

Gate 2 Submission: Supporting Technical Report Annex 7: Assurance Process

6 December 2021



from
**Southern
Water** 

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1. Executive Summary

This Annex contains the details on the governance, submission structure and assurance of the accelerated Gate 2 submission to Regulatory Alliance for Progressing Infrastructure Development (RAPID) on 6 December 2021. Southern Water (SW) has continued a similar governance from Gate 1 whereby a series of management forums (including SW Board members) review all aspects of the Water for Life Hampshire (WfLH) programme and submission prior to Executive engagement and sign off by the SW Board. This annex also includes details of the assurance undertaken for the Interim Update (submitted and published in Sept 2021).

A proactive risk management approach was taken during Gate 2 which led to additional assurance activities during the Gated Process, ahead of the Gate 2 submission, on water resources modelling. [REDACTED] was commissioned to assure jointly for both parties (PW and SW) to ensure PWs interests were represented in their findings relating to the Havant Thicket alternatives.

Members of the Board are part of the regular WfLH programme reviews, supporting the risk-based Board engagement between gates. Internal assurance took place within SW with authoring teams carrying out quality assurance checks prior to senior management, Subject Matter Experts (SME) and legal reviewing documents included within the submission prior to commencing External assurance. joint

External assurance was carried out by [REDACTED] on all parts of the submission with a copy of their findings included in the submission.

SW Board and PW Board support the accelerated Gate 2 submission with the Board Statement included within this Annex.

Following further exploration of the Strategic Resource Option (SRO) Options, it became evident whilst preparing for the accelerated Gate 2 that having an operable solution by end of 2027 was unlikely and that the Board would be unable to commit SW to this date. This is detailed in the Gate 2 submission document "Solution Summary" as well as the Conceptual Design Report (CDRs) where current forecasted dates for operation are provided.

2. Governance and Submission

2.1. Southern Water WfLH Governance

SW's WfLH governance approach enabled the Board to have oversight and ownership over progress of the Solutions in accordance with the requirements of the Gated Process. Consistent support from three Executive Directors from key areas of SW provided challenge and input throughout the approach to accelerated Gate 2; an overview of the structure is illustrated below in Figure 1.

Each layer in this governance structure played an active and important role in directing the strategic solutions put forward at accelerated Gate 2 and provided integration with SW's corporate governance framework.

- **SW Board:** Accountable for strategic decision making and challenging the substantive content of the submission, the s20 and Water Resource Management Plan 2019 (WRMP19) obligations. Ensured alignment with SW's objectives, values and customer / stakeholder expectations.
- **Western Area Board working group:** This sub-group provided deeper oversight and challenge on key aspects of the plan with delegated authority for Programme related activity. The working group members include Board members, SW Chairperson, Executive Directors and Non-Executive Directors. The working group met between October 2020 and December 2021 to address topics deemed as high risk to SW WfLH Legal and Policy Obligations or Strategic Objectives, as shown below:
 - Comparative assessment of solutions (OAP)
 - Potential regulatory barriers, guidance or changes required (WRMP, s20)
 - Direct procurement for customers
 - External assurance findings and Board statement for accelerated Gate 2 submission
- **SW Audit Committee:** Responsible for the WfLH assurance approach and responding to external assurance findings.
- **WfLH Executive Programme Board:** Undertook monthly strategic review of the WfLH Programme comprising members of the SW Executive Leadership Team (ELT), including the CEO. This group is responsible for managing critical parts of the Programme, including reviewing risks and decisions made on a monthly basis.
- **WfLH Programme Steering Group:** Undertook monthly tactical review of the WfLH Programme comprising key members of the SW Executive Leadership responsible for the Programme, Regulatory engagement, Environmental compliance and Asset Delivery.

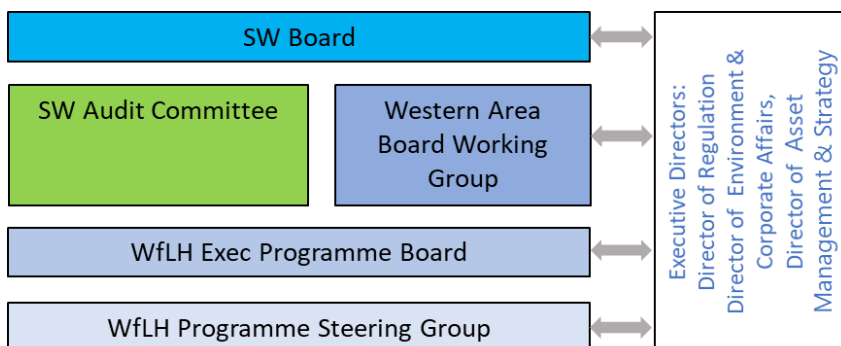


Figure 1 - SW WfLH Governance structure

2.2. Joint Portsmouth Water Southern Water Governance

Throughout Gate 2 PW and SW continue to work collaboratively to develop Options B.4 and D.2 together, which both interface with Havant Thicket Reservoir (HTR). For these options to be viable, there is a dependency on HTR (known as “Havant Thicket Classic”) being available.

The governance forum members for both PW and SW are illustrated below in Figure 2 and this has been signed off as part of the PW / SW Gate 2 Collaboration Strategy 2021. The RAPID Alternative Solution Executive Group shares membership with the existing Joint Planning and Assurance Group (JPAG) maintaining separation via its own dedicated meeting schedule. The Executive Group is dedicated to the strategic development of Havant Thicket Solutions as a regionally resilient asset whilst JPAG is dedicated to the 21 Ml/d potable water Bulk Supply Agreement (BSA).

The RAPID Alternative Solution Working Group meets on a weekly basis and is focussed on the development of the joint SW / PW solutions, agreeing direction for the project teams and seeking and obtaining approval for strategic items from associated Executive Group. The Alternative Solution Executive Group meets monthly, and on an exceptional basis as required.

PW governance for the accelerated Gate 2 submission is illustrated in Figure 2.

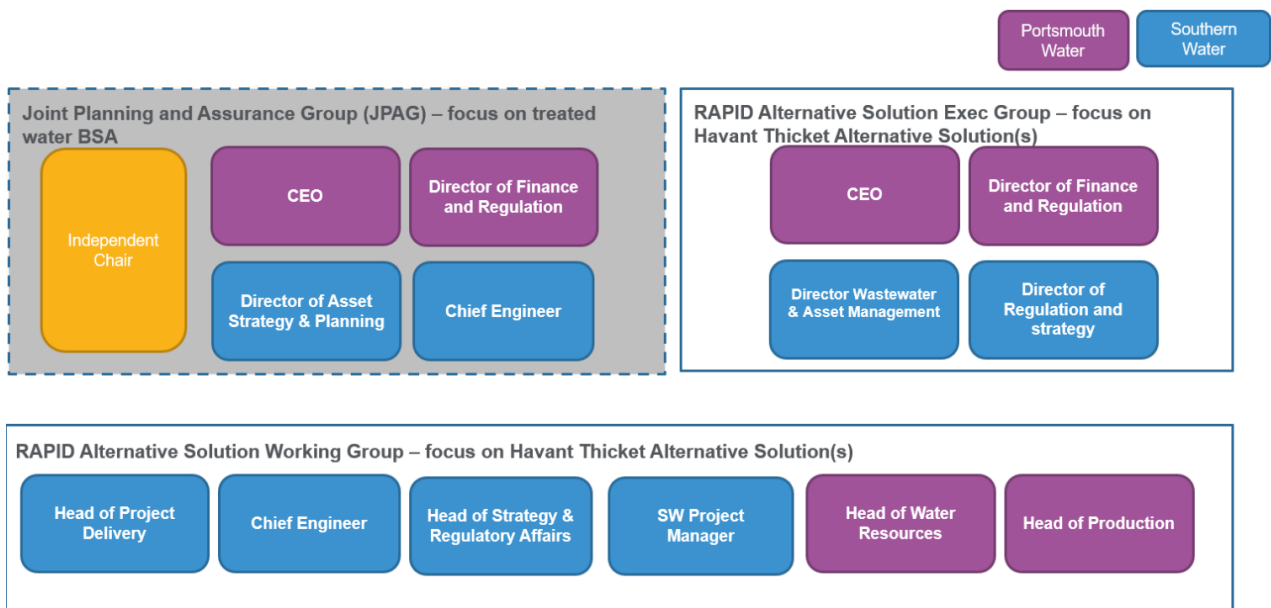


Figure 2 - Joint Portsmouth / SW Governance structure

2.3. Interim Update

As illustrated in Figure 3, an interim update was provided to RAPID following agreement to move the accelerated Gate 2 timescales to 6 December 2021.

The Interim Update documents underwent internal and external review, followed by WfLH Governance approval, as described in section 2.1. These documents were not taken to the SW Board as it was not a formal SW submission, which was agreed by the SW Risk and Audit committee and the WfLH Executive Programme board. These were provided to RAPID on the 27 September and have been published (with minor redactions) on the SW Website.

The CDR i and Annex 1 had been prepared for the original accelerated Gate 2 date of 27 September 2021 and underwent full external assurance by [REDACTED] (see **Error! Reference source not found.**).

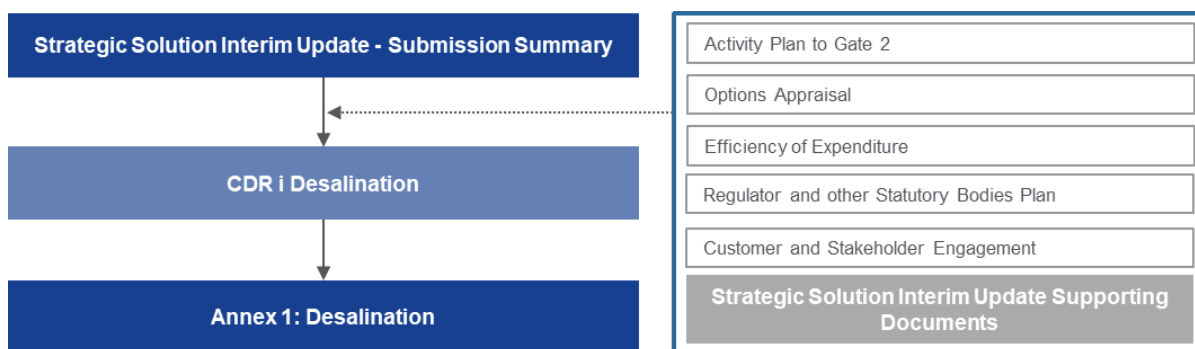


Figure 3 - Interim Update structure 27 September 2021

Other documents had been prepared for the original Gate 2 submission (illustrated in Figure 4) and had already undergone external assurance in preparation for the original date of the 27 September 2021.

As part of preparation for the new Gate 2 date of 6 December 2021, the purpose and content of these documents were reviewed in order to minimise duplication of work during the Interim Update and the submission structure adjusted in line with the agreements with RAPID. This is described in section 2.4 below.

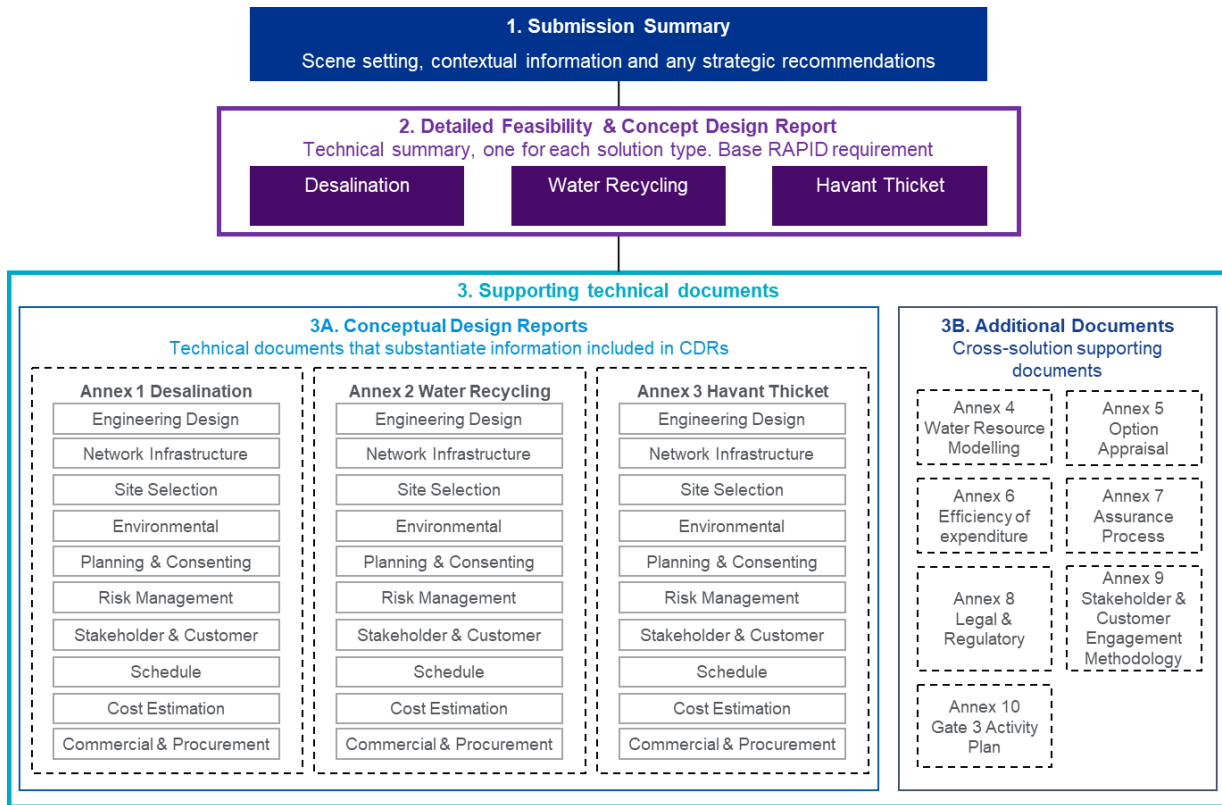


Figure 4 - SW Original Accelerated Gate 2 submission (27 September 2021) – Document structure

2.4. Submission Structure

For the accelerated Gate 2 submission, the published RAPID guidance for Gate 2, together with the accelerated Gate 1 determination Actions and Recommendations, was used to create the structure of the documents illustrated in Figure 4.

This was revised following the Interim Update submission (Figure 5) and was reviewed by the Programme Steering Group and Executive Programme Board to ensure that the submission would fully meet the RAPID documentation requirements and expectations following the Interim Update for the Gate 2.

Both the original structure and the new submission structure were discussed with RAPID to seek agreement on submission content and length, incorporating learnings from accelerated Gate 1 feedback and the standard Gate 1 feedback on expectations for publishing documentation.

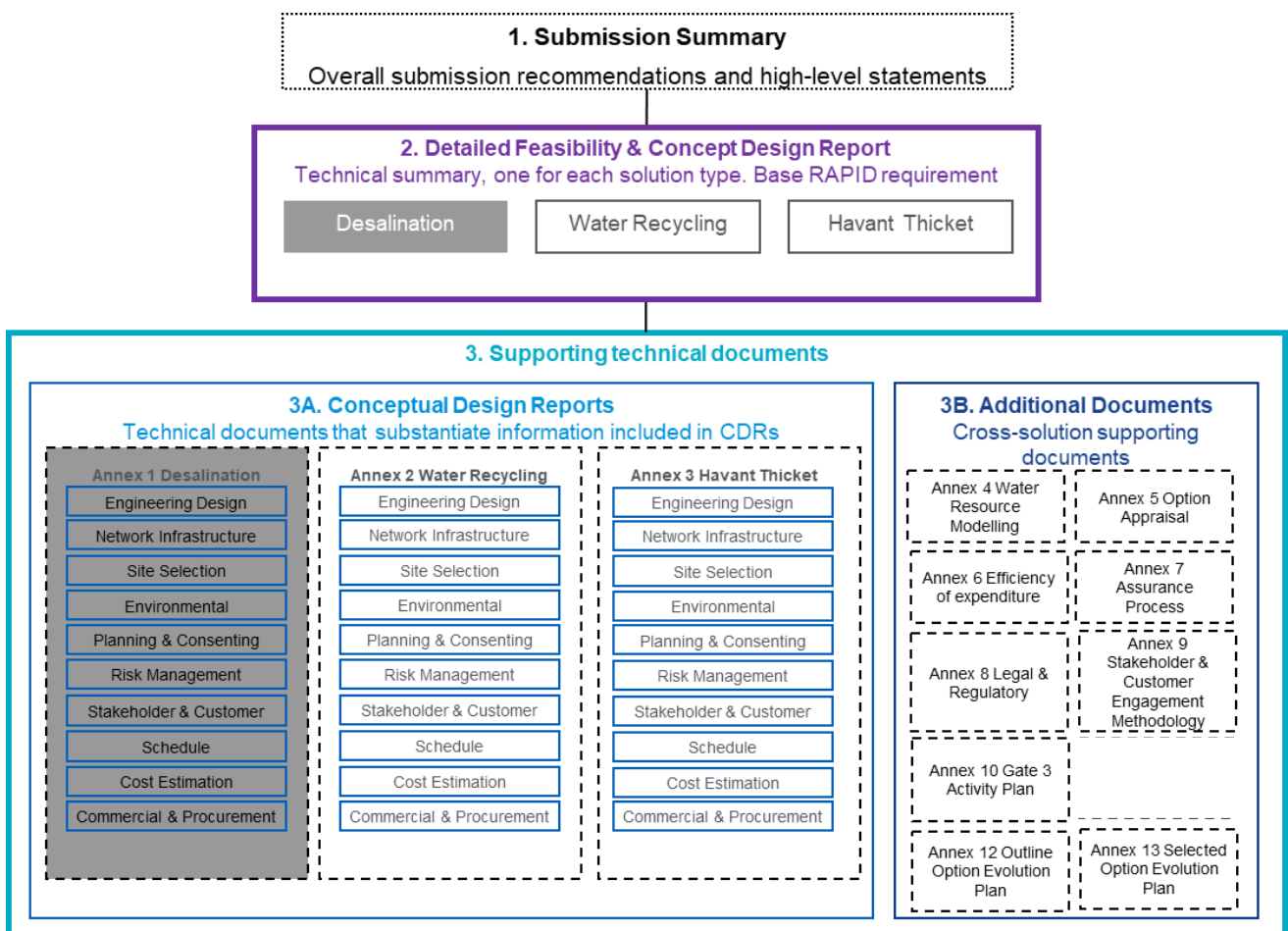


Figure 5 - Gate 2 submission structure (6 December 2021)

3. Assurance Process and Findings

3.1. SW Assurance Process

SW continues to use a “three lines of defence” framework for its reporting governance and assurance activity for all Regulatory submissions. This helps to assure performance information by applying multiple levels of control. The details of the overarching regulatory reporting approach and objectives can be found in its Final Assurance Plan (March 2021) and Data Assurance Summary (July 2021).

Both technical and strategic external assurance was undertaken at accelerated Gate 1, because the RAPID process was new, and the RAPID requirements needed to be balanced with the complexities of delivering SW’s WRMP19 and meeting the obligations in the s20 Agreement.

Recognising that Gate 2 required more technical information for the SROs in comparison to Gate 1, the risks relating to the submission were identified and the following changes made to the approach to increase efficiency:

- All technical documents underwent an additional stage of internal assurance, known as a “peer review” whereby:
 - a constructive challenge panel made up of SW and supply chain SME read the draft documents and provided good practice checks using reasonable skill and care and applying their expert knowledge of the subject across technical areas and
 - one to one reviews of the document took place for those unable to attend the group feedback to ensure all SME views were incorporated
 - feedback was then incorporated into the final draft documents
- All submission documents (including supporting documentation) were reviewed by the same external assurers, [REDACTED] that were used for Gate 1 technical assurance

The assurance scope for accelerated Gate 2 is summarised below and applied to all submission documentation (levels 1, 2, 3A and 3B from Figure 5), except for the Legal and Regulatory Annex 8:

- independent review of the submission documents
- critical review of processes and data
- review of assumptions and risk
- review of adherence to reporting requirements (i.e., the RAPID Gate 2 template and Gate 1 determinations) and
- review of evidence of efficient cost expenditure

Legal and Regulatory Annex 8 was drafted by the SW Legal team and signed off by a SW director. This document was deemed low risk for technical assurance and was not subject to external assurance.

3.2. Additional Risk Based Assurance

In order to minimise any emerging risks identified during the period between Gate 1 and Gate 2, the following areas received additional deep dive assurance focus to actively mitigate the risks.

- As described in Annex 4 Water Resources Modelling, additional progressive assurance was provided for the water resources modelling throughout Gate 2.
- [REDACTED] was commissioned to assure jointly for both parties (PW and SW) to ensure PWs interests were represented in their findings relating to the Havant Thicket alternatives.

3.3. External Assurance Outcome

Assurance of the Level 1, 2 and 3A and 3B documents was carried out by [REDACTED] between July and September 2021 in preparation for the initial Gate 2 date (27 September 2021). When this was changed to 6 December 2021, new documentation was assured (in November 2021) following the same process. Existing documentation was reviewed by [REDACTED] to ensure the Assurance findings from September remain valid.

The full report is available in Appendix 1 of this annex.

These were presented to the SW Steering Group, Executive Programme Board, Audit Committee, Western Area Board Working group and SW Full Board in November and December 2021 as part of the governance and submission sign off ahead of the submission to RAPID for Gate 2.

Those sections relevant to the Havant Thicket SRO were presented to the PW Board in November and December 2021 as part of the sign off process ahead of the submission to RAPID for Gate 2.

4. Board Statement

4.1. RAPID's Feedback from Gate 1 Determination

As part of the accelerated Gate 1 determination RAPID defined additional Board statement requirements for accelerated Gate 2:

“Future plans for board engagement must provide for effective oversight of Southern Water’s obligations under the section 20 agreement and to ensure that one or more solutions are in place and operating by the end of 2027. We expect Board assurance for gate two to include a statement that the Board is satisfied that progress on solutions is commensurate with solutions being in place and operating by the end of 2027.”

It became evident during accelerated Gate 2 that having an operable solution by end of 2027 was unlikely and that the Board would be unable to commit SW to this date, therefore the Board statement cannot comply with RAPID's requirement above. In the Gate 2 Board statement (below), the Board has committed to the expected operational date of the Selected Option. This is detailed in the Gate 2 submission document “Solution Summary”, as well as the CDRs where current forecasted dates for operation are provided.

A further recommendation requested evidence of Board engagement leading up to Gate 2, therefore SW has implemented a board engagement tracker whereby all RAPID related interactions (internal and external) with Board members (and key directors) are visible with evidence of engagement (consultation, decisions etc). The support of the two executive directors has allowed consistent oversight by a board member throughout the preparation for Gate 2 and this will be continued following Gate 2.

In addition, SW has enhanced the governance structure used at accelerated Gate 1 to include a full programme wide Project Management Office (PMO) structure, including the appointment of a Programme Director, who is responsible for delivery of the wider WRMP19 Preferred Strategy, plus other RAPID Solutions (standard gates activity which are not part of WRMP19).

Additional monthly programme reviews (carried out for all aspects of the WfLH programme including the SRO projects) have taken place during accelerated Gate 2 to demonstrate progress. Outputs are reviewed and shared with the WfLH Steering Group, WfLH Executive Programme Board on a monthly basis as well as regularly with the Board Working Group on a monthly basis to provide challenge and support in meeting the WRMP19 commitments.

4.2. Board Assurance

The following table details the assurance steps taken to support the Board Assurance Statement.

Table 1 - Board Assurance Statement

Board Statement	Assurance
Support the recommendation for Selected Option and Back Up Option progression made in the accelerated Gate 2 submission.	<ul style="list-style-type: none"> The recommendations regarding scheme progress have been agreed by the scheme partners (PW) and discussed with RAPID The SW WfLH Executive Programme Board and SW Board reviewed and discussed the conclusions and approved the recommendations The PW Board reviewed the conclusions and approved the recommendations Third party assurance by ██████ was completed on behalf of both companies
Satisfied that progress on the solution is commensurate with the solution being operable by	<ul style="list-style-type: none"> Each supporting annex sets out the data used to carry out the assessment

Board Statement	Assurance
2030 in line with delivery schedule as shared with RAPID and Environment Agency.	<ul style="list-style-type: none"> A detailed project plan was prepared and reviewed by the WfLH Executive Programme Board PW support for the Havant Thicket Reservoir aspect of the delivery plan
Satisfied that the activity carried out to date is of sufficient scope, detail and quality as would be expected of a large infrastructure programme of this nature at this stage in the project development lifecycle.	<ul style="list-style-type: none"> Drafting of the Concept Design Reports by technical team Peer review of documents by representatives of PW (where relating to HTR) Third party assurance by [REDACTED] for SW and PW
Satisfied that expenditure has been incurred on activities that are appropriate for accelerated Gate 2 and are efficient.	<ul style="list-style-type: none"> A separate document providing evidence of efficient cost expenditure was drafted and approved by SW finance A detailed review on expenditure has been shared at WfLH Executive Programme Board Third party assurance by [REDACTED]
Satisfied that any expenditure incurred for accelerated Gate 3 activities (and completed within Gate 2 period) have been clearly flagged and discussed with RAPID prior to submission. Expenditure is relevant to the All Best Endeavours (ABE) requirement for s20 and is efficient.	<ul style="list-style-type: none"> Separate document providing evidence of efficient cost expenditure was created A detailed review on expenditure has been shared at WfLH Executive Programme Board Third party assurance by [REDACTED]

4.3. Board Statement

The Board has reviewed and discussed the overall strategy for the approach to the accelerated Gate 2 RAPID submission and is satisfied that both the submission and data assurance are appropriate.

SW confirms that:

- All the elements add up to an accelerated Gate 2 submission that is high quality and meets the requirements as set out in the Price Review (2019) PR19 Final Determination and subsequent guidance from RAPID
- SW has put in place an assurance process to support improvement of the accuracy and robustness of the data and estimates used to develop the Gate 2 submission
- Expenditure has been incurred on activities that are appropriate for accelerated Gate 2 and activities brought forward for accelerated Gate 3 (as discussed with RAPID) and is efficient
- SW endorses Option B.4 as Selected Option and Option B.5 as Back-Up Option being put forward at Gate 2, for continuation to the next stage of the RAPID process
- SW is satisfied that progress on the solution(s) is in line with the solution being in place and operable by 2030
- SW is committed to transparent reporting of high-quality data that can be trusted

The Board supports the continued joint working groups with PW on the Havant Thicket SRO and continues to work closely with PW Board to satisfy both parties that an appropriate strategy has been implemented to assure the submission approach and data verification. PW supported the creation of the Havant Thicket SRO documentation and co-reviewed the documents during the assurance process prior to submission approval from the PW Board on the 3rd December 2021.

How the Board has reached its conclusion:

- The SW Audit committee is responsible for the WfLH assurance approach and responded to external assurance findings
- [REDACTED] provided technical assurance, focussing on reliability, consistency and quality of data, and efficient cost expenditure

- SW established a Board working group which met regularly to discuss progress, approve key decisions to meet programme milestones and reviewed key areas of the submission
- The joint executive team working group with PW has confirmed it is satisfied with the Havant Thicket element of the submission
- Final assurance reports were provided to the WfLH Executive Programme Board and the SW Board working group for consideration in approving the submission

Further evidence

- Active Board engagement with the submission team through the Board working group
- The WfLH Executive Programme Board challenged key areas of the plan, advising the Board working group

4.4. Future Plans for Board Engagement

Both the SW Board and PW Board will continue to be actively engaged on the RAPID solution(s) as the solutions progresses towards accelerated Gate 3.

The current governance process, driven up from the WfLH Steering Group, WfLH Executive Programme Board into the Board working group and full SW Board, will continue to meet on a regular basis to share progress and make key decisions to manage or mitigate risks identified by the delivery of the solution to meet the 2030 delivery date.

The Board will oversee the obtaining of the agreed amendment in writing from the EA to the s20 delivery dates from 2027 to 2030 and a workstream ensuring sufficient interim supply for the period.

SW and PW are in discussion with Ofwat and RAPID on Direct Procurement for Customers (DPC) and Gated Process timings. These timings will drive the schedule of activity and determine the Board level engagement topics to support decision making and regulatory engagement.

Annex 10 Gate 3 activity plan contains milestones from Gate 2 to Gate 3. Board engagement for SW and PW on key topics leading up to accelerated Gate 3 should include:

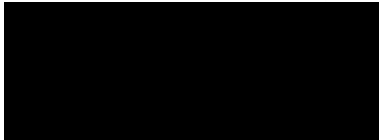
- Network interface between PW and SW
- Potential regulatory barriers, guidance or changes required
- Accelerated Gate 2 determination feedback
- DPC (DPC and Control Point timetable with Ofwat)
- Review of efficient cost expenditure
- Interface between the Gated Process and WRMP, and Water Resource South East (WRSE) plans
- Assurance findings and Board statement for accelerated Gate 3

4.5. Board signatures

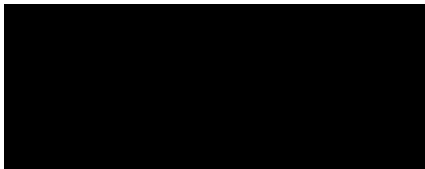
We, the Board of SW, are pleased to submit our accelerated Gate 2 documentation.



- Keith Lough – Chairman



- Ian McAulay – CEO



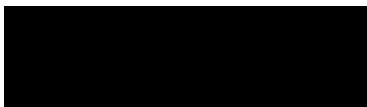
- Sebastiaan Boelen - Chief Financial Officer



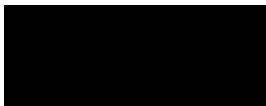
- Paul Sheffield – Senior INED



- Rosemary Boot – INED



- Mike Putnam – INED



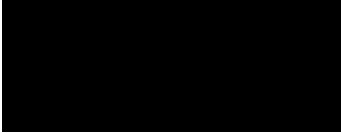
- Gillian Guy – INED



- Kevin McCullough – INED



- Malcolm Cooper – INED



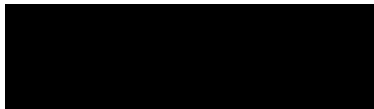
- Martin Bradley – NED



- Mark Mathieson – NED



- Will Price - NED



- Richard Manning – General Counsel and Co Sec

