

Managing risk effectively

Risk management is embedded in our culture and a key Company activity. A formal register records and ranks risks according to likelihood of occurrence and magnitude of impact and it also keeps track of mitigating actions. The risks are grouped under the six headings below and take account of financial and reputational impacts.

The Audit Committee reviews the register twice a year, reports back to the Board and the principal risks currently affecting the Company are shown below. This is not a comprehensive analysis and some of these risks are also described in other sections of this report.

Risk	Effect	Mitigations	Risk after mitigating actions
Business systems			
Cyber attack	Interference with operational controls Loss of personal data	<ul style="list-style-type: none"> Multiple layer security Controlled access to Company systems Participation in expert forums Regular testing and enhancement of security measures Employee awareness training 	15
Compliance with legal obligations	Compliance failure leads to regulator action	<ul style="list-style-type: none"> Employee awareness training Formal processes for compliance with market codes Dedicated resources Independent assurance Active participation in market development 	12
Failure of billing system	Temporary loss of revenue	<ul style="list-style-type: none"> Stable billing system supported by experienced system provider Detailed controls for any changes to system or environment Full disaster recovery arrangements in place and tested annually Adequate liquidity for temporary loss of billing capability 	4
Physical assets			
Water supply shortage	Customer demand not met	<ul style="list-style-type: none"> Detailed water resource management planning Maintaining ability to treat peak demand at water treatment works Resilience and flexibility of network Protection of assets from risk of flooding Customer metering policies Water efficiency education and communication programmes 24-hour standby arrangements Standby power generation capability at treatment sites 	9
Water quality failure, including by deliberate acts	Poor quality water supplied to customers - failure of statutory duty	<ul style="list-style-type: none"> Security measures at all sites Detailed control procedures for all treatment and network activities Automated controls on treatment processes 24-hour manned Control Room Extensive sampling regime In-house quality accredited laboratory 	6
Supply chain			
Impact of Brexit	Impact on supply chain, labour and financial market	<ul style="list-style-type: none"> Working with Water UK and the wider sector Managing inventory levels Advance purchase of electricity Monitoring changes within financial markets 	6
People			
Loss of large numbers of staff	Failure of normal business operations	<ul style="list-style-type: none"> Health benefits including flu injections offered to employees Staff consultation and engagement to avoid industrial action Health and safety given priority at highest level in the Company Cross-training and flexible working practices across functions Annual disaster recovery exercises Industry mutual aid arrangements 	9

A cyber attack continues to be our most significant risk and continuously enhancing our control measures to mitigate this risk remains a high priority.

Potential impacts of the UK's exit from the European Union have now been incorporated into the register as a Brexit risk, as shown below.

Impact	5	10	15	20	25
Very high	5	10	15	20	25
High	4	8	12	16	20
Medium	3	6	9	12	15
Low	2	4	6	8	10
Very low	1	2	3	4	5
Likelihood	Highly unlikely	Unlikely	Possible	Likely	Highly likely

To read more on the effectiveness of internal controls and risk management systems see page 46

Risk	Effect	Mitigations	Risk after mitigating actions
People (continued)			
Recruit and retain high quality staff	Degradation of service to customers and business success	<ul style="list-style-type: none"> Competitive employment conditions and employee benefits Investors in People gold recognition Regular appraisals and staff recognition schemes Commitment to staff training and development Employee engagement surveys and forums 	2
Inappropriate action by employees	Damage to customer service, Company reputation or finances	<ul style="list-style-type: none"> Code of Conduct and Business Ethics communicated to all staff Effective internal controls over systems and processes, including segregation of duties Training and performance reviews for all staff Confidential whistleblowing hotline service 	6
Financial			
Regulatory compliance	Compliance failure leads to reputational or financial damage	<ul style="list-style-type: none"> Experienced management team Prioritise adequate resourcing Well-established procedures for ensuring compliance Internal governance hierarchy Independent external assurance Accredited Environmental Management System H&S training 	4
Failure of economic regulation	Insufficient funding for Company to fulfil its duties	<ul style="list-style-type: none"> Stable and transparent regulatory regime Detailed business planning process, including customer consultation Strong regulatory focus for management Effective relationship with regulator External assurance for key regulatory submissions Appeal mechanism available for key regulatory decisions Contingency plans developed 	12
Financing	Increase in borrowing costs breaches financial covenants	<ul style="list-style-type: none"> Debt exposure linked to increase in regulatory capital value of business Ring-fenced accounts funded to ensure compliance Governance arrangements for monitoring forecast covenant ratios Detailed treasury controls at key measurement points Independent audit of key covenant ratios 	4
Customer participation			
Legitimacy	The recent political and regulatory pressure that has questioned the legitimacy of the water sector	<ul style="list-style-type: none"> Overall sector response to the challenge Water UK activities and Company image and reputation in the community Our specific Company actions such as publishing 'Keeping it clear' 	6
Cash collection rates	Loss of revenue and increased collection costs	<ul style="list-style-type: none"> Affordability testing of future prices Variety of payment options offered Discounts available for genuine financial difficulties (including a Water Support tariff) Experienced collections staff with detailed local knowledge Mixture of field-based employees and external legal advisors to optimise collection performance 	4