

TA 2.2 Board Engagement and Challenge Technical Annex

September 2018
Version 1.0

Navigation: TA 2.2 – Board Engagement and Challenge

Purpose:

This annex provides further details on how the Board challenged management to produce a high quality and deliverable plan. It provides a summary of the key interventions and challenges made by the Board, through the various channels of engagement. It is not, and it is not intended to be a complete inventory of Board discussions, feedback or queries.

The table below summarises the Ofwat tests that are addressed by the evidence presented in this Annex.

Table 1 - Relevant Ofwat tests

Ref	Ofwat test	Comment
Primary Focus Areas		
CA1	To what extent has the company's full Board provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?	In a high-quality plan: The Board will provide a statement of why it considers all the elements (including supporting data) add up to a business plan that is high quality and deliverable, providing strong evidence of where and how it has challenged company management. This annex summarises the forums for Board challenge, and individual Board member involvement throughout the development of our Business Plan. It documents key challenges received from the Board, and how management responded to them. It provides evidence as to how the Board satisfied itself such that it could make the Board Assurance Statements set out in TA.2.1 with confidence and fully endorse Chapter 2 - Trust, Confidence and Assurance.
Secondary Focus Areas		
CA2	Securing confidence and assurance	
CA3	Securing confidence and assurance	
CA4	Securing confidence and assurance	
CA5	Securing confidence and assurance	
CA6	Securing confidence and assurance	

Board engagement and challenge

The development of our PR19 plan has been a constant theme at Board meetings over the last two years. The Board has discussed a wide range of issues which have a bearing on our Plan, including our organisational capabilities, our vision for the future, our strategy, the transformational programmes which will allow us to implement this strategy and financeability. In addition to full Board meetings, we established a number of channels through which the Board engaged on the development of our Plan:

1. **Full Board engagement days (BEDs):** Board engagement days were designed to allow dedicated time for the full Board to provide input and challenge on our plan. They focused on the overall strategy and direction for the plan, and challenged management on key topics and emerging proposals. In total, the Board input 11 full days through BEDs.
2. **Board sub-committees (BSCs):** A Board sub-committee structure was established in early 2018 to provide deeper oversight and challenge on key aspects of the plan. Four sub-committees of the Board were established. Board members were assigned to the sub-committees in line with their individual expertise and experience. The sub-committees also included relevant Executive Leadership Team members.
3. **Review of successive drafts of the Plan** – Board members reviewed drafts of the content our Plan as this was being developed. We assigned individual chapters to Board members, who provided challenge and comments on the content of the emerging document.
4. **Full Board meetings (BM):** Formal decisions were taken at Board meetings. Specific agenda items for PR19 provided an opportunity for the full Board to discuss and approve proposals and submissions.

In the following sections, the calendar of engagement with the Board is outlined, alongside the key challenges presented by the Board through both BEDs and BSCs.

In Appendix 01 to this Technical Annex 2.2, we outline the composition of our Board and their involvement in the PR19 process.



Figure 1 - CEO Ian McAulay opening the March Board Engagement Day

Full Board calendar

The schedule of Board engagement is outlined below:

Figure 2 - Board engagement for PR19

April 2017										August 2018		
Board engagement days	30th May 2017	14th/15th Aug 2017	10th Oct 2017	29th Jan 2018	20th Mar 2018	19th Apr 2018	21st May 2018	20th June 2018	25th/26th July			
	<ul style="list-style-type: none"> Developing our strategy for PR19 and beyond Future trends and impacts Our strategic priorities in the short and long term How we will deliver on our strategy, and measure our success 	<ul style="list-style-type: none"> PR19 methodology Lessons from PR14 Our PR19 strategic themes Our initial view of efficient totex Financeability Governance and challenge around our plan 	<ul style="list-style-type: none"> Priorities for customer engagement Initial strategic choices and totex plans for Retail, Water and Wastewater Initial financeability assessments across our plan 	<ul style="list-style-type: none"> Our vision and approach for PR19 and beyond Deep dive on costs at LD1, and associated performance levels Assurance plans and cost efficiency Great Customer Service, Resilience, Innovation, Affordability 	<ul style="list-style-type: none"> Update on sector developments Deep dive on costs at LD2, and update on approach to LD3 Financial assessment of current plan at LD2 Scope for further cost reduction Initial proposals for PCs and CACs 	<ul style="list-style-type: none"> Content and format of Board Assurance statements Update on cost challenge Financial levers (PAYG) Cost reduction through Delivery and Operating Model (including E&C, IT and DPC) Updated proposal for PCs and CACs 	<ul style="list-style-type: none"> Update on sector developments Update on base totex plan Shareholder perspective Delivery risks and our plan Choices for the Board to consider around our plan Our plan and the cross cutting themes Performance risks and our plan 	<ul style="list-style-type: none"> Update on sector developments Update on costs, financeability, customer bill impact and ODIs Update from Board sub-committees Board assurance statements Finalisation of review process in advance of submission 	<ul style="list-style-type: none"> Review of each individual Board Statement Recap on evidence to support each Statement Updates directly from Third Party Assurers (where relevant) Updates from the Chair on the CCG on the quality of customer engagement, and it's reflection in the plan 			
Board meetings	25th Apr 2017	27th June 2017	26th Sept 2017	28th Nov 2017	11th Dec 2017	27th Feb 2018	27th March 2018	24th Apr 2018	24th May 2018	19th June 2018	24th July 2018	20th and 30th August 2018
	<ul style="list-style-type: none"> Timetable to submission, including Board engagement plans Our strategic statement and vision 	<ul style="list-style-type: none"> Lessons from PR14 assurance approach Proposed approach for assurance and the PR19 plan 	<ul style="list-style-type: none"> Procurement AMP7 Board engagement plan, including milestones and Board decisions Key themes for PR19 Stakeholder engagement 	<ul style="list-style-type: none"> Board engagement plans Independent Challenge Panel WRMP and Drought Plan Schedule of publications and timetable to submission Approach to the plan, and the executive summary 	<ul style="list-style-type: none"> Update on insight generated/ used in the plan Ofwat expectations on engagement Innovation approaches to customer engagement 	<ul style="list-style-type: none"> Proposed sub-committee structure for PR19 plan Update from PwC on assurance work streams for the PR19 assurance approach Timelines for WRMP and DP consultation 	<ul style="list-style-type: none"> Updates to PR19 sub-committees PR19 programme critical path to submission 	<ul style="list-style-type: none"> PwC Assurance and PC reports PR19 programme critical path to submission CAC and PC submission to Ofwat 	<ul style="list-style-type: none"> PwC Assurance and PC reports PR19 programme critical path to submission 	<ul style="list-style-type: none"> PwC Assurance report PR19 programme update and critical path to submission 	<ul style="list-style-type: none"> Conclusions from the Ofwat Consultation on "Putting the sector back into balance" Ofwat consultation on Board, Leadership, Transparency and Governance Principles A short Board meeting was held on the 26th to approve key plan parameters 	<ul style="list-style-type: none"> Final Board sign-off
Regular PR19 programme progress updates to Board												

*The Board provided final sign-off across two Board meeting on the 20th and 30th August 2018

Board Engagement Days (BEDs)

In total, over 500 Board member hours were dedicated to the development of our PR19 plan through BEDs, further complemented by subject specific deep dives through the Sub-committees. In Table 2 below it shows the key areas of focus for each session and the challenges made by the Board. The table demonstrates the breadth of Board challenge around our plan – a key part of ensuring every Board member had confidence in its contents.

Table 2 - Board challenge at BEDs

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
May 2017	<p>The first BED focused on the overall vision and strategy for PR19. In this session, the Board considered our approach for PR19, and the proposed approach to Board engagement. The Board discussed (among other things):</p> <ul style="list-style-type: none"> • Future trends and potential impacts across the value chain • A draft vision and strategy statement. • Projects aligning to this vision 		
Aug 2017	<p>A two day session was held following the publication of Ofwat’s PR19 Draft Final Methodology. The Board discussed (among other things):</p> <ul style="list-style-type: none"> • Lessons learnt from the PR14 process, and how these could be applied to the PR19 programme. • Refinements to the overall strategy for PR19 following progress from the May 2017 BED. • Initial views from management on key parameters, following baseline modelling. This included potential bill headroom, wholesale totex and retail costs. • Implications of the PR19 draft methodology for financeability. • Arrangements for Board engagement up to submission. 	<p>The Board sought to ensure it would have adequate opportunity to challenge proposals throughout their development. The Board also sought to ensure it would have an opportunity to build confidence and assurance in the Plan before forming and signing Board Assurance Statements. Specifically, the Board challenged management to:</p> <ul style="list-style-type: none"> • Develop finalised plans for expenditure scheduled for the remainder of AMP6. • Continue to refine totex estimates in light of the PR19 draft methodology. • Provide options to reduce retail costs • Produce a full engagement schedule with the Board for the remainder of the business planning process. • Return to the Board with a summary of current findings from customer and stakeholder engagement, and planned activity going forward. 	<p>Management:</p> <ul style="list-style-type: none"> • Undertook further cost estimate work across the water, wastewater and retail plans, and produced an articulation of performance associated with the planned level of totex. This was brought to the Board at the October BED. • Developed a full Board engagement plan, including key milestones and decisions required. This was approved at the September Board meeting, and formed the basis of Board challenge throughout the development of the plan. • Summarised the key priorities for customer engagement. This was brought to the Board at the October BED.

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
Oct 2017	<p>The Board focused on the outcomes within the Plan, and updated cost estimates for AMP7. Financeability was also considered in response to recent publications from Moody's. Specifically, the Board discussed (among other things):</p> <ul style="list-style-type: none"> • The outcomes framework for the Plan • Updates on cost estimates for the Water, Wastewater and Retail plans, and the associated levels of performance. • Moody's views following the PR19 Draft Methodology. • They also discussed high level views from financial modelling, and the draft timetable for the capital structure review. 	<p>Challenge from the Board focused on cost estimates presented for the Water, Wastewater and Retail plans to ensure they were both robust and efficient. Specifically, the Board challenged management to:</p> <ul style="list-style-type: none"> • Identify potential cost reductions in each plan, and to provide further insight behind the top down view of cost allowances. • Produce options for the business retail model, for challenge at future sessions. • Draw the key conclusions from customer engagement to date, and to provide confidence with a forward plan for engagement activities. 	<p>Management continued the iterative process of revising cost estimates in the plan. Specifically, management:</p> <ul style="list-style-type: none"> • Continued to review cost estimates across the price controls, and established a central lockdown process around key planning parameters • Produced further evidence to support alternative retail business models and facilitated challenge sessions with the Board in December and January 2018. • Extracted findings from existing customer insight and outlined to the Board how these were reflected in the Plan at the December Board meeting.

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
Jan 2018	<p>The Board focused on the approaches to addressing affordability and vulnerability, great customer service, resilience, and innovation. Alongside updates on cost estimates, the Board considered assurance arrangements. Specifically, the Board discussed (among other things):</p> <ul style="list-style-type: none"> • Propositions under development to address Ofwat’s four themes in PR19. • An updated to the strategic vision for PR19 and beyond, informed by customer and stakeholder priorities. • A breakdown of cost estimates as at Lockdown 1 (the first lock-down of key plan parameters) across the Water, Wastewater and Retail plans. This included an update on the forecast cost impact of transformation activities. • Detailed proposals for alternative retail business models. • The application of the “three lines of defence” assurance model. 	<p>Alongside continuing to focus on the development of cost estimates, The Board expressed a desire to see evidence of alignment between proposals in the plan and stakeholder priorities. Specifically, the Board challenged management to:</p> <ul style="list-style-type: none"> • Include a greater focus on the changing culture within the company in order to drive forward proposals for resilience. • Review the approaches of other companies to PR19, and conduct benchmarking where possible and appropriate. • Provide further detail on the approach to modelling cost. • Continue to challenge cost estimates, with the aim to close the gap between planned costs and the internal view of funding allowances. 	<p>Management continued with the lockdown process, and increased the focus on current efficiency. Specifically, management:</p> <ul style="list-style-type: none"> • Further developed propositions for each of the Ofwat four themes. This included reflecting Board feedback on addressing culture in the approach to resilience. • Proactively sought endorsements from stakeholders through engagement. • Outlined assumptions used to model a top down view of funding allowances. • Prepared impact assessments associated with alternative retail models, which was shared at the March BED, at which session, management also articulated the current efficiency challenge.

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
Mar 2018	<p>The Board focused on latest cost estimates. They also considered options for the future retail model, and discussed draft proposals for performance commitments (PC's) and outcome delivery incentives (ODI's) and cost adjustment claims (CACs). Specifically, the Board discussed (among other things):</p> <ul style="list-style-type: none"> • The latest cost estimates for the AMP7 water, wastewater and retail plans. This included considering the scope for further challenge, the level of performance associated with the plan, and the potential gap to the internal view of likely funding. • Forecast cost reductions associated with alternative retail models. • A draft list of potential CACs, and the drivers behind the expenditure. • Draft proposals for PCs and ODIs, alongside initial feedback provided by the customer challenge group (CCG). 	<p>The Board recognised the progress made on costs, and challenged management to articulate risks associated with further cost reduction. Management were asked to also refine proposals for PCs and ODIs, and CACs: Specifically, the Board challenged management to:</p> <ul style="list-style-type: none"> • Articulate the risks associated with further challenging the scope of the plan from a range of perspectives. The Board asked for this to include risk assessment taking into account any changes to performance from reducing spend. • Provide further information on the full costs associated with the alternative retail model expressed as the preferred Board option. • Focus on material CACs with a robust evidence base. The Board also asked management to align CACs with the ODI package. • Find opportunities to refine the list of initial proposed PCs. 	<p>Management refined the cost challenge process following the March BED, and continued to refine proposals for PCs and ODIs, and CACs prior to submission in May. Specifically, management:</p> <ul style="list-style-type: none"> • Undertook a risk based review of cost estimates in the water and wastewater plans, to identify further opportunities for cost savings without undue impact on performance, and areas with potential for reasonable trade-offs. The range of potential reductions identified were presented to the Board at the April BED. • Produced a business case to support the alternative retail model. The continued to discuss the retail model through full Board meetings. The retail model was signed off in June. • Continued to develop evidence behind CACs, and undertook a challenge process to refine the number of proposed claims. This included internal Star Chamber sessions to challenge proposals (the nature of these sessions is described in Chapter 2) • Continued to refine the proposed list of PCs, using a framework to prioritise candidate measures. This included internal Star Chamber sessions to challenge proposals.

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
Apr 2018	<p>The Board focused on the form of draft Assurance Statements. The Board also reviewed the output of cost challenges from the previous month, and reviewed plans for delivery and efficiency. Specifically, the Board discussed (among other things):</p> <ul style="list-style-type: none"> • Choices in the wording of individual Board statements, to align with the contents of the Plan. • Options for cost reduction identified through an initial risk based review across the Water and Wastewater plans. • Interactions between the PAYG rate and planned expenditure. • Candidate schemes for DPC • Refined proposals for CACs, PCs and ODIs following progress from the March BED. 	<p>The Board challenged management to focus on developing plans for realising efficiencies across delivery and the operating model. Specifically, the Board challenged management to:</p> <ul style="list-style-type: none"> • Outline the evidence to support each proposed individual Board Assurance statement. • Identify and highlight any individual risks that may be associated with the potential cost reductions identified through the cost challenge process, and to present the Board with possible options. • Develop plans with associated timelines and milestones to deliver efficiencies. Management were challenged to show the scope for cost reduction in relation to organisational design and operational excellence, IT and business change costs, and engineering and construction. • Reflect feedback provided by the CCG on the draft PC package. 	<p>Management designed a final cost challenge process to present the Board with options to review. They also began to develop efficiency plans (with the Efficiency and Delivery sub-committee). Specifically, management:</p> <ul style="list-style-type: none"> • Worked closely with the Assurance Sub-committee to iterate the wording of proposed Board Assurance statements, and provided an update at the May BED. • Ran programme-level optioneering sessions. These took the form of Star Chamber sessions and finance challenge sessions led by the CFO to review risks associated with proposals for any further cost reduction. These reviews considered a range of criteria, including the impact to customers, the delivery of outcomes and meeting regulatory requirements. • Developed initial plans for cost reduction across the delivery and operating model, seeking and receiving challenge and input from the Efficiency and Delivery sub-committee. • Produced a final list of CACs and proposed PCs, reflecting Board and CCG feedback. This was shared with and signed off for submission by the Board at the April full Board meeting prior to submission to Ofwat.
May 2018	<p>The Board focused on planned totex. The Board also participated in workshops to review and challenge proposals to address Ofwat's</p>	<p>The Board reviewed the options for further reducing costs and considered the associated risks with doing so. They</p>	<p>Management responded to Board challenge on the delivery plan through further engagement with the Board sub-committees.</p>

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
	<p>four themes. Specifically, the Board discussed (among other things):</p> <ul style="list-style-type: none"> • The internal challenge process undertaken since April • The latest totex estimate, and associated financeability outputs and bill impacts. • Alignment of the plan with regulatory, customer and stakeholder priorities. • Two alternative choices on the costs included in the plan. This included whether to reduce the level of ambition on certain aspects of the plan, or to apply a general efficiency across the whole plan. • Delivery risks associated with the plan, and draft plans for realising efficiencies across the operating model. 	<p>agreed the base totex projections which would be included in Plan, and focused challenge on ensuring efficiencies were realised prior to AMP7. Specifically, the Board challenged management to:</p> <ul style="list-style-type: none"> • Provide further evidence to demonstrate alignment between the plan and customer and stakeholder engagement • Produce a timetable for outstanding actions on financeability and the capital structure review. • Ensure delivery plans include mechanisms to measure progress and benefits. Also, management were encouraged to focus efforts on developing the transformation plan for the Engineering and Construction team. 	<p>With agreement on the costs projections, focus shifted to ensuring the Board had the required evidence to sign off the Board Assurance statements. Specifically, management:</p> <ul style="list-style-type: none"> • Worked closely with the Efficiency and Delivery sub-committee to identify the scope for efficiencies in different areas. • Considered interactions between the PR19 process and the ongoing financial restructuring work
Jun 2018	The Board focused on the latest view of the ODI package, and the overall balance of risk and reward in the plan. They also undertook a	Actions highlighted by the Board focused on areas requiring further evidence prior to the sign off of the Board Assurance	Management worked closely with the Assurance sub-committee following the BED to revise the wording of Assurance

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
	<p>detailed review of the proposed Board Assurance statements. Specifically, the Board discussed (among other things):</p> <ul style="list-style-type: none"> Proposed reward and penalty ranges for financial ODIs, and potential choices to refine the overall position. Individual Assurance Statements, and evidence to provide confidence to the Board for each. The customer engagement programme, and how insight has driven the Plan. Key activities up to submission 	<p>Statements. Specifically, the Board challenged management to:</p> <ul style="list-style-type: none"> Developed further revised proposals for the Wastewater Treatment Works compliance ODI. Reflect Board members' granular feedback provided on the wording of each Board Assurance Statement. Specifically, to continue to develop the evidence to support the Board Assurance Statement on delivery, and to prioritise financeability analysis to enable Board sign-off 	<p>Statements in line with Board feedback. Specifically, management:</p> <ul style="list-style-type: none"> Returned to the Board at the July BED, following engagement with the Assurance sub-committee, to present revised statements and a wider range of supporting evidence. Continued analysis to identify potential efficiencies, working closely with the Efficiency and Delivery sub-committee. Worked with the Board to identify appropriate reviews over the final drafts of the Plan chapters.
Jul 2018	<p>The final BED was held over two days and focused on discussing the 14 Board Assurance Statements and the evidence supporting each. Key parameters of the Plan and highlights of the draft chapters were presented to the Board together with the relevant Board Assurance Statement(s) and the reports and findings of third party assurers (by representatives of the assurers themselves) for consideration and discussion. The Board also had a presentation from Herbert Smith Freehills LLP, its appointed legal advisers on PR19 and compliance with legal obligations in the Plan. Specifically, the Board discussed:</p> <ul style="list-style-type: none"> Each individual Board statement, and the evidence supporting them. A discussion was held on each statement where the Board challenged specific wording, and 	<p>Board challenge focused on: (i) gaining a fuller understanding of the third-party assurers' reports and findings, and (ii) any areas requiring further evidence to enable the sign off of Board Assurance statements. Specifically, Board challenged management to:</p> <ul style="list-style-type: none"> Reflect Board comments in the wording of statements and share an updated position for review. Focus on increasing the evidence base on financeability. This included providing the Board sign of final financeability metrics and the associated completed assurance work by KMPG Focus on increasing the evidence base on the delivery plan. This included 	<p>Management's response centred on providing the additional financeability evidence required and identifying milestones for Board review and sign. Specifically, management:</p> <ul style="list-style-type: none"> Share revisions of Board Statements to reflect feedback from the two day BED session. A final session of the Assurance sub-committee was arrange to deep dive on the final statements. Held sessions of the Regulation, Finance and Pricing and the Efficiency and Delivery sub-committees to share update evidence on financeability and the delivery plan in advance of formal Board sign off. Held a final meeting was held with the CCG to close out remaining actions and to provide confidence in the reflection of customer engagement in the plan.

Date	Key areas of engagement	Key Board challenge	Management response to key challenge
	<p>outlined to management if further evidence was required to enable sign off</p> <ul style="list-style-type: none"> • The process to submission and planned Board engagement. The Board also discussed material they required sight of before sign off. • The results of third party assurance reviews directly with independent providers, alongside feedback from the CCG. • The key parameters underpinning the Plan. <p>The second July BED day was concluded with a formal full Board meeting to consider and approve specific outcomes from the two days.</p>	<p>continuing work to identify sources to close the efficiency gap.</p> <ul style="list-style-type: none"> • Address final feedback provided by the CCG chair on how customer engagement is reflected in the plan. • Provide the Board with a day by day plan to submission 	

Figure 2 - April Board Engagement Day



Board sub-committees

The Board sub-committee structure, established specifically for PR19 complemented the wider programme of Board engagement, and allowed “deep dives” on specific issues that made use of individual Board member expertise. The schedule of the sub-committee programme is outlined below. We judged that the structure would be most effective as the proposals in our Plan came into sharp relieve, thus sub-committee meetings were scheduled from March 2018. Our Chairman, Bill Tame, and Chief Executive Officer, Ian McAulay, received standing invites to each sub-committee.

Figure 3 - Sub-committee calendar

	March 2018					August 2018					
Engagement & insight	18 th March 2018 • Insight generated to date and key findings • Forward plan for customer engagement	20 th April 2018 • Customer insight and PC proposals • Approach to triangulation • Engaging with business	25 th May 2018 • CCG feedback • Retail propositions • Business insight • Future customer engagement strategy	13 th Jun 2018 • CCG feedback and Ofwat NED meeting • Upcoming engagement with customers • RAND assurance and triangulation	18 th July 2018 • Update from the Chair of the CCG • Findings from RAND assurance (phase 1) • Business plan chapters						
Delivery and Efficiency	26 th Mar 2018 • AMP7 totex estimates • Cost reductions • Current efficiency position	19 th April 2018 • AMP7 totex estimates • Efficiency glide path to AMP7 • Delivery plan and transformation.	<i>Content discussed with the full Board at the May engagement day</i>	14 th June 2018 • Cost transformation in capital projects • Contracting strategy for the remainder of AMP6/7.	16 th Jul 2018 • Update on identified AMP6/7 efficiencies to date, and potential scope for further work.	10 th Aug 2018 • Updated view on the source of efficiencies in advance of AMP7.	14 th Aug 2018 • Updated view on the source of efficiencies in advance of AMP7.	17 th Aug 2018 • Updated view on the source of efficiencies in advance of AMP7.	20 th Aug 2018 • Final discussion on efficiency plan prior to Board sign off		
Regulatory, Finance and Pricing	27 th March 2018 • Initial proposals for PCs and CACs	20 th April 2018 • Updates to the PC package. • Approach to developing ODIs • Updates to CACs • Ofwat modelling consultation	4 th May 2018 • AMP7 totex estimates • Updates on Ofwat consultations: Modelling and Sector in Balance	24 th May 2018 • Position to date on financeability and bill impacts • Response to EFRA committee call for evidence	14 th June 2018 • Response to “Sector in Balance” consultation. • Updated view on the ODI package	16 th Jul 2018 • Update view on the ODI package • Legacy mechanisms • KMPG financeability assurance	8 th August 2018 • Refinement to ODI package. • Final KMPG review on financeability				
Assurance*	5 th April 2018 • Assurance Framework and Board Statements • PwC update	20 th April 2018 • Choice in Board Statements • 3rd party assurance • PwC update	8 th May 2018 • 3rd party Assurance scopes • PwC update • Ambition and Board Statements	25 th May 2018 • Update on Board Statements • Bioresource RCV • Update on scopes	12 th June 2018 • Board statements • Confidence, Trust and Assurance chapter • PwC update	28 th June 2018 • Governance and compliance framework • Culture • PwC update	11 th July 2018 • Update on latest Board Statements.	24 th July 2018 • Update on Board Assurance and BED. • PwC update provided at BED	9 th Aug 2018 • Final update on the Board Assurance Statements and chapter		

*All Sub-committees held initial meetings in February 2018 to discuss ways of working and Terms of Reference – the Assurance Sub-committee also followed this with a meeting in March 2018

Customer Engagement and Insight sub-committee: key information

Membership	Wendy Barnes (NED), Michael Putnam (NED) Simon Oates (Exec), Simon Parker (Exec), Helen Simonian (Exec)
Purpose	To help the Board challenge the detail of the approach to customer engagement and insight. To ensure customer views are reflected sufficiently in each area of the plan.
Area of Focus	<ul style="list-style-type: none"> Review and advise on the process and approach to customer engagement and insight Review how customer views (and valuations) have been reflected in each area of the plan Assure the process of engagement with the CCG, interface with them directly, and discuss emerging CCG views Discuss emerging RAND views Ensure Performance Commitments and Outcome Delivery Incentives are reflective of customer priorities Considering corporate finance and transparency The Evidence Hub
Frequency	Meetings held regularly throughout the development of the plan, including 5 individual sessions

The customer engagement and insight sub-committee focused on ongoing and planned engagement with customers and stakeholders. Management brought the results of specific research to the committee, and discussed feedback received from the CCG. The sub-committee considered customer engagement beyond the PR19 Plan, and also discussed future strategies. The results of assurance from the external third-party assurer, RAND, were also reviewed within the Sub-committee. Below is a summary of the key challenges and management responses:

Key issues and challenge

Triangulation	The initial triangulated view of customer preferences was reviewed and challenged in April 2018. Management were asked to provide further detail on the process undertaken, and to share this with the CCG. Further updates were shared with the Sub-committee as the triangulation was refined.
	Management Response – Management documented assumptions behind the triangulation and appended to the Plan. Results were shared with the CCG, who provided direct feedback to the sub-committee and the full Board in separate sessions in June and July 2018. Further sessions were held with the CCG to provide further information on the triangulated view.
PCs and ODIs	Draft proposals for PCs and ODIs were shared in April 2018. Management were asked to refine the list, and the arguments for discontinuing some AMP6 measures. The sub-committee shared it's feedback at following Board Engagement Days in April and May 2018.
	Management Response – Proposed PCs were refined in advance of the early submission in May 2018. Management articulated the reasons for removing AMP6 measures, and shortened the list of proposed PCs in alignment with the triangulated view of customer preferences. Management also shared a mapping of proposed PCs to the 10 outcomes forming the Plan.
Reflecting customer engagement in the plan	The sub-committee reviewed iterations of the customer engagement chapter drafts and provided feedback to management. Specific challenges included the need to focus on future customer engagement, and to respond to feedback provided by the CCG
	Management Response – Management developed and shared updates of a customer engagement model to drive ongoing engagement. This was embedded within the Plan in a specific chapter related to future engagement. Feedback from the CCG was reflected in a challenge log, with each item responded to by management and shared with the CCG.

Efficiency and Delivery sub-committee: key information	
Membership	Paul Sheffield (NED), Michael Putnam (NED), Sara Sulaiman (NED) Rob Barnett (Exec), Jamie Ford (Exec), Neil Colman (Exec)
Purpose	To focus on business wide totex, challenging the cost and deliverability of the business plan
Area of Focus	To agree the proposed scope and scale of the business totex plan To review unit cost and efficiency assumptions To review overhead (central cost) assumptions, allocations, and organisational design To review the delivery model, delivery plan including DPC and use of markets To review the approach to cost submissions To review the digital & IT agendas Consumables
Frequency	Meetings held regularly throughout the development of the plan, including 8 individual sessions

The Efficiency and Delivery sub-committee focused on the development of delivery plans to address the identified efficiency challenge. Management worked closely with the sub-committee, drawing on the industry expertise of NED members. The Sub-committee also regularly discussed totex projections. Below is a summary of the key challenges and management responses:

Key issues and challenge

Totex	The sub-committee reviewed and challenged the planned totex. Management were asked to identify areas for further cost reduction across the plan, and to articulate the risks associated with doing so.
	Management Response – Management undertook a cost challenge process from March 2018 to identify potential savings. Further options for cost reduction were shared with the Sub-committee in advance of Board Engagement Days, alongside an articulation of any risks associated with the costs options.
Efficiencies	The sub-committee challenged management to develop a greater understanding of the efficiency position relative to the AMP6 Final Determination, and the anticipated AMP7 position. Management were challenged to provide plans on how the efficiencies will be delivered.
	Management Response – Management articulated the current position relative to the AMP5 baseline, and presented an understanding of the drivers of the inefficiency. Delivery plans (as further set out below) were developed to provide further information on how the efficiencies would be delivered.
Delivery Plans	The sub-committee requested a clear understanding of the building blocks of the transformation programme. This included discussing cost transformation in capital projects, alongside IT expenditure and the contracting strategy. The Sub-committee challenged management to develop a greater understanding of the opportunity in project management, design innovation and smart solutions
	Management Response – Management identified 8 potential levers for realising efficiencies and worked closely with the sub-committee to clearly identify the size of each opportunity. These plans were refined and tested with the sub-committee prior to sharing with the Full Board at Engagement days.

Regulation, Finance and Pricing sub-committee: key information	
Membership	Paul Sheffield (NED), Michael Putnam (NED), Rosemary Boot (NED), Will Lambe (CFO), Craig Lonie (Exec)
Purpose	<ul style="list-style-type: none"> To comment on key regulatory submissions such as the May submission on CACs and PCs, on Legacy adjustments, and on the company monitoring framework. To help us to submit a plan that is affordable, financeable, resilient, and contains the right balance of risk and reward.
Area of Focus	<ul style="list-style-type: none"> Cost Adjustment Claims and Econometric Modelling Performance Commitments / Outcome Delivery Incentives Risk modelling Financeability PAYG and WACC
Frequency	Meetings held regularly throughout the development of the plan, including 8 individual sessions

The regulation, finance and pricing sub-committee focused on the development of the PC and ODI package, alongside the modelling of costs and associated financeability metrics. The Sub-committee considered the bill impact of our Plan and provided feedback to management. Below is a summary of the key challenges and management responses:

Key issues and challenge

CACs	The sub-committee reviewed drafts of proposed CACs, and requested management to focus on supporting evidence and alignment with the PC package as the plan developed
	Management Response – Management enhanced evidence supporting each claim in advance of Plan submission. The list of claims was also refined in response to further details on the treatment of enhancement expenditure.
PCs and ODIs	The sub-committee reviewed draft PC proposals in April 2018, and challenged management to refine the list of measures in advance of submission. They also reviewed the initial ODI package from May 2018. Management were challenged to provide further evidence of the link between customer preferences and ODIs, and also challenged management on the maximum penalty associated with Wastewater Treatment Works (WWTW).
	Management Response – Management refined the list of PCs in response to feedback provided by the sub-committee and shared these prior to submission in May 2018. On ODIs, management returned to the sub-committee with an updated view in multiple sessions from June 2018. This included evidence from the triangulation of customer research, and risk modelling undertaken for each ODI. Management also refined proposals for the WWTW ODI.
Financeability	The sub-committee reviewed the financeability of the Plan. Management were challenged to consider sensitivities around the size of the plan, and any associated impacts on financeability.
	Management Response – Management shared the implications for financeability metrics with the sub-committee. Updates on financeability analysis were also provided, alongside the results of assurance from KPMG
Ofwat consultations	The sub-committee considered Ofwat consultations on Modelling and “Putting the sector back into balance”, and reviewed Management responses. Specifically, management were challenged to reduce totex estimates using insight from the range of published cost models.
	Management Response – Management used a top down perspective, alongside bottom up assessments to effectively challenge totex in the Plan and shared the results of this process.

Assurance sub-committee: key information

Membership	Rosemary Boot (NED), Wendy Barnes (NED), Will Lambe (CFO), Alison Hoyle (Exec)
Purpose	The Board Assurance sub-committee supported the Board in its overall objective of submitting a high-quality business plan, which includes good assurance and has been put together using good governance processes.
Area of Focus	<ul style="list-style-type: none"> Agree the PR19 assurance framework, identifying opportunities for improvement to PR19 assurance approach Prepare the scope and form of Board assurance statements for discussion and approval. Where required, approve the appointment of third party assurance providers (out of cycle appointments of the Board ARRC) Review key reports from third party assurance providers, and management actions Identify areas of particular focus for further review at Assurance sub-committee; other PR19 Board sub-committees; Board and / or ARRC Ensure coordination and timetabling of assurance activities and timely reporting of assurance progress to Board and ARRC.

Frequency Meetings held regularly throughout the development of the plan, with 10 individual sessions

Whilst the Board's Audit and Risk Review Committee (ARRC) provided input to our assurance arrangements (including approving the appointment of independent assurance providers). The assurance sub-committee focused on assurance arrangements for the development of our Plan, and the Assurance Statements to be signed by the Board. PwC, as strategic assurance partners, directly reported to the sub-committee, providing updates on the assurance status of the PR19 programme. Below is a summary of the key challenges and management responses:

Key issues and challenge

Board Assurance Statements	The sub-committee challenged management to align Board Assurance statements with the level of ambition within the Plan, taking into account historical performance. This specifically included reflecting compliance improvements underway. The Sub-committee reviewed and inputted into the development of Chapter 2 – Trust, Confidence and Assurance, of the Plan.
	Management Response – Management worked closely with the sub-committee to develop and iterate the wording and supporting evidence of proposed Board Assurance Statements. Management presented the full Board with options for discussion at Board Engagement Days. Management developed a bespoke statement outside of requirements outlined in the PR19 Final Methodology outlining changes underway and planned in response to past performance.
Assurance Framework	The sub-committee reviewed initial versions of the Assurance Framework and challenged management to monitor and update as assurance requirements developed. The Sub-committee received direct updates on the status of third party assurance arrangements, and challenged management to ensure recommendations were acted upon. They also reviewed the legal obligations compliance report facilitated by Herbert Smith Freehills LLP.
	Management Response – Management maintained the Assurance Framework as the plan developed, and updated the Sub-committee. Findings from third party assurance were discussed, and management produced a challenge log to ensure actions were responded to.
Governance	The sub-committee challenged management to outline arrangements for ongoing governance and compliance, acknowledging requirement improvements based on past performance.
	Management Response – Management continued to refine its proposals for ongoing governance arrangements and shared these with the sub-committee. This challenge ensured adequate Board oversight of operational reporting in the proposed structure.



Review of successive drafts of the plan

The Board reviewed and commented on drafted content in our plan, alongside the challenge process facilitated through the BEDs and SCMs. The PR19 programme team recorded comments received by the Board centrally, and ensure responses were provided across the workstreams to every action. Specifically:

- **Each Board member** reviewed the Board Assurance Statements and provided comments, which were addressed prior to obtaining final Board sign-off. Alongside this, each member reviewed Chapter 2 - Trust, Confidence and Assurance before endorsing its contents. Both Chapter 1 - Executive Summary and Chapter 3 - Our Ambition and Pathway to PR19 were also reviewed by each member.
- **Individual Board members** also reviewed successive drafts of specific chapters, based on their own expertise and experience. Through this process, every chapter was reviewed by at least one Non-Executive Director, with feedback provided directly to chapter authors and responses recorded by the programme team.

Appendix 01 – Our Board of Directors (with their expertise and experience)

Bill Tame Chairman



Bill attended Board meetings, Board engagement days and provided reviews on chapters in the Plan.

Bill Tame joined the Board in January 2015 and was appointed Chairman on 1 March 2017

A chartered accountant by training, Bill held a number of senior finance roles at Courtaulds plc, the UK FTSE 100 chemicals company, both in the UK and overseas, operating as chief financial officer in Europe, based in France and then as finance director in Asia Pacific, based in Singapore.

He subsequently worked as finance director for Scapa Group plc before joining the board of Babcock International Group plc in 2002 as group finance director, a role he held during Babcock's development from a small cap company to its position as a member of the FTSE 100. Following the acquisition by Babcock of the international aviation services business, Avincis, in 2014, Bill assumed the role of chief executive officer of Babcock's Global Growth & Operations with responsibility for the integration, business development and operations of its international businesses.

From 2006 he was senior independent director and chairman of the audit committee of Carclo plc, a quoted small cap company, before joining Southern Water Services Limited as a nonexecutive director and Chairman of the Audit and Risk Review Committee in 2015.

Ian McAulay Chief Executive Officer



Ian attended Board meetings, Board engagement days and provided reviews on chapters in the Plan.

Ian joined Southern Water as CEO in January 2017 and was appointed to the Board from 1 February. Ian has more than 30 years of global water and environmental experience and a significant record of achievement operating in both publicly quoted FTSE 100/250 companies and privately held enterprises.

Ian holds an honours degree in Civil and Environmental Engineering and is a Chartered Member of the ICE and CIWEM. He has enhanced this practical experience with professional executive education, most notably at Harvard Business School.

Throughout his career, he has managed major utility, construction and consulting businesses in the UK, Belgium, India and the USA.

He has extensive experience in the UK regulated utility, construction and environmental services sectors, holding board positions across a broad range of commercial and statutory organisations. In his previous roles, he served as an executive director of the Pennon Group plc and chief executive of its subsidiary company, Viridor, one of the largest renewable energy and recycling companies in the UK.

In a non-executive capacity, he previously served on the CBI Infrastructure Board and the Greater Brighton Economic Board. Ian currently chairs the Greater Brighton Economic Board and Infrastructure Panel and is a member of the CBI Infrastructure Board. He has also provided expert input to Government Review Groups and Industry Partnerships with particular emphasis on the UK skills agenda and development of future smarter regulation and environmental policy.

Will Lambe
Chief Financial Officer



Will attended Board meetings, Board engagement days and provided reviews on chapters in the Plan. He also attended the Assurance and Regulation, Finance and Pricing Sub-committees.

Will joined Southern Water in May 2016 from Thames Water, where he held the position of finance director for the c. £4 billion Thames Tideway Tunnel.

William has a wealth of financial experience in the UK and overseas and has worked for companies including KPMG, BG Group plc, Wolseley plc and Thames Water.

Will is a member of the Institute of Chartered Accountants England and Wales.

Paul Sheffield
Senior independent
non-executive director



Paul attended Board meetings, Board engagement days and provided reviews on chapters in the Plan. He also attended the Efficiency and Delivery, and Regulation, Finance and Pricing Sub-committees

Paul Sheffield joined the Board in June 2014 and was appointed as Senior Independent Director in July 2015. He is a Fellow of the Institution of Civil Engineers and is also a member of the Supervisory Board of BAM Group in the Netherlands. Paul is also a specialist adviser to Manchester Airport Group, working on their £2 billion capital programme at Manchester and Stansted Airports.

In his executive career, he spent over 32 years with Kier Group plc — the construction, services and property group. Graduating as a Civil Engineer in 1983, Paul spent 15 years working on major capital projects around the world, before taking responsibility for a number of business units within the Group. Paul was on the Group Board for 10 years and served as its chief executive officer between 2010 and 2014. Between 2014 and 2017 he headed up the construction operations for the European and Middle Eastern business for Laing O'Rourke Services, delivering some of the biggest capital projects, such as Crossrail, Hinkley Point C Nuclear Power Station and major capital projects in the water industry.

Through his various roles in business leadership, Paul has gained significant experience of strategy, productivity and efficiency – key facets of any successful organisation.

Rosemary Boot
Independent
non-executive director



Rosemary attended Board meetings, Board engagement days and provided reviews on chapters in the Plan. She also attended the Assurance and Regulation, Finance and Pricing Sub-committees

Rosemary Boot joined the Board in March 2015 and was appointed as Chair of the Audit and Risk Review Committee in July 2017, having previously served as the interim Chair since March 2017.

Since March 2017 she has been a non-executive director of Impact Healthcare REIT plc, a UK care home real estate investment trust that is listed on the Specialist Fund Segment of the London Stock Exchange.

Previously Rosemary was the chief financial officer of Future Cities Catapult, one of a network of technology and innovation centres established by the UK Government. She has also worked at Circle Housing Group and was involved in setting up the government-owned Low Carbon Contracts Company and Electricity Settlements Company.

From 2001 to 2011 she was group finance director of the Carbon Trust, the independent company set up in 2001 to work with business and the public sector to accelerate the move to a sustainable, low carbon economy. Prior to that, she worked for 16 years as an investment banker, primarily advising large listed UK companies on mergers and acquisitions.

Rosemary is also a Governor of the Conservatoire for Dance and Drama, the higher education institution for the performing arts, and a Trustee of Green Alliance, the environmental think tank.

Mike Putnam
Independent
non-executive director



Mike attended Board meetings, Board engagement days and provided reviews on chapters in the Plan. He also attended the Customer Engagement and Insight, Efficiency and Delivery, and Regulation, Finance and Pricing Sub-committees

Mike Putnam joined the Board in September 2017. A Chartered Engineer and a Fellow of both the Institution of Civil Engineers and Royal Institution of Chartered Surveyors, Mike has over 25 years' experience leading and managing multiple businesses across development and construction. He is known for his values-based approach to leadership. Mike has since successfully transitioned to a plural career with a portfolio of Non-Executive Directorships.

Mike was President and CEO of Skanska UK between 2009 and 2017, responsible for a business with circa £1.8 billion revenues and 6,000 employees. Prior to this, he was Executive Vice President and main Board Director from 2001, as well as working across the group as a non-executive director on some of the international boards. Throughout Mike's career he has been closely involved with the successful delivery of many high-profile projects and programmes.

Externally, Mike has been very active on the built environment change agenda, working with government and industry as a member of the Construction Leadership Council on the Industrial Strategy & Sector Deal. He has also been chair of the Green Construction Board; a member of the CBI Construction Council, influencing the future direction of the industry and linking into Government; and a non-executive director of the Association of Consulting Engineers. With proven all-round business and operations capability, Mike has particular strengths in: strategy development and deployment; results delivery; inclusive people and values-based leadership and transformational change.

Wendy Barnes

Non-executive director



Wendy attended Board meetings, Board engagement days and provided reviews on chapters in the Plan. She also attended the Customer Engagement and Insight, and Assurance Sub-committees

Appointed to Southern Water in September 2017, Wendy Barnes, a portfolio non-executive and an independent consultant in cyber security, has wide experience in utilities, security and defence sectors. Having started her career as a statistician with British Nuclear Fuels, Wendy went on to have an executive career in customer service and business development with United Utilities.

In recent years, Wendy has been a nonexecutive director in the MOD, government security departments, Met Office and Ofwat. She is currently a non-executive director at the National Crime Agency, OCS Group, BMT Group and Scottish Power Networks and an Associate Director of Templar Executives. Wendy has chaired, and been a member of, several Audit and Remuneration Committees and has a particular focus on developing risk management and good governance, as well as helping organisations take on change in challenging environments.

In 2011–12, Wendy was a Director General in the Department of Energy and Climate Change (DECC) where she was responsible for Corporate Services and legacy nuclear policies.

Wendy runs a consultancy business with her husband, and is also a non-executive director of Chester Cathedral Enterprise Board and Finance Committee.

Sara Sulaiman

Non-executive director



Sara attended Board meetings, Board engagement days and provided reviews on chapters in the Plan. She also attended the Efficiency and Delivery, and Regulation, Finance and Pricing Sub-committees

Appointed in September 2017, Sara Sulaiman is an investment principal at the Infrastructure Investments Group of JP Morgan Asset Management.

Before joining JP Morgan, Sara was an investment director at Arle Capital Partners, a London based mid-market private equity firm. Prior to that she worked on corporate finance transactions both within Simmons & Company International, a specialist energy investment bank, and KPMG's Global Infrastructure and Projects Group (within the Energy & Natural Resources team).

Sara started her career in industry working as a finance analyst in Petroleum Development Oman and Shell Chemicals in London. She holds a Bachelor of Arts in Economics from Yale University, an MPhil in Economics from the University of Cambridge, and is an Associate of the Chartered Institute of Management Accountants.

In addition to her board role on Southern Water, Sara currently serves as a non-executive director on the board of Nature Investments SARL.