 4.1*).

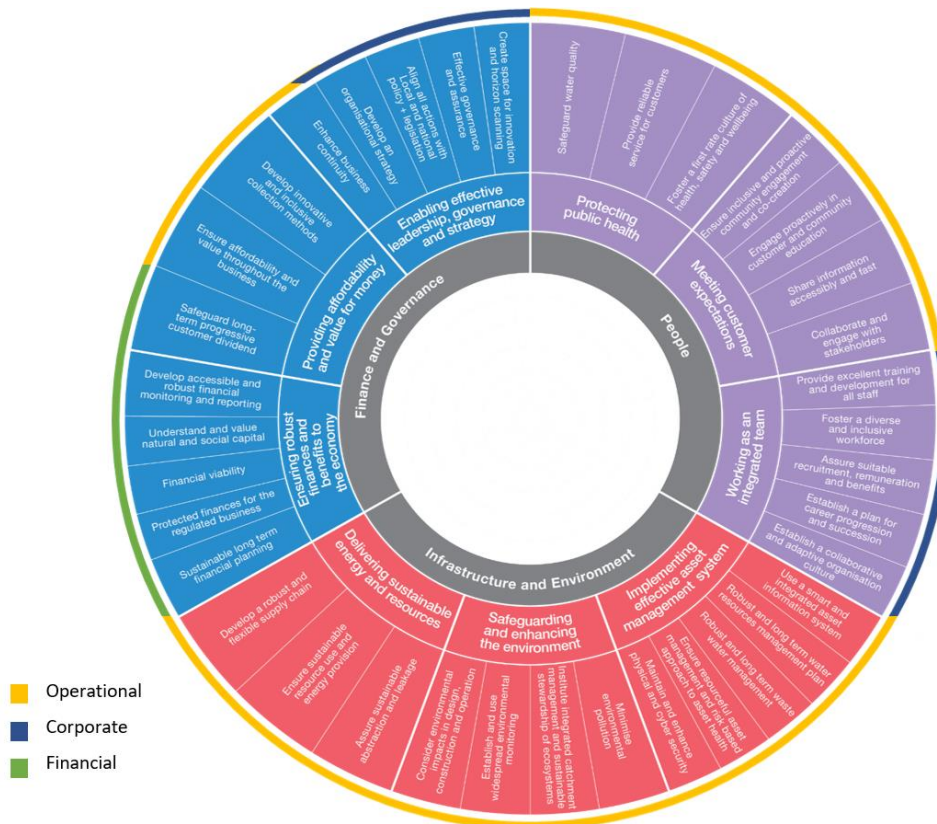


Figure 1: How Ofwat's three themes of resilience are reflected by the Welsh Water Resilience Wheel. The outer ring of orange, green and blue show the Welsh Water indicators which reflect Ofwat's resilience themes.

In the latter stages of the development of our PR19 business plans we commissioned Arup to perform a comprehensive assessment of a) our current state of resilience against each element of the Resilience Wheel, and b), the likely state of resilience by the end of AMP7 assuming that our PR19 plans are fully implemented, benchmarked against the rest of the industry. The resulting report can be found at PR19 Resilience in the Round: Overview Ref 4.1.

1.2. Corporate resilience

This document is focused on corporate resilience. The other two Ofwat resilience themes, financial and operational resilience, are covered in two separate documents (see PR19 *Financial Resilience Ref 4.3* and PR19 *Operational Resilience Ref 4.4*). However, as recognised by Ofwat, the three key elements of 'Resilience in the Round' are highly interdependent, and there is a considerable overlap in particular between operational and corporate resilience.

Ofwat's definition of corporate resilience in its final PR19 methodology, is:

"the ability of an organisation's governance, accountability and assurance processes to help avoid, cope with and recover from disruption and to anticipate trends and variability in all aspects of risk to delivery of services"¹.

We believe that ensuring the highest standards of corporate governance is vital to our vision of 'earning the trust of our customers, every day', and to the resilience of our service to shocks, stresses and disruptions. In this document we set out how we meet those standards. We also explain the processes and systems we use to help us anticipate trends and manage risks, of which the development of Welsh Water 2050 is just a part. Finally, we explain some of what we do to ensure that we have a resilient workforce, both now and in the future, and provide an example of how our workforce responded in the case of a major disruption – Storm Emma and the subsequent freeze-thaw in February/March 2018.

1.3. Structure of this document

Ofwat expects companies to demonstrate that they have the necessary capability, systems and processes, alongside operational and financial resilience, to deliver overall resilience. As such, this document is focused on the following elements:

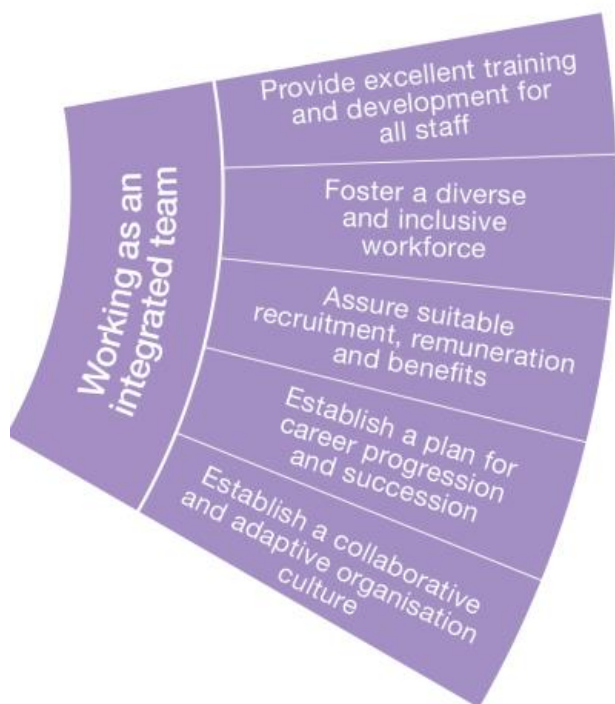
Section 2 discusses the Resilience Wheel focus area of 'working as an integrated team' and explains how we ensure that we will continue to attract and retain a skilled, flexible and engaged workforce.

The resilience theme of 'Effective Leadership, Governance and Strategy' is discussed in Section 3 with a focus on our governance arrangements. This section links to Annexes 1, 2 and 3, which explain how we comply with UK Corporate Governance Code, Ofwat's Board leadership, transparency and governance principles, and our other regulatory obligations, respectively.

Resilience is not just about preparing for the long-term, but demonstrating that we are able to withstand challenging conditions, or, in extreme cases where there are service failures, recover rapidly. Section 4 provides a brief description of our corporate response to the

extreme weather faced in late February and March 2018 during Storm Emma and its aftermath, as a demonstration of our ability to mobilise our governance processes and our workforce respond effectively to such challenges.

2. Working as an integrated team



As set out in the Resilience Wheel, to be a highly resilient company we must ensure that we have a future-proofed workforce with the right skills now and in the future. To do this we focus on attracting, developing and inspiring people from a diverse range of backgrounds, while actively promoting inclusivity. This section explains the trends and challenges facing us in terms of attracting and retaining a diverse, skilled and resilient workforce, and how we are responding to those challenges, both in our Welsh Water 2050 Strategic Responses, and in our day to day operations.

2.1. Trends and challenges

We rely heavily on Science, Technology, Engineering and Mathematics (STEM) roles. The UK’s annual shortfall of STEM skilled

employees is estimated at 40,000 workers, thus requiring significant investment in graduates and apprentices, and proactive retention strategies by STEM-reliant businesses.

Large long-term investment projects (including the Hinkley Point and Wylfa Newydd nuclear power plants) could increase the mobility of labour and competition for key skills.

Changing customer expectations and a move to a digital economy means that our people need to possess a flexible customer-focused attitude and be able to learn new skills and embrace new digital technology with increasing speed. Some historical working patterns and practices create particular challenges when meeting customers’ demand for 24/7 service.

The UK’s ageing population is reflected in our people. Addressing the challenges and opportunities this presents and effectively planning for succession will continue to be key elements of our recruitment and well-being strategies.

The water industry has historically been male dominated and although we have made progress by uplifting from 21% in 2012 to 30% female colleagues in 2018, we need to take further action if we are to achieve the business benefits of a diverse workforce, especially in STEM roles.

2.2. ‘Employer of Choice’

In response to these trends and challenges, Welsh Water 2050 identified that we need to attract, develop and inspire people from a diverse range of backgrounds to deliver an excellent service for our customers. This is set out as Strategic Response 18: becoming an ‘Employer of Choice’.

We know that high levels of employee engagement help to deliver better services to customers. A recent Institute of Customer Service (ICS) report showed that employee

behaviours and attitudes, especially the ability to deal with problems and complaints, were key differentiators for the top performing customer service organisations.ⁱⁱ

Our plans to become an Employer of Choice include:

- Health, safety and well-being strategy – demanding safe behaviour and ways of working, becoming a smoke free business, well-being champions, supporting employees with both temporary and permanent mental health illness, achieving and maintaining the Welsh Government Platinum Corporate Health Standard;
- Talent and Resource Plan – embedding the responsibility for managers to develop their teams and succession plans at every level in the business;
- Utilising new technology and latest recruiting methods to attract diverse new talent with a passion for delivering a great customer experience. Investing in the continuous development of all employees, promoting innovation and securing retention of key knowledge and skills;
- Improved internal communication – building a shared understanding of our objectives, plans, policies and the needs of our customers, enabling integrated working across teams and better planning for succession;
- Leadership development – we will continue to equip our leaders and aspiring leaders with contemporary coaching, mentoring and people management skills via our Welsh Water Leadership Programme;
- Strong employee relations – Welsh Water’s ‘Working Together Agreement’ forms the basis of our partnership approach with our Trade Unions. In place for 25 years, this joint problem solving approach provides a strong foundation for employee relations. Our mutual aims to provide a high quality working environment with good terms and conditions and opportunities for development, have provided a solid platform for progressive levels of flexibility and service to our customers;
- Creating an inclusive environment and promoting diversity – changing behaviours to create a fully inclusive, engaging Welsh Water. Our leaders will be role models of inclusive behaviour to ensure all employees feel safe and able to be themselves at work. We also will facilitate diversity and inclusivity training for all our people, giving them the tools they need to mitigate the effect of unconscious bias. We will nominate inspiring leaders to champion inclusivity activities and promote the benefits of a diverse workplace force and inclusive culture;
- We will facilitate more young people with the right skills entering our workforce, by providing resources to young people such as our Welsh Baccalaureate resources and targeted workshops, increasing the number of internships, work experience placements and apprenticeships, and encouraging our leaders to mentor young people from disadvantaged backgrounds. We will continue to offer our employability skills programme both internally and externally, with a particular emphasis on equipping women with the skills to secure employment and promotion in STEM roles. We will also continue to invest in graduate schemes for STEM and other core skills on which we rely, such as data science and IT.

- Welsh Water technical academy – develop a Welsh Water Technical Academy to ensure we have sufficient and well trained technicians to operate the increasingly sophisticated control processes of the future.

2.3. Supporting resilience of our workforce.

In addition to the ‘Employer of Choice’ Strategic Response actions outlined above, we have a number of other mechanisms in place to promote a resilient workforce and monitor how we are doing.

Employee training and expertise

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. The figure reported is the overall percentage of colleagues who are evaluated as having the necessary skills, experience and knowledge to carry out their specific role safely.

This figure is one of our ‘Measures of Success’ (performance commitments) for PR19. Our target is to increase the score from 82% in 2017-18 to 95% in 2019-20 and to maintain that result throughout 2020-25.

Gender balance

As a business, we have worked hard in recent years to attract more women to work at Welsh Water. Utility companies have traditionally been male-dominated, and achieving a better gender balance remains particularly challenging in operational or STEM-focused roles, where women are less well-represented.

The proportion of women working at Welsh Water has now reached 30%, and this is expected to rise further with 40% of our new hires in 2017-18 being women. We have also worked to ensure our annual recruitment campaign for apprentices and graduates encourages women to apply. This has seen the proportion of applications from women rise to 14% this year from 8% in 2014.

Women working at Welsh Water are supported by their peers to thrive and develop in their roles. Managers mentor less experienced colleagues in their roles, and our female leaders visit local schools to inspire girls to consider careers in the water industry.

Welsh Water was recognised by the Welsh charity Chwarae Teg (‘Fair Play’), which works to develop opportunities for women in the workplace, as Employer of the Year in 2017 and again in 2018 as a Finalist for the Fairplay Employer award.

Gender pay gap

We are committed to making Welsh Water an inclusive place to work for everyone — and are working to ensure women have every opportunity to thrive in their careers with us.

The Gender Pay Gap Report shows the overall median and mean gender pay and bonus gap regardless of role or seniority. At Welsh Water at April 2017 the median gap was 7.5% (against the national average of 18.4%) and the mean gap was 5.8% (against the national average of 17.4%). It is important to note that this is different to equal pay — all men and

women at Welsh Water receive equal pay for performing equal work. While we are pleased to be significantly below the national average in terms of the gender pay gap, our aim is to reduce it to zero.

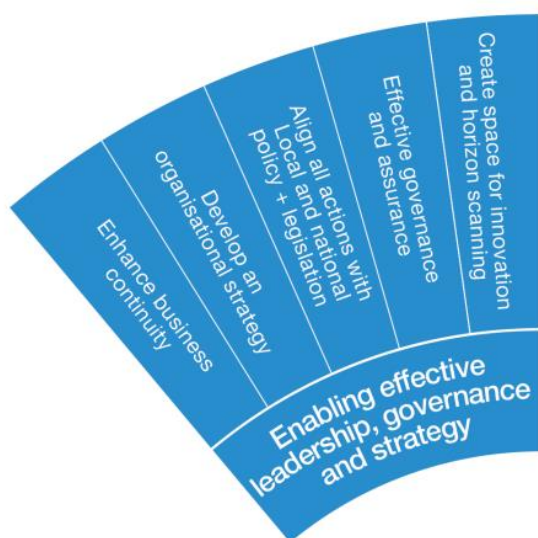
Employee engagement

- In order to attract a diverse, skilled and engaged workforce over the long-term, we need to make Welsh Water a great place to work. The best indicator of that is the views of our colleagues who already work here. We survey our colleagues every year about how they view the company and their role. The high level 'employee engagement' score is an indicator of the emotional connection of employees to the organisation. In the last survey in November 2017, our employee engagement score rose to a record high of 80% (against 77% the year before), against the comparable private sector benchmark of 72%.

2.4. Investors in People (IIP).

In summary, we will ensure the resilience of our people by ensuring that the right corporate culture is in place; one that promotes a diverse group of people, who can develop to their full potential and who are highly motivated to provide an excellent public service, to the benefit of their own communities and the environment. This approach has recently been recognised in the award to the company of the IIP Gold level accreditation, in the first time that we had been assessed for the scheme. This level of accreditation is achieved by only 7% of the IIP accredited organisations in the UK.

3. Effective leadership, governance and strategy



The second area within the Resilience Wheel linked to corporate governance is “Enabling effective leadership and strategy”. This is focused on ensuring that we have an appropriate long-term organisational strategy, backed up by effective governance processes and business continuity plans, which ensure we can continue to function in all circumstances. Welsh Water’s not-for-shareholder model makes it easier for us to focus on the long-term, particularly important for us as the provider of an essential public service, with very long-lived assets. The opportunity to plan for the next 30 years differentiates us from companies which

traditionally only planned for the length of the next price control, being five years.

The actions in this focus are largely covered in other linked documents, as follows:

Resilience element	Reference
Create space for innovation and horizon scanning	See PR19 Innovation Strategy Ref 3.3
Align all actions with local and national policy and legislation	See PR19 Supporting Government Policy and Long-term Agendas Ref 1.3
Develop an organisational strategy	See Welsh Water 2050 Ref 1.4
Enhance business continuity	See PR19 Operational Resilience Ref 4.4
Effective governance and assurance	See below

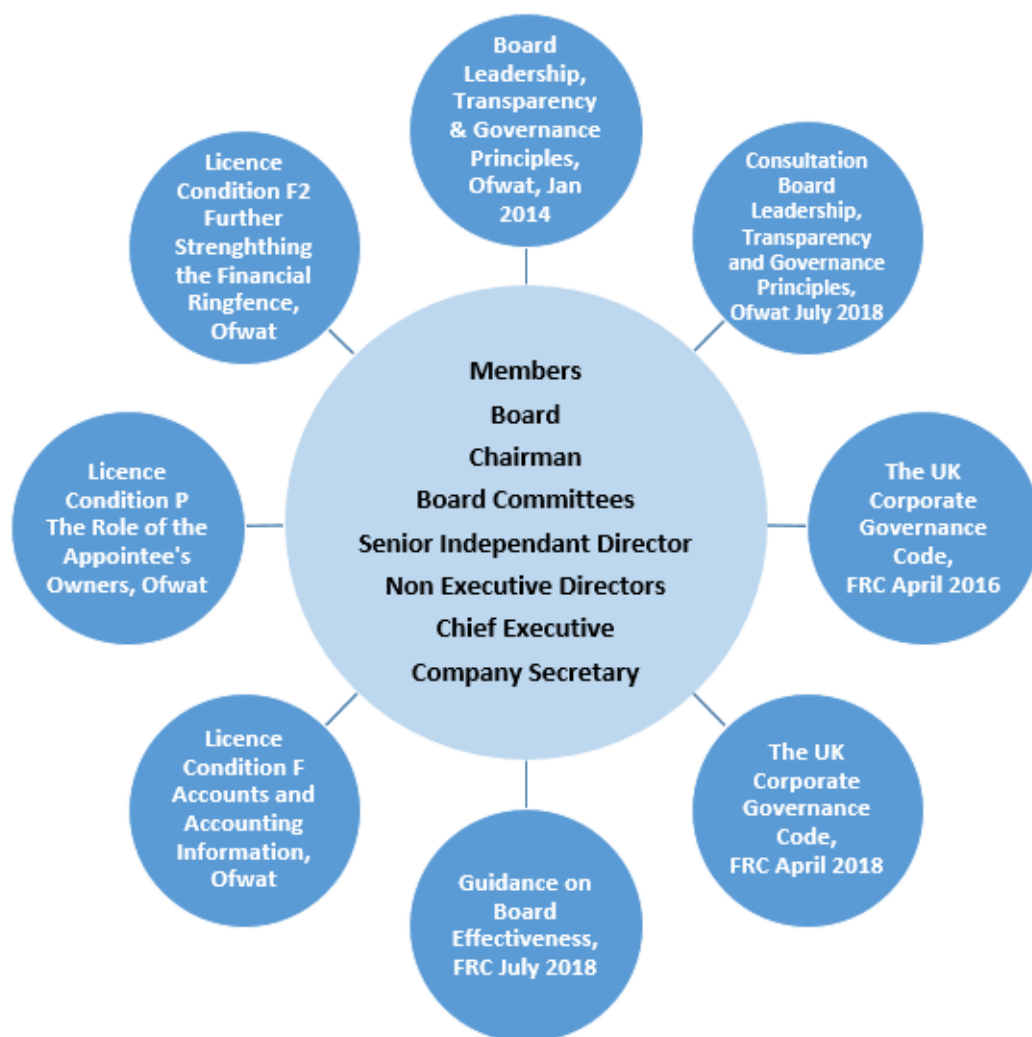
The focus in this section is therefore on effective governance and assurance. In this section we explain the unique ownership model of Welsh Water, our governance structure, and the roles and responsibilities of the key entities and individuals in that structure.

3.1. Our ownership model

Glas Cymru was established in 2000 as a single purpose entity to own, finance and manage Welsh Water. It is a ‘company limited by guarantee’ and, because it has no shareholders, any financial surpluses are used for the benefit of Welsh Water’s customers. Under Glas Cymru’s ownership, Welsh Water’s assets and capital investment are financed by bonds and retained financial surpluses.

As Glas Cymru has no shareholders, its corporate governance functions are the responsibility of its Board, which has a majority of independent non-executive directors, and its ‘members’, around 70 individuals appointed following a process undertaken by an independent membership selection panel. Members are unpaid individuals whose duty is to promote the good running of the company, in the best interests of its customers. Glas Cymru operates as if it were a listed company, meaning that it meets the highest standards of corporate governance and transparency.

3.2. Our governance structure



Strong corporate governance underpins the values set by the Board, and supports the decision-making framework of the Group. As we are not a listed company we are not obliged to comply with the UK Corporate Governance Code, but we do so voluntarily as far as it is applicable given our ownership model (see Annex 1). We apply the provisions set out in relation to shareholders, as far as possible, to our Glas Members and investors.

Ofwat has also developed a set of principles which complement the UK Corporate Governance Code and represent the minimum standards for Board leadership, transparency and governance for companies in the water sector. We respond to the Ofwat corporate governance requirements in our Governance Code which is available on our website. (See Annex 2).

Our approach to corporate resilience is underpinned by a number of other legal and regulatory requirements, including our licence (Instrument of Appointment), the Company Monitoring Framework, and the Risk and Compliance Statement. Details of how we comply with these requirements are provided in Annex 3.

Corporate governance is about more than how a company is controlled and directed. It is about the behaviour, culture and value of the organisation. The culture of Glas Cymru Group

is set by our Board and aligned to our strategy and vision. This requires the support of our colleagues throughout the business, so engagement between the Board and colleagues is a vital part of corporate governance. Some of the ways we promote this engagement include:

- Monthly telephone conference calls held by the Chief Executive that all employees may join to hear updates on the company and ask questions;
- Regular operational site visits and meetings with colleagues in the business by Our Chairman and Non-Executive Directors. This is important in ensuring that the current issues in the business are understood in context;
- Six monthly Leadership Conferences comprising Senior Managers from across the business to hear directly from the Executive team;
- Regular colleague 'Roadshows' and 'Meet the Director' days with the Executive team, held across the business;
- Responding to feedback from our annual Employee Engagement Survey; and
- Promoting our whistleblowing policy, which includes an external helpline to reassure colleagues that they can raise any issues anonymously should they wish to do so.

3.3. Roles and responsibilities

The roles of the key elements of our corporate governance structure are explained below.

i) Members

As a Group owned by a company limited by guarantee, we counterbalance the fact that we do not have shareholders by having a Membership which carries 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 our assets and for providing an essential public service in a manner which will be sustainable for future generations.

Our Members are appointed by the Board but are selected by an independent Member Selection Panel which is required to maintain a balanced and diverse membership, broadly reflective of the range of our customer and other stakeholders' interests and drawn from across our supply area.

There are presently 60 independent Members of Glas Cymru. Under the Company's Articles of Association each Director is also a Member. During 2017-18, 17 Members stepped down and 14 were appointed.

We hold an AGM and a second Members' meeting each year to provide a six-monthly update on our performance and strategy. We also hold two regional Members' meetings which we move around the supply area to provide a more informal opportunity to gain insight into our working sites, meet local teams or provide a more in-depth overview of our strategies. Members are invited to other meetings and workshops on an ad hoc basis throughout the year.

ii) The Board

The Group's Board of Directors is collectively responsible for its long-term success. The Board sets the Group's strategic aims, monitors the performance of management against the strategic aims, ensures good governance, sets the risk appetite and ensures that effective controls are in place in the business. The Boards of Glas Cymru Holdings

Cyfyngedig and Dŵr Cymru Cyfyngedig (the licence holder/operating company) are identical, which ensures a unified approach.

We have a schedule of matters reserved for the Board under which the Board retains ultimate responsibility for areas such as strategy, risk and many other decisions. The schedule of matters reserved is periodically reviewed and updated, along with forward schedules and agendas.

The Board delegates responsibility to management for the day to day running of the business according to the agreed strategy, and to Committees for specific areas as set out in their terms of reference.

The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management. The system of controls is designed to manage the risk of failure to achieve business objectives, and comprises audited policies and procedures aimed at identifying and managing the most significant risks faced by the business.

The Board is also responsible for ensuring that the business is resilient to external trends and shocks, whether environmental, economic, or financial. Hence our Board took ownership for the development in 2017 of Welsh Water 2050, which is intended to provide a clear long-term framework for our future business planning to become a truly world class, resilient and sustainable water service for the benefit of future generations.

iii) Chairman

Our Chairman plays a key role in helping to ensure a unified Board, facilitating meetings, and ensuring good governance. Meeting agendas are agreed in consultation with the Chief Executive and Company Secretary, although any Director may request that an item be added to the agenda.

At least once a year, the Chairman meets with the Non-Executive Directors without the Executive Directors present, to consider the performance of the Executive Directors and to provide feedback. The Chairman also meets individually with each Board Member to review individual performance at least once each year.

The Chairman also attends site visits around our supply area at least quarterly, and hosts dinners with senior managers. He had attended regional employee engagement forums and joined the Chief Executive on occasion during our monthly "Team Brief" calls. All of these activities help to ensure the Chairman has a thorough and detailed understanding of the operational business and the organisational structure and governance, as well as current issues affecting colleagues.

iv) Senior Independent Director

Our Senior Independent Director liaises with our Members. The Senior Independent Director meets with the other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chairman.

v) Non-Executive Directors

Non-Executive Directors are appointed to the Board in accordance with our published Diversity Policy, to contribute their expertise and provide independent challenge and rigour in the Board's deliberations.

Non-Executive Directors meet with the Chairman individually on an annual basis, and meet with the Senior Independent Director without the Chairman present. They also attend site visits and attend dinners with senior managers, hosted by the Chairman, to ensure a thorough understanding of the operational business of the company.

vi) Chief Executive

Beyond matters reserved for the Board, the Chief Executive has primary responsibility for managing the day to day affairs of the company. Our Chief Executive is supported by the Executive team in implementing strategy and day to day management.

vii) Company Secretary

Our Company Secretary is responsible for supporting the Chairman in ensuring that the Group demonstrates good governance. The Company Secretarial team is available to the Non-Executive Directors and works to ensure that there are good information flows between the Board, Committees and management of the company.

3.4. Governance standards and principles

Corporate governance standards and principles are fundamental to the values and decision-making framework of the company. In our governance structures and processes we ensure that we satisfy the requirements of our Regulators, our licence, and the Corporate Governance Codes with which we comply. Further details of how we do so are provided in the annexes as follows:

Annex 1: UK Corporate Governance Code

Annex 2: Ofwat Board Leadership, Transparency and Governance Principles

Annex 3: Compliance with regulatory requirements

The matrix below provides a summary.

Governance Principles	Ofwat B, L, T & G principles	Ofwat revised B, L, T & G principles	Ofwat Licence Condition F	Ofwat Licence Condition F2	Ofwat Licence Condition P	FRC UK Corporate Governance Code 2016	FRC UK Corporate Governance Code 2018
Transparency	√				√		
Role of Regulated Company	√		√	√			
Independence of the Board	√	√			√		√
Independent Chair	√						
Board Committees	√						
Group Structure	√				√		
Leadership						√	√
Effectiveness						√	√
Accountability						√	√
Remuneration						√	√
Relations with Shareholders						√	√
Workforce and Stakeholders							√
Succession and Diversity							√
Employee Engagement							√
Corporate Culture							√

3.5. Supporting strong corporate governance

Appointments

The Board is committed to a transparent process for new appointments and for ensuring the right balance of skills and experience and diverse backgrounds. Directors must display independent judgement and an ability to challenge constructively. The search for Board candidates is conducted by the Nominations Committee on the basis of merit, against objective criteria set for the role, and with due regard to maintaining an appropriate balance of skills and experience and to the importance of ensuring diversity of representation on the Board. External selection companies are used to find candidates and support the process.

The Non-Executive Directors' letters of appointment are made available for public inspection upon request to the Company Secretary and are available at each Annual General Meeting for inspection by our Members.

Glas Cymru is committed to promoting diversity, non-discrimination, and equality of opportunity in the way we treat employees, prospective employees, visitors, clients, customers and suppliers. The Board has documented its approach to recruitment in a Diversity Policy which it is committed to following.

Induction and development

New Non-Executive Directors undergo a personalised induction process, including access to past Board and Committee papers, site visits and one to one meetings with senior managers. Where appropriate, new Non-Executive Directors also attend the Institute of Directors' course for new Directors.

Our Chairman undertakes regular operational site visits across the supply area and other Non-Executive Directors are encouraged to attend at least one of these visits during the year.

Gender diversity

The Board is committed to having an appropriate level of diversity across all levels of the business. We currently exceed the Davies 2010 Report suggested targets at Board level for representation of women, although we are actively striving to increase this proportion further. Currently, women make up 30% of our Non-Executive Directors, 27% of the Executive team and 41.3% of the Group's wider Leadership Team. We published the Glas Cymru Gender Pay Gap Report on our website.

Board effectiveness

The effectiveness of the Board and its Committees is reviewed annually and an independent externally facilitated review is conducted every three years.

The 2018 Effectiveness Review involved a detailed online survey of all Board Directors and regular Board attendees, followed by one-to-one meetings of each Director with the Chairman to discuss their particular comments and issues. While overall there was consensus from Directors that the Board and its Committees is operating very effectively, the detailed findings of the evaluation and proposals for further improvement were discussed at the Board meeting in June 2018 and an action plan was agreed.

Governance models

The Code that we have in place reflects our performance reporting principles and governance arrangements to make sure that it delivers:

- transparency in our reporting so as to meet or exceed the standards set out in the Financial Conduct Authority's Disclosure and Transparency Rules; and
- appropriate challenge by our Board by making sure they have the appropriate balance of skills, experience, independence, and knowledge of the Company.

We will continue to review our governance arrangements to ensure that our governance arrangements are suitable in the face of future challenges and that we remain compliant with changes to the UK Corporate Governance Code.

4. Storm Emma – our corporate response

We know that our customers place a particular emphasis on the reliability of essential services. One of the biggest challenges we faced over the past 12 months was the effect of extreme weather on our network — and the impact on some of our customers — in late February and March 2018 during “Storm Emma”.

A period of very low temperatures and heavy snowfall, followed by a rapid thaw, placed unprecedented pressure on our network — both in terms of operational challenges in fixing burst pipes and leaks, and dealing with the concerns of our customers.

The period was our largest incident response since similar extreme weather in 2010. Since then, we have invested money and resources in our preparation to respond to stresses on our network — and during Storm Emma we kept the water flowing to 97.2% of our customers throughout the cold snap and subsequent thaw.

Our operational response to Storm Emma is described in more detail in PR19 Operational Resilience (Ref 4.4). Here we outline the company’s response in terms of its people and its governance processes, and the lessons learned.

4.1. The response of colleagues

We believe that the past 12 months, particularly the challenges faced during Storm Emma, have demonstrated the skill and dedication of our colleagues, who will do their utmost to maintain services and do the right thing for customers and the environment. There were many instances during the extreme weather in which colleagues went ‘above and beyond’ to ensure we minimised the impact of the conditions on services to customers, and to keep affected customers up to date.

In Gwent one of our maintenance teams abandoned their vehicles and walked, carrying their tools, for a mile through snowdrifts up to two metres deep, to fix problems at our Sluvad Water Treatment Works near Pontypool, in order to maintain supply for nearly 600,000 customers in south-east Wales. At our call centre in St Mellons 150 of our people volunteered to come in to help respond to the seven-fold increase in customer calls for support during the period of freeze followed by rapid thaw — with all the problems to which both extremes of weather gave rise. Over five days we had hundreds of extra colleagues drafted in to support our activities, both from our business and from our supply chain, for example finding and fixing hundreds of leaks and delivering thousands of bottles of water. In Ceredigion at our Strata Florida and Bontgoch water treatment works our operating team stayed at work all night to keep the works running despite them becoming snowed in by huge drifts.

Ofwat acknowledged that “it is clear that the company and its staff worked hard to manage the incident”.

4.2. Emergency response governance

In Ofwat’s Out in the Cold report published in June 2018 they commented that “Emergency response governance processes for the worst performing companies were poor”. We agree that having appropriate, timely escalation processes for plans is vital. Effective governance processes help companies to collaborate effectively between internal departments in emergency situations.

Ofwat were positive about our governance processes and commented that:

“Dŵr Cymru’s Executive was involved in the preparations at an early stage in assessing and escalating preparations in readiness for the potential issues caused by the oncoming severe weather, representative of some of the elements of good practice demonstrated in the company responses we received”.

However, we are determined to take on board the learning points from this experience. We have already carried out our own review and have identified areas of focus for future improvements to our response in extreme weather conditions. One of these is to create a new role within the emergency response team to focus on providing quicker updates to local communities via our website and social media. Our initial action plan to respond to our lessons learned was approved by the Board in May 2018.

We will carefully consider all the issues identified across the sector in Ofwat’s review, in our individual letter and in our own internal review and will publish our formal response to the matters raised by 28 September 2018. Our final action plan will be considered and approved by the Board at its September meeting.

ⁱ Ofwat, Delivering Water 2020: Our final methodology for the 2019 price review, December 2017

ⁱⁱ Institute of Customer Service, Leading by Example, 2016. See

<https://www.instituteofcustomerservice.com/research-insight/research-library/leading-by-example>

Appendix 1: UK Corporate Governance Code

The UK Corporate Governance Code 2016 sets standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Code contains broad principles and more specific provisions. Below we list the UK Corporate Governance Code principles and how we meet these principles in the way that we are organised.

Principle 1: Leadership

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

- As we provide a vital public service, we understand that how we are governed is crucial to earning the trust of our customers. It is our vision to earn the trust of our customers every day.
- We are headed by an effective Board which is collectively responsible for the long-term success of the company.
- We have a clear division of responsibilities between the running of the Board and the executive responsibility for the running of the company's business. No one individual has unfettered powers of decision-making.
- Our Chairman is responsible for leadership of the Board and ensuring its effectiveness.
- Non-Executive Directors constructively challenge and help develop proposals on strategy.

Principle 2: Effectiveness

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively

All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

- The Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively. The Board regularly reviews this in discussions with the Company Secretary, Nominations Committee and as part of our effectiveness review.
- Glas Cymru has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.
- Directors receive a tailored programme of induction on joining and ongoing educative and informative programmes on topics relevant to the operation and governance of the business.
- All Directors allocate sufficient time to the company to discharge their responsibilities effectively.
- Board and Committee meeting materials are provided a week in advance.
- Our Non-Executive Directors have access to the Company Secretary and external advisors to provide the Board with an external viewpoint.

Principle 3: Accountability

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors

The combined Board of Glas Cymru and Dŵr Cymru Welsh Water:

- Ensures that the Annual Report and Accounts presents a fair, balanced and understandable assessment of the company's position and prospects.
- Determines the appropriate risk appetite in achieving our strategic objectives, whilst ensuring sound risk management and internal control systems.
- Has formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.
- Ensures all Directors stand for re-election by Members at each Annual General Meeting.
- Ensures each Non-Executive Director holds office for a period of three years which may be extended until the end of nine years from appointment.

Principle 4: Remuneration

Executive directors remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

- We have a Remuneration Committee whose report appears in our Annual Report.
- Executive Directors' remuneration is designed to promote the long-term success of the company.
- Performance-related elements are transparent, stretching and rigorously applied.
- There is a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors.
- No Director is involved in deciding his or her own remuneration.
- The Remuneration Committee receives advice from external consultants.

Principle 5: Relations with Shareholders

There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The board should use general meetings to communicate with investors and to encourage their participation.

- We voluntarily apply the shareholder principles on governance to our Members and Investors.
- We have regular dialogue with Members and bond investors.
- Our Board uses general meetings to communicate with Members.
- The Company's Treasury team continues to ensure that our investors are well informed, through quarterly reports and the annual investor meeting in London, as well as regular informal meetings. The Board receives a report following meetings with investors and, where appropriate, takes into account the views expressed by investors on issues affecting the Company.
- Our Group Treasurer is always happy to meet with investors where requested. This year the following meetings were made available to all investors and potential investors:
 - Annual investor update (London) — 19th July 2017;

- Bond Roadshow, Edinburgh 12th January 2018, London 15th and 16th January 2018 — leading to the launch of the Group's £300m Bond Issue due 31st March 2036 at a fixed coupon of 2.5%.

Updated UK Corporate Governance Code 2018

In July 2018 the Financial Reporting Council published its final version of the updated UK Corporate Governance Code. We are currently considering the revisions to the UK Corporate Governance Code which will be implemented for all listed companies (and for us, by virtue of the Licence requirement) from 2020. The new Code places emphasis on building trust by forging strong relationships with key stakeholders and calls for companies to establish a corporate culture that is aligned with the company purpose and business strategy while promoting integrity and valuing diversity. The new Code is shorter and sharper than the last edition and is sufficiently different for us to reconsider the format of our governance report for the 2019/20 Annual Report.

Appendix 2: Ofwat Board Leadership, Transparency and Governance Principles

Our organisation is led by a strong and experienced Board that is fully committed to good governance and to effective strategic decision making, taking into account the constitution of the company as a not-for-shareholder organisation that focuses on long term planning and ensuring resilience. We have set out below how we comply with Ofwat’s “Board Leadership, Transparency and Governance- Principles” published in 2014, and how we approach governance more generally, which has informed our approach to the current Ofwat consultation on amendments to governance principles.

Transparency

The Directors have prepared a Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. This Statement is contained within our Annual Report and Accounts which is available on our website.

Independent external assurance on the content of the Statement is obtained from our financial auditors. In addition to their audit of the financial statements, the directors have engaged the auditors to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement the auditors are required to review the part of the Corporate Governance Statement relating to the Company’s compliance with the eleven provisions of the UK Corporate Governance Code specified for our review. The auditors concluded that they had “nothing to report in these respects”.

Role of Regulated Company

Our Licence, Condition F6A.5A includes a commitment to “...conduct the Appointed Business as if it were substantially the Appointee’s sole business and the Appointee were a separate public limited company”, including a reference to compliance with the UK Corporate Governance Code as if we were a listed company. Restrictions on the holding or acquisition of shares or other investments are outlined in Licence Condition F2.

The Board is a joint Board of Directors of Glas Cymru Holdings and Dŵr Cymru Welsh Water, a unified Board which reflects the commonality of interest between the holding company and the operating company, so the interests of the Appointed Business are central to the Board’s strategy without the need for a separate operating company Board of Directors. The Board meets regularly and is held to account by the Glas Members to ensure it stays true to its core mission of providing high quality essential services to our customers at the cheapest possible price. There are currently 50 Members (excluding Board Members), who are drawn from across our supply area, and who perform the governance roles carried out by shareholders in other companies.

Matters that are reserved to the Board are clearly articulated in the Governance Report contained within our Annual Report and Accounts.

Independence of the Board

The Board determines whether a Director is independent (in character and judgement and their relationships or circumstances) upon appointment and annually. All Non-Executive

Directors are identified in the Annual Report and detail of whether or not they are considered independent is disclosed.

Licence Condition P refers to a requirement to have a majority of independent Non-Executive Directors “who shall be persons of standing with relevant experience”. Since 2001 we have had a strong and challenging Board with a significant majority of independent Non-Executive Directors (currently Chairman plus three Executive Directors and six independent Non-Executive Directors).

Independent Chair

Our Chairman was independent on appointment and has not been an Executive of the company previously or an investor. The Chairman holds meetings with the Non-Executive Directors without the Executives present on at least an annual basis.

We have a Senior Independent Director who provides a sounding board for the chairman and to act as an intermediary for the other directors when necessary. As we are a company limited by guarantee, our Senior Independent Director represents the interests of Members. The Senior Independent Director and the Non-Executive Directors meet without the Chairman present at least annually to appraise the Chairman’s performance and on such other occasions as are deemed appropriate.

Board Committees

We have an Audit Committee comprising at least three independent Non-Executive Directors with clear terms of reference. At least one member of the Audit Committee has recent and relevant financial experience. Our Audit Committee:

- reviews whistleblowing reports provided by the Business Assurance function, to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- monitors and reviews the effectiveness of the internal audit activities; and
- recommends the appointment, reappointment and removal of the external auditors.

A description of the work of the Audit Committee is included in our Annual Report.

We have a Remuneration Committee comprising at least three independent Non-Executive Directors with clear terms of reference, explaining its role and the authority delegated to it by the Board. The Remuneration Committee has delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments.

We describe in our Annual Report the work carried out by external consultants to support this Committee, and a statement is included in our Annual Report that the Group has no other connection with the consultants (Mercer) currently providing this support.

Group Structure

The structure of the Group within which the Company operates is set out clearly and unambiguously within our Annual Report.

Ofwat Consultation on Board Leadership, Transparency and Governance Principles

Ofwat's Board Leadership, Transparency and Governance Principles were first introduced in January 2014. Recently Ofwat consulted on proposals to improve, clarify and streamline the principles. These changes are intended to reflect and build on best practice in the wider world of corporate governance, but also respond to the particular challenges facing a sector delivering an essential public service through monopoly businesses.

We have responded to the Ofwat consultation stating that "in general, we have no difficulty with the content of any of the principles set out in Ofwat's consultation paper, and we are in any event committed to transparency and good governance". We also consider that a licence condition for all companies mandating compliance with the UK Corporate Governance Code (on a "comply or explain" basis) would achieve Ofwat's aims of requiring improved leadership, transparency and governance from regulated companies.

Appendix 3: Compliance with regulatory requirements

Ofwat seeks to support and challenge Boards and companies through a range of tools. These tools help ensure we have robust arrangements in place to deliver the services that customers and wider society require. They help shine a light on what the Board and the company are doing to ensure services are resilient and challenges them to take action to improve resilience in a timely way. These tools include:

1. Instrument of Appointment;
2. Company Monitoring Framework; and
3. Risk and Compliance Statement.

1. Instrument of Appointment

Instruments of Appointment are the regulatory instruments of regional water and wastewater companies (appointed companies), containing a number of conditions which cover both retail and wholesale activities of the appointed company. Ofwat is the statutory body with responsibility for regulating appointed companies in England and Wales. One of its functions is to licence and regulate appointed companies in a manner which it considers “best calculated” to secure the proper carrying out of their functions.

Condition 6A.1 of Condition F of our licence requires us to “at all times act in the manner best calculated to ensure that it has adequate: financial resources and facilities; management resources; and systems of planning and internal control to enable it to secure the carrying out of the Regulated Activities...”.

Our Board is required to complete a Certificate confirming compliance with F6A.1 obligations and submit with each Certificate a statement of the main factors which the directors have taken into account in giving that Certificate.

The latest Certificate is contained within our 2017-18 Annual Performance Report. The Certificate is signed by the Company Secretary by Order of the Board. The Certificate is subject to independent scrutiny by KPMG, our financial auditors. The requirement for KPMG to complete this Report was contained within the Regulatory/Annual Performance Report Engagement Letter. KPMG, have agreed the format and wording of the Report with Ofwat. A copy of the pro-forma report was submitted with the Engagement Letter. KPMG submitted their Report, containing positive assurance to the Directors, on 11 July 2018.

2. Company Monitoring Framework

Ofwat introduced the company monitoring framework for the period 2015-20 to ensure that stakeholders can rely on the information provided by water companies. The framework requires all companies to provide: explicit sign off on the assurance that has been provided; full transparency on the audit procedures; and a summary of the outcome of assurance. In line with the majority of water companies, Welsh Water has been assessed as being in the targeted assurance category. This means that in addition to the basic reporting requirements we are required to work with our customers and stakeholders to target issues, and consult on our draft assurance plans to make sure they are sufficient to address them.

We are supportive of this approach – we cannot expect to build and maintain the trust of our customers and stakeholders if we do not first understand if they have any concerns, and

then seek to address them. To assist us in this process we have developed an Engagement with Stakeholders Protocol.

We also discuss our plans with the Customer Challenge Group. Our Customer Challenge Group helps ensure that current and future customers are at the heart of the way we operate. We are committed to working with the Customer Challenge Group to ensure they are able to challenge the company and provide an independent view on the quality of a company's customer engagement and the extent to which the results of this engagement drive decision making.

Information is shared regularly with the Group, to enable them to review and challenge our progress in delivering our performance commitments. A key part of the role of the Customer Challenge Group is to provide additional independent challenge and review of our data. The Chair attends a Board meeting at least annually. We will continue to work with the Customer Challenge Group to develop our performance reporting to ensure it meets the requirements of customers and other stakeholders.

It is 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 understand and navigate and which enables them to understand how we are performing. We also recognise that this helps build trust and confidence in the business.

i) Accountability

Our Assurance Plan provides for governance of our 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 Customer Challenge Group provides independent external challenge of both our performance against our commitments and any supporting information we provide on it. Our Regulators, Ofwat, Drinking Water Inspectorate and Natural Resources Wales, and the consumer watchdog CCWater, also provide independent scrutiny and challenge.

ii) Our company culture

Our approach to data assurance allows us to consider risks associated with processes and identify specific controls that are in place to manage or mitigate those individual risks. However, it is important to remember that these controls do not operate within a vacuum and take place within an organisation with its own culture and governance which in itself provides a level of reassurance for many of the risks identified.

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.

We are committed to ensuring that we give our employees the tools to do their job, which is why we invest in many internal development schemes. We take pride in being Investors in People accredited for the work that we do in developing our people to be the best that they can be.

We work in an environment where managers don't hide away in offices and there is an open door policy at all times, so if a colleague has a question, they will always be able to get an answer. This enables us to build closer working relationships, promote accessibility and establish an open flow of communication.

Our culture is a cornerstone of the data assurance process 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 even preceding the first line of defence against inaccurate information. Maintaining a positive culture is important to us 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
- everyone knows that they can be honest about data errors.

iii) Assurance

Within the business we have well-established governance and accountability processes. Our data assurance framework is underpinned by four key cornerstones:

- Robust assurance principles – we operate a three-lines of defence model, targeted at areas of greatest risk;
- Clear ownership and accountability – we have clear lines of ownership and accountability for both the delivery of performance and the accuracy and reliability of the data provided;
- Effective governance – we are subject to scrutiny by our Board, Audit Committee and Dŵr Cymru Executive (DCE) with additional challenge provided by the Customer Challenge Group; and
- Transparency and accountability – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.

Key to our company monitoring framework is the assurance we undertake at each stage of the process and how we engage with stakeholders to ensure that the information we provide is useful and relevant for their needs.

Our Assurance Framework		
Internal Controls	Independent Scrutiny	Independent Review
<ul style="list-style-type: none"> • Written Guidance • Training • Management Reviews • Management Checks 	<ul style="list-style-type: none"> • Specialist Teams e.g. Compliance, Legal, Regulatory • Senior Management • Audit Committee • Board 	<ul style="list-style-type: none"> • Internal Audit • External Audit • Technical Audit • External Specialists

3. Risk and Compliance Statement

Ofwat expects 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. The Risk and Compliance Statement is one of Ofwat’s key regulatory tools and allows companies to demonstrate their accountability to their customers and demonstrate to Ofwat that they are complying with their obligations.

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 set out in our Risk and Compliance Statement and our Annual Performance Report our compliance with and performance against certain key performance measures, legal requirements and regulatory outputs. We also identify the risks that we are facing and the steps we are taking to manage and mitigate those risks.

In preparing the Risk and Compliance Statement we confirm that:

- We have a full understanding of, and are meeting, our statutory 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 to meet our obligations.
- We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.

A summary of how we demonstrate that we satisfy each of these commitments is provided below:

- i) The Company considers it has a full understanding of, and is meeting, its 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 our 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.

We map Company processes against our statutory and licence obligations in 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 will continue our efforts to improve the awareness of business units of the obligations they contribute to deliver and to further embed compliance within “business as usual” processes.

ii) The company has taken steps to understand and meet customer expectations.

Our Customer-led Success approach places the needs of our customers at the heart of everything we do. We take a lot of pride in shaping our services around the needs of our customers — and delivering the best service possible is our top priority.

Our vision is to “earn the trust of our customers every day”. This vision is fundamental to the way we work and enshrines our commitment that everything we do should be geared towards the benefit of our customers, not just our responses to high-profile events or campaigns.

The last year has seen a focus on how we are delivering services for our customers and how we are planning to deliver them in future. We know that while customers rightly expect us to deliver high-quality, safe and reliable services every day they also want us to ensure those services are sustainable and will withstand the many challenges the decades to come will present.

With our unique constitution Welsh Water exists to serve its customers and the communities of which they are a part. Whilst our management are expert in this industry and our Board has a depth of understanding from which to challenge management’s plans of what we need to deliver to meet our regulatory requirements, it is for our customers to tell us what their priorities and their concerns are — which in turn form the base of our objectives. So we consulted deeply and widely on Welsh Water 2050 during 2017.

iii) 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 the operation and effectiveness of the Group’s system of internal controls and risk management. The system of controls is designed to manage the risk of failure to achieve business objectives, and comprises audited policies and procedures aimed at identifying and managing the most significant risks faced by the business.

In considering the development of the system of controls, the Executive team reviewed 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 key features of our system are typical for a business of our scale and complexity. They include:

- identification of key strategic risks and opportunities facing the business;
- reviewing emerging and current issues at meetings of the Executive and the Quality and Environment Committee;
- clear management accountability for risk management, supported by regular risk reporting to the Board, the Quality and Environment Committee and the Audit Committee;
- acceptable risk parameters set by the Board, particularly in the context of the business planning process for the purposes of the next five year period;
- implementing controls that recognise that the nature and balance of risk changes and evolves;
- implementing procedures that govern the approval and control of major items of capital expenditure, the acquisition and disposal of material assets, and commitment to any arrangement that could give rise to a material liability;
- ensuring that financial systems and procedures are fit for purpose for preparing management and financial accounts; and
- appropriate design of management processes to ensure the effective direction and review of the business' operations supported by accurate and timely key performance indicators.

The Board receives assurance from independent work by Welsh Water's technical advisor on regulatory reporting issues (Jacobs Engineering Group) and from the programme of internal audit, the major findings from which are reviewed at the Audit Committee and the Quality and Environment Committee.

Risk is reviewed and considered at each meeting of the Board and a strategic review of risk is considered twice a year under a process chaired by the Chief Executive, who submits an update to the Board of the Executive team's view of the key strategic risks facing the business so that this can be considered by the Board as a whole. 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. The Audit Committee reports the results of its review 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 periodic reports from the Audit Committee, Quality and Environment Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance. This enables the Board to review the effectiveness of the internal control system throughout the course of the year.

- iv) We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.

All colleagues play a part in ensuring effective risk management, which is essential to underpinning decision-making at all levels of the organisation, and ultimately to ensure the long term success of the business.

Our process can be summarised as follows:

- Our systems of internal control are designed to identify, evaluate and manage risks affecting the business and these systems or internal control are regularly considered and monitored by the Audit Committee. Action plans with agreed timescales are adopted and tracked.
- Having risks identified and changes in the assessment of risks highlighted means that the Board is able to undertake its own informed assessment of the principal risks facing the company and to work with the Executive to agree the Group's tolerance of risk in these key areas on a regular basis.
- This assessment is used on a day-to-day basis to inform decision making including decisions concerning our investment programme. Every strategic update paper presented to the Board and its Committees includes a risk report and where risks identify the need for further mitigation, will include action plans with agreed timescales to enable progress to be tracked.

Our approach to Risk Management includes the following steps:

- Individual teams within the business take responsibility for managing risks within their areas of responsibility.
- Each business unit feeds into a "bottom up" risk management system, escalating risks through our governance structure of committees and team meetings. Risks recorded through that process are discussed during a more "top down" discussion of risk every month at a meeting of the Executive team.
- The Executive team's update on strategic risks affecting the business is reviewed at every Board Meeting and the Board carries out an in-depth review of strategic risks twice every year. The Board assesses both the current and target level of each risk.
- The Audit Committee has accountability for overseeing the risk management processes and procedures and reports to the Board on the adequacy of internal controls.
- This bottom up and top down approach to risk management provides assurance that risks are being effectively managed by the business and identifies those areas where further mitigation steps are needed.
- The Board and its Committees review a summary of strategic risks facing the business at every meeting.

We appreciate that by understanding the risks and threats we face, and developing robust systems and processes to ensure resilience in the long term we will be in a strong position to meet and exceed the expectations of all our customers and stakeholders.