



Chapter SRN11

Data and Assurance

11. Data and Assurance

11.1. Executive summary

This chapter provides an overview of our assurance processes for PR24, that build and significantly expand on our business as usual (BAU) approach to assurance. The chapter also presents the Board Assurance Statements and summarises the process to support their creation. The chapter ends with a review of our work on our regulatory and statutory obligations.

Our stakeholders deserve to be able to trust and have confidence in the integrity of the information we provide as part of our PR24 submission. In order to achieve this, our Business Plan submission is subject to a system of checks to ensure that we meet the highest quality of reported information.

Our approach to assurance and governance for the PR24 submissions significantly expands in scale upon our established approach to assurance and governance used for the production and publication of our annual reports and accounts. It also builds and expands on the annual Board review, approval and sign-off of our Condition P licence conditions, and the Board Assurance Statement on the Accuracy and Completeness of Data, both of which are published as part of our Annual Performance Report.

Our established approach to assurance follows a robust and mature governance process, designed to ensure we are reporting robust information and to give our Board and stakeholders confidence in the quality of published material.

This approach has been established since before PR19 and is supported by processes that ensure we assess and manage our compliance with statutory obligations (such as Statement of Compliance and our Register of Obligations). Our assurance for PR24 also ensures that our PR24 submission is compliant with our legal, regulatory, and statutory duties.

Our PR24 assurance approach focuses on the testing criteria set in Ofwat's methodology and the Board's strategic choices as to the direction and ambition of our Business Plan. To deliver our the PR24 assurance programme, we expanded the use of our existing assurance framework to ensure PR24 outputs were subject to appropriate internal and external review.

We drew on our long-standing relationship with our AMP7 assurance partners, Jacobs, and KPMG, who both took a lead role in providing external assurance of the plan. This has included an extensive programme of internal and external assurance covering the content of the plan, final versions of chapters and technical annexes, and data tables. In addition to our long-standing assurance partners, we were also supported by PwC and Sia Partners. Assurance letters from all our partners are included in this submission. Herbert Smith Freehills (HSF) have also provided legal review of our plan.

Our overall strategy for data assurance and governance processes has delivered high-quality data across all aspects of our plan and Long-term Delivery Strategy ensuring – our Board has had access to a complete and transparent view of the our historic and expected performance when making decisions. Our assurance process also supported the creation of a submission that is high quality in the round.

Our Board has been actively engaged and has scrutinised the assurance processes we adopted. Our Board participated in approving the assurance strategy and have had visibility of any risks to providing accurate and complete data and information. The assurance process has supported the Board to challenge the plan, assure itself that it delivers long-term resilience, is of high quality, and responds to the evidence from extensive customer involvement and engagement.

11.2. Our general approach to assurance

Our stakeholders deserve to be able to trust and have confidence in the integrity of the information we provide as part of our PR24 submission. In order to achieve this, our Business Plan submission is subject to a system of checks to ensure we meet the highest quality of reported information. We take full responsibility for our performance information and seek to take a transparent approach to data assurance. This assurance provides confidence in our reported performance and the delivery of promises made in our AMP7 (2020–25) Business Plan.

Following past failings in the quality of our reporting to our regulators, we are continuing to embed our programme of improvements to ensure our regulators and other stakeholders can trust the data we report. These improvements have been led by our Risk and Assurance team which ensures compliance reporting to our regulators is subject to sustained internal review and assurance.

In our 2023–24 Final Assurance Plan published in March 2023, we detailed our approach to assurance in relation to our performance information and acknowledged the importance of accurate information in building trust and confidence.

We continue building a greater level of trust and confidence in our reporting. In addition to our own internal assurance teams and processes, our highest risk performance data is assured by independent assurers. The technical assurance framework we have in place for AMP7 allows us to appoint the most suitable partners to different technical projects. KPMG and Jacobs have completed their third year in this role.

We have adopted the ‘three lines of defence’ framework for our reporting governance and assurance activity (Figure 1). This helps to assure performance information by applying multiple levels of control. This model is a widely used framework which helps us achieve our regulatory commitments and protect us. It clearly

defines each function and is underpinned by policies, procedures, and governance. This general approach is embedded in how we conduct our operations and underpins our work on PR24.

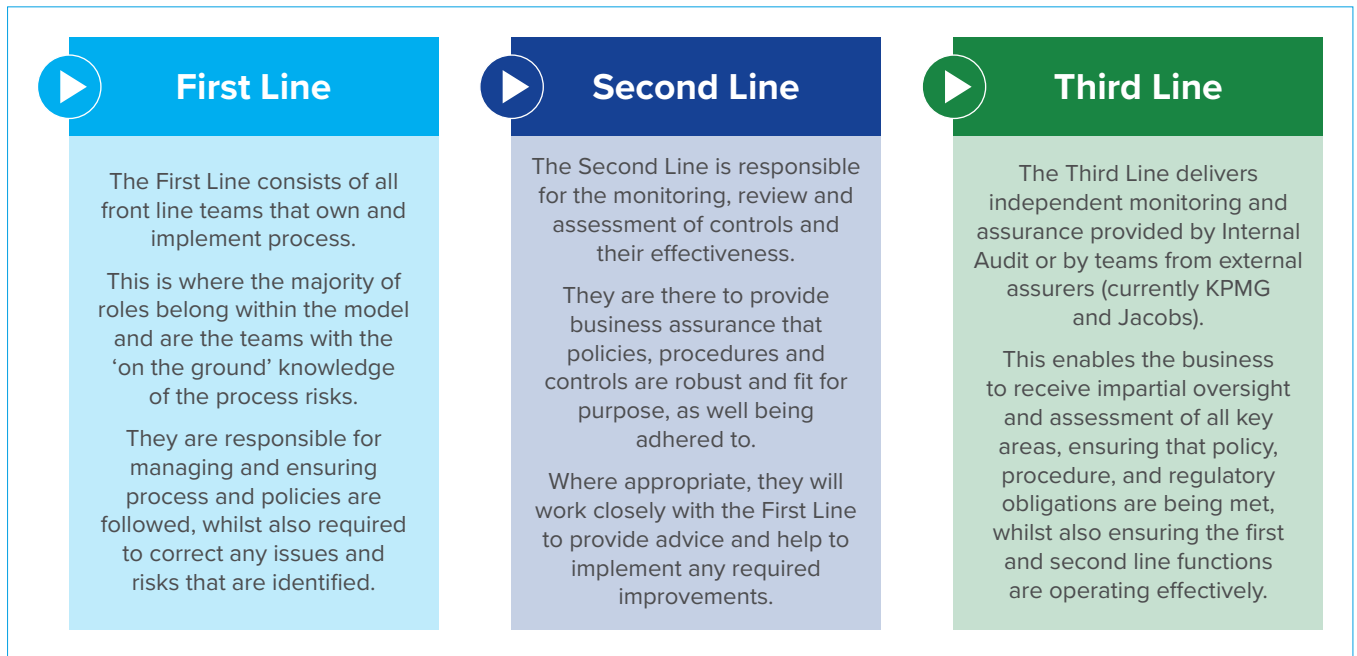


Figure 1: Our three lines of defence

We apply internal controls and have improved processes in place to mitigate the risk of supplying incorrect or inaccurate information on all our non-financial regulatory reporting. Figure 1 describes the activities that are undertaken by each line of defence. All assurance activity has oversight from the Board and Audit Committee. We align our assurance to the ‘three lines of defence’ framework for our reporting governance and assurance activity. This helps to assure performance information by applying multiple levels of control.

We regularly review performance information against a wide range of measures. Reporting to the Board, which is always subject to prior scrutiny by the Executive Committee, focuses on delivery of our regulatory and statutory obligations. For AMP7, this information is provided to the Board by way of a detailed performance dashboard, including a selection of our Business Plan performance commitments and additional regulatory targets.

The Audit Committee has monitored the completion of a risk-based programme of assurance activities as part of a three-year rolling programme, covering the practices, procedures and systems used to secure compliance with our statutory obligations. This has included a review of compliance with our Instrument of Appointment which was presented to the Audit Committee in March 2023.

Over the last six years, we have delivered a programme of process and control improvements – which is still ongoing. These have been focused on key data returns to Ofwat, the Drinking Water Inspectorate (DWI) and the Environment Agency (EA) and include improvements in our reporting control environment.

Our work over the last two years has focused on the maturity of first-line controls – reflecting the embedment and maturity of our reporting capability. We have seen improvements in the quality of our reporting to the DWI, the EA and Ofwat. These improvements are part of an ongoing programme that will continue through the current Business Plan period and beyond.

The Audit Committee monitors the assurance over the integrity of our non-financial information reported by us to fulfil our regulatory, legal, and environmental obligations. This includes information required by Ofwat, the DWI and the EA. Our assurance plans are approved by the Audit Committee, which is responsible for overseeing and challenging the effectiveness of our approach.

In response to new guidance from Ofwat in November 2020, we published, as part of our Annual Performance Report, a board assurance statement stating the data and information provided is accurate and complete and setting out any exceptions.

11.3. Delivery of our PR24 assurance

For PR24, we adopted a structured process, enabling the Board to have oversight and ownership of the Business Plan's development, and to provide challenge

and input throughout. An overview of the PR24 governance structure is set out below in Figure 2.

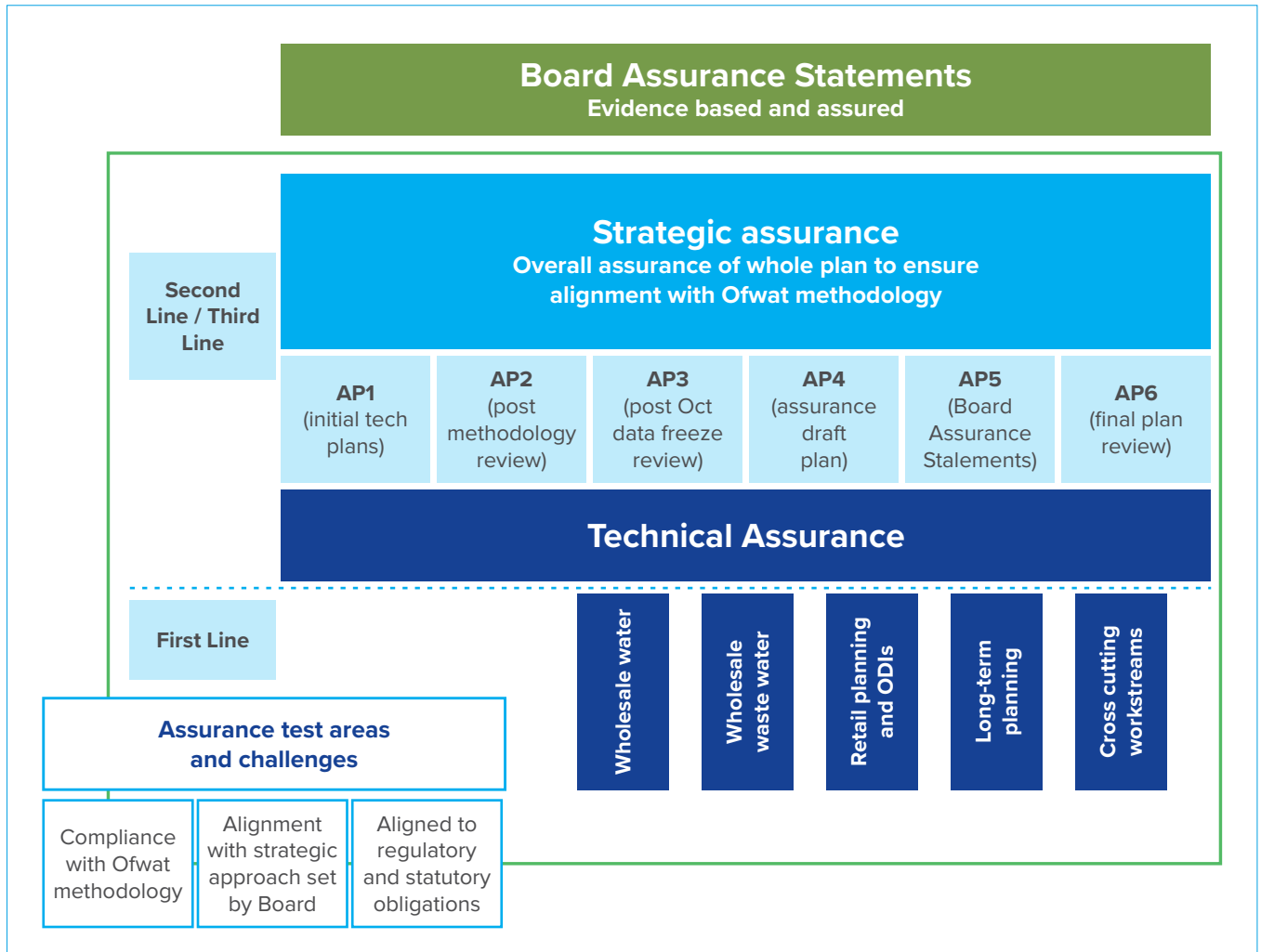


Figure 2: Our PR24 Assurance Process

We established a series of Assurance Points at significant milestones tracked by the PR24 Project Management Office. Our PR24 assurance approach has been focused on the testing criteria set in Ofwat's methodology and the Board's strategic choices as to the direction and ambition of our Business Plan. To deliver our PR24 assurance programme we expanded the use of our existing assurance framework to ensure PR24 outputs were subject to appropriate internal and external review.

The approach to assurance is based on the following principles:

- Built on the Three-Lines of Defence model
- Rooted in our BAU approach to assurance
- Be risk-based – focusing effort in areas of highest risk to the price review
- Following our integrated approach – including both a strategic level assurance across the Business Plan and technical assurance of the individual supporting workstreams
- Ensuring technical assurance on core workstreams and cross-cutting themes, aligned with but significantly more extensive than established BAU monthly and annual regulatory reporting
- Alignment to Ofwat's focus on Long-term Delivery Strategies – as well as sector and wider good practice
- All assurance contributes to and supports in evidence-based Board Assurance Statements to support the submitted Business Plan
- Provision of assurance letters by assurers to support the Board sign off process and to be part of the submission, with a confirmation on the scope of work and the confirmation of closure of all outstanding and material assurance recommendations.

Our PR24 assurance programme consisted of 56 separate items of assurance on the main PR24 programme. This was distinct to the additional technical assurance that supported related regulatory submissions for the WRMP, DWMP, WINEP, and DWI all of which were subject to extensive assurance to support Board approval.

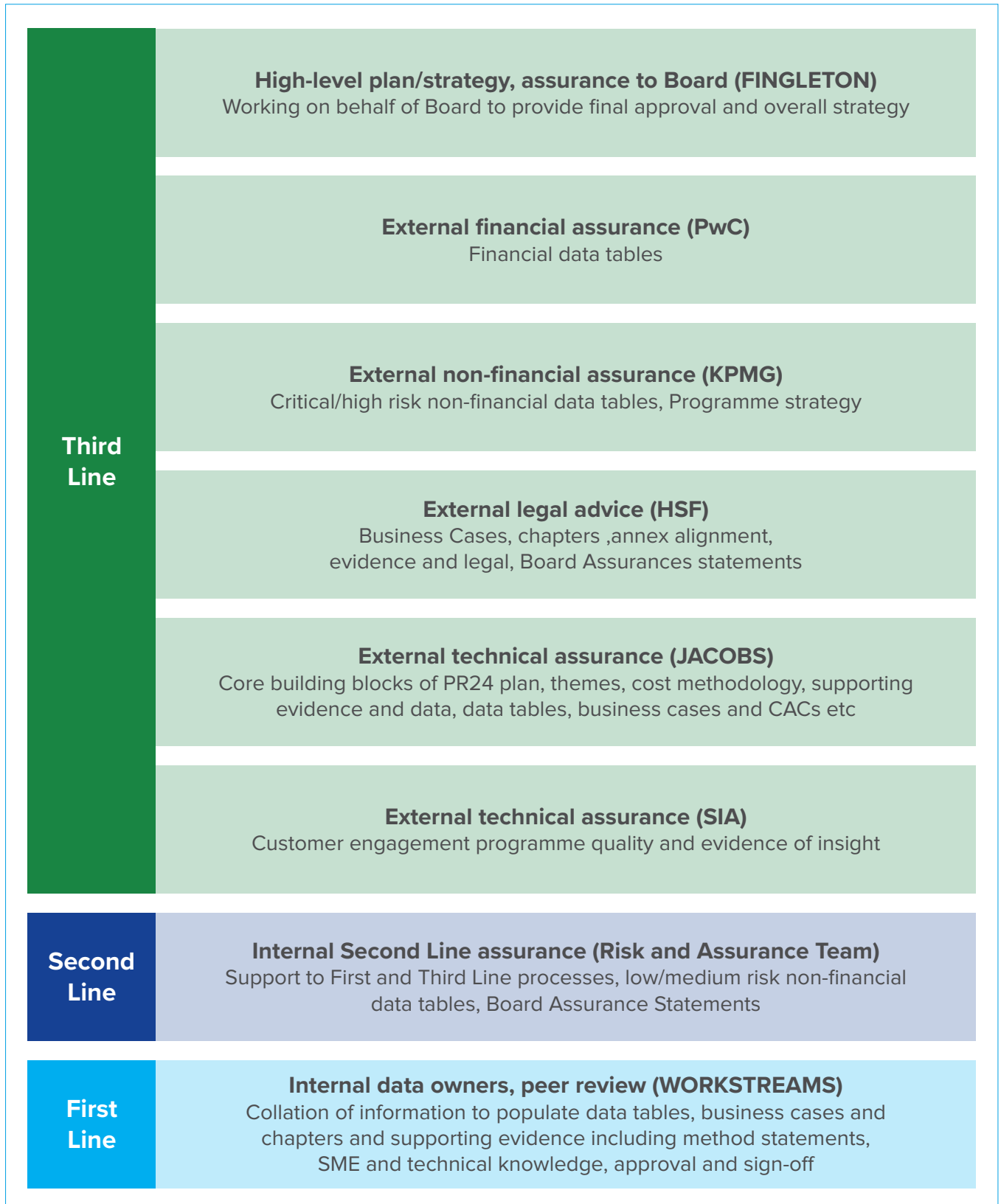


Figure 3: PR24 Assurance Delivery

Our assurance framework defined the outputs of the PR24 Business Plan requirements and used a risk-based approach to assess each component to ensure they were subject to appropriate internal or external review. This provided a systematic way of identifying the required coverage and depth of assurance. The merging of three separate lines of defence provided an integrated approach to assurance with mix of internal and external assurance (see Figure 3). The balance of assurance resource in the three lines of defence, whilst supported by a wide range of external parties (as described below), is mostly focused on our first- and second-line teams. Our first line PR24 teams are heavily involved leading the content of our assurance, enabled and facilitated by our Risk and Assurance second line team. The second line team also take a key role in managing our external (third line) assurance support.

Assurance providers were appointed based on their relevant expertise:

- **KPMG** as our AMP7 assurance partner worked with our internal Risk and Assurance team to support the assurance strategy for PR24 and led the work on our PR24 non-financial data tables, a service they supply for our APR process. The KPMG team also conducts our S19 Assurance which is shared directly with Ofwat
- **Jacobs** were engaged as our technical assurer for PR24, the same role they had at PR19. This is an extension of their AMP7 role where they work with the internal Risk and Assurance Team to deliver technical assurance over specific areas of assurance and strategic plans such as the DWMP, WINEP and WRMP. On PR24 Jacobs has had an extensive role assuring the technical detail of large sections of our Business Plan
- **PwC** acted as our assurers of the PR24 financial data tables. They also provided technical assurance on the DPC elements of our plan
- **Sia Partners** reviewed our customer and stakeholder engagement PR24 activity. Their work assured our acceptability and affordability approach. In addition, they reviewed the quality of our PR24 customer engagement programme
- **Fingleton** were engaged to support our Board, particularly at the early stages of the price review where their regulatory expertise supported the Board's understating of the regulatory environment
- **Herbert Smith Freehills LLP** were engaged to provide legal advice and support, similar to that at PR19. Their support covered all areas of the plan

11.4. PR24 Governance

11.4.1. Scrutiny of our assurance approach

Our strategy for data assurance and governance processes has delivered high-quality data across all aspects of our plan and LTDS – ensuring our Board has had access to a complete and transparent view of

our historic and expected performance when making decisions. The assurance process has also supported the creation of a submission that is high quality in the round.

Our Board has been actively engaged and has scrutinised the assurance processes we adopted. The Board participated in approving the PR24 assurance strategy in April 2022 and have had visibility of any risks to the provision of accurate and complete data and information. The assurance process has supported the Board to challenge our plan, assure itself that the plan delivers long-term resilience, is of high quality, and responds to the evidence from extensive customer involvement and engagement.

11.4.2 Wider Board engagement

The Board met regularly to discuss the PR24 Business Plan and challenged the PR24 process in over 50 separate meetings. Engagement has either been as part of the full Board or with specific committees with delegated authority that allowed focus and scrutiny over specific aspects of the plan. Several different fora have met during the PR24 process including:

- **SWS Board** – Full Board meetings have been engaging on PR24 for the whole of the price review process, either as standalone agenda items or as part of specific deep dive sessions, or as full Board PR24 events
- **PR24 Committee** – The PR24 committee was set up to support all phases of the price review including programme set up. Sessions supported other programme specific approvals (including the WINEP submission)
- **WRMP / DWMP Sub-committee** – The specific sub-group of the Board supported the submission of the WRMP and the DWMP
- **Treasury Working Group** – A specific sub-group to look at financial elements of PR24. This included financeability and financial resilience. Membership included the chair of the Audit Committee
- **Audit Committee** – The committee received regular updates on the progress of the programme of assurance as part of their regular update on the wider assurance programme

The early engagement of the board was as a mix of all the fora outlined above. As we moved into 2023, the level of engagement of the full Board accelerated and culminated in Board approval of the Business Plan prior to submission. This is outlined in Figure 4.

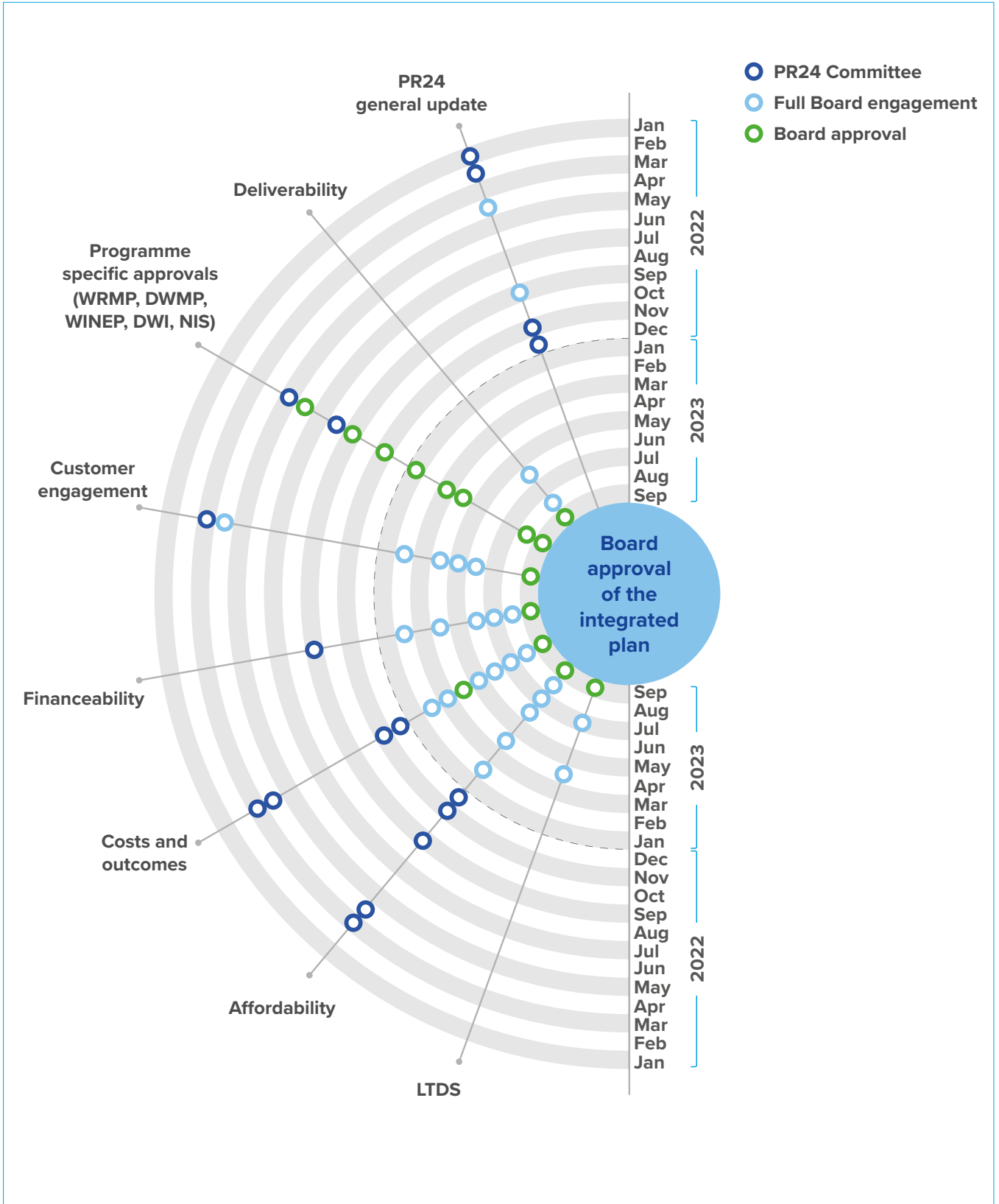


Figure 4: Board engagement for PR24

11.4.3 Board Assurance Statements

Board Assurance Statements are a key output of the PR24 assurance programme. They are intended to be a summary of how the Board have been engaged on the content of the PR24 Business Plan and outline and reflect the support and challenge the given the plan.

To achieve this, we built significantly upon our BAU Board Assurance Statement process and referred to the Ofwat methodology and guidance in April 2022. The prescriptive guidance from Ofwat is reflected in Figure 5 below.

This checklist has been used to ensure that the Board have considered, supported and challenged each of the specific test areas. As with the BAU process we have been able to evidence the diligent enquiry and evidence for each statement the Board have made.



Statement components	Ofwat's expectation
Statement 1: Long-term delivery	<p>That the Board has challenged and satisfied itself that the Long-term Delivery Strategy is high-quality. The company Board should provide an assurance statement that explains how strategies it has challenged and satisfied itself that the strategy:</p> <ul style="list-style-type: none"> • Reflects a long-term vision and ambition that is shared by the Board and company management • Is high quality, and represents the best possible strategy to efficiently deliver its stated long-term objectives, given future uncertainties • Is based on adaptive planning principles • Has been informed by customer engagement • Has taken steps to secure long-term affordability and fairness between current and future customers • Will enable the company to meet its statutory and licence obligations, now and in the future <p>The Board should provide evidence of where it has challenged company management and an explanation of the process it has used to arrive at the view that its strategy is the best it can be. It is for companies and their Boards to determine how best to provide this assurance, including the role of external assurance.</p>
Statement 2: Affordability	<p>That the Board has challenged and satisfied itself that:</p> <ul style="list-style-type: none"> • The full implication of the 2025–30 Business Plan for customers was considered and that the plan achieves value for money • The Long-term Delivery Strategy protects customers' ability to pay their water bill over the long-term and delivers fairness between what existing customers will pay and what is paid for by future customers
Statement 3: Costs and outcomes	<p>That the Board has challenged and satisfied itself that:</p> <ul style="list-style-type: none"> • The performance commitment levels in the plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure • The plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments) • The expenditure forecasts included in the company's Business Plan are robust and efficient • The options proposed within the Business Plan are the best option for customers and a proper appraisal of options has taken place • The plan and the expenditure proposals within them are deliverable and that the company has put in place measures to ensure that they can be delivered • That the expenditure proposals are affordable by customers and do not raise bills higher than necessary • The expenditure proposals reflect customer views, and where appropriate are supported by customers
Statement 4: Financeability	<p>That the Board should:</p> <ul style="list-style-type: none"> • Provide assurance that the Business Plan is financeable and consistent with maintaining the target credit rating on the basis of the notional capital structure and provides sufficient headroom to a minimum investment grade credit rating under stress scenarios, taking account of mitigating actions. We expect companies to provide evidence of the steps taken by their Board in giving that assurance • Take account of all components of the Business Plan and set out clearly the steps taken to provide assurance, including the consideration of the financial ratios
Statement 5: Financial resilience	<p>That the Board should:</p> <ul style="list-style-type: none"> • Provide an assurance statement that the actual company is financially resilient over the period of the price review and beyond under its Business Plan • Set out the steps it has taken to enable it to make that statement, the factors it has taken account of, and the suite of financial metrics used to ensure the company is financially resilient <p>We expect the plan to demonstrate the basis on which the assessment has been carried out, including how the base case and downside scenarios have been established and assessed.</p>
Statement 6: Customer engagement	<p>That the Board should provide assurance that the company's customer engagement and research meets the standards for high-quality research and any other relevant statements of best practice and has been used to inform its Business Plan and Long-term Delivery Strategy.</p>

Figure 5: Board assurance guidance from Ofwat

As we worked through the PR24 process we have refined the outputs of the Board Assurance Statements. This has reflected the Board’s desire to sign off a summary statement, supported by more detailed content that has been considered. In particular the Board were keen to ensure coverage on three key areas:

- Providing material outlining the board engagement on the PR24 assurance process

- Outlining some of the key uncertainties that the Board have actively considered when engaging and approving the PR24 plan, and which are inherent in the PR24 plan. This reflects the challenging and dynamic environment in which the plan has been produced
- Providing a series of statements that support the key assurance test areas (this includes the detailed guidance on the LTDS)

This process is summarised in Figure 6 below.

Summary Statement	Board Assurance Statement	Evidence to Support Statements	Aligned to Board Governance
Summary to cover each main assurance test areas	Detailed statements aligned to Ofwat prescriptive guidance	Evidence of material to demonstrate diligent enquiry from Board	Effective Board governance and sign off
<ul style="list-style-type: none"> • An executive summary of the Board Assurance Statement • Reflecting key uncertainties • Aligned to wider executive summary • Outlines how board have discharged their responsibilities • Board involvement: Review and comments from all Board members. Signed off at session on 19 September 2023 	<ul style="list-style-type: none"> • Detailed statements to ensure compliance with detailed Ofwat guidance • Ensure that we are meeting our regulatory and statutory duties • Aligned to content of assurance letters from key external assurers <ul style="list-style-type: none"> ◦ KPMG, PwC, Jacobs, Sia, HSF • Detailed content featured in the Data and Assurance chapter of PR24 	<ul style="list-style-type: none"> • Following BAU approach • Evidence of material to support and evidence statements • Demonstrate that material shared with Board is detailed and backs up statements • Included in evidence technical annex • Linked to Board engagement timetable • Demonstrating diligent enquiry thought outlining Board engagement on each assurance test area 	<ul style="list-style-type: none"> • Underpinned by board engagement timetable • Board sign off process: <ul style="list-style-type: none"> • 05 September: Main content of plan approved by Board • 19 September: Exec summary assurance, deliverability and financeability approved by Board • 28 September: Sign-off of final submission

Figure 6: Board engagement and the Board Assurance Statements

Producing statements that can be backed up by evidence of engagement, and diligent enquiry form the Board has been key to this process. This has been demonstrated in the annual Condition P assurance process, which we have developed for the PR24 plan. The outputs of this process are outlined in the following sections. This includes:

- Summary Board Assurance Statement – this statement acts as an overall statement that draws on key supporting information and the content of the plan itself
- Supporting information that the Board has considered on Key Uncertainties – the Board are clear that they want to demonstrate that they have engaged fully on the key uncertainties that the plan contains as reflected in the supporting information

- Supporting information that the Board has considered on Ofwat key test areas and a standalone LTDS statement – building on our BAU assurance process this work ensured the statements fully considered the requirements of the Ofwat guidance
- The Board Assurance Statements and process was discussed at the Board session on the 05 September 2023 and was approved by the Board at the session on 19 September 2023. The statements were approved in parallel with the wider approval of the Business Plan

11.4.4 Summary Board Assurance Statement

We, the Board of Southern Water (SWS), have carefully considered the requirements of the PR24 Board assurance process and are pleased to provide the following Board statement:

The Board endorses the plan and gives its support to the proposals contained in it.

As a Board we have had to debate and make difficult trade-offs. Not everything we would like to do can be financed or delivered in the timescale we would ideally like to see. Elements of our investment programme are subject to uncertainty mechanisms because there is continuing regulatory engagement on the form and timing of delivery, and we propose innovative alternative investment structures to secure our desired full programme.

The plan, inevitably, carries uncertainty. It represents a near doubling of activity which will make big and new demands on our management and colleague capability and on our supply chains. Some of our proposed solutions are unproven but we believe it is right to experiment, to learn and to adapt. This will require continuing engagement with our regulators as plans progress.

Our endorsement, reflected in the Board Assurance Statements, which are necessarily qualified by the plan's inherent uncertainties, comes after reviewing extensive internal and external scrutiny and significant testing and challenge: have we fully addressed our key risks and our customers' ambitions; can they be delivered; are we laying foundations for a future in which water is valued as a scarce resource and critically; can the plan be sustainably funded by customers and shareholders?

The Board has taken its lead from our deep engagement with customers in deciding trade-offs. We support the testing and use of innovative alternative delivery mechanisms to achieve some of our plans.

We know delivering investment at this scale and pace will be a challenge and that our performance and delivery has not where it needed to be. We want to work with our regulators to ensure that this expansion in programme is managed and interfaces with the regulatory model in a fair and proportionate manner.

Given the challenges the water sector as a whole face and the scale of investment required, and against a background of volatility in interest rates, we believe there is a growing need for the sector to attract new equity capital, based on reasonable risk and reasonable returns. Our plan assumes risk mitigation that allow an appropriate risk and return that was not possible on the basis of notional company risk modelling.

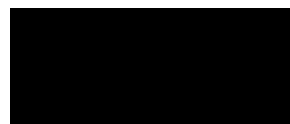
Taken together, the Board believe that our plan is customer-led; affordable, supportive of the vulnerable, financeable, and deliverable. It has water resilience, surface water management and the environment at its heart and delivers what our regulators, customers and stakeholders expect.

The considerable uncertainties when we look far ahead have been recognised by the Board, but the broad trends of increasing demands are clear to see. It is an adaptive plan. It may change over time depending on the impacts of climate change and population growth – as well as how technology changes, the benefits of nature-based solutions and potential regulatory changes.

We have been involved with the testing of assumptions that underpin the PR24 submission and are aware of the impact that alternative assumptions may have. We have also provided a clear steer on the direction of the plan as it has evolved into the final submission.

Our work to support the formation of the plan has been discharged through the SWS Board and its relevant Committees (most notably the Audit Committee and the PR24 Committee). We have engaged in over 50 specific sessions with the wider SWS team to help shape and guide the formation of the plan. This has included deep dive sessions on all key areas of the plan, culminating in approval of all aspects of the plan in September 2023. This is in addition to extensive engagement on the development of key statutory submissions including the WRMP, DWMP and WINEP. The plan recognises our responsibility to ensure that the company can meet its statutory and licence obligations, now and in the future.

These statements should be read in conjunction with the detailed statements on key uncertainties in the plan and the detailed assurance test areas as required in the Ofwat assurance guidance as outlined in the [SRN11: Data and Assurance chapter](#).



Keith Lough,
Chairman



Malcolm Cooper,
Chair of the Audit Committee



Lawrence Gosden,
Chief Executive Officer



Stuart Ledger,
Chief Financial Officer

11.5. Supporting Assurance Information: Board Assurance statement

11.5.1 Key uncertainties

11.5.1.1. Key uncertainties: WRMP and WINEP

We fully understand that protecting, conserving, and enhancing this beautiful natural environment of which we are a custodian is not just our statutory duty but is essential for our resilience, and expected of us by our customers.

This presents a unique combination of challenges, including the need to find new sources for 30% of our water supplies in Hampshire, deliver enhanced nutrient treatment at 40% of our Wastewater treatment works, invest significantly across drainage systems to reduce spills from storm overflows and to provide significant levels of investment to support the extensive population growth we see across the Southeast.

For our PR24 plan the combination of our environment programme and Water Resources Management Plan represents a step change in investment to an unprecedented level. At nearly £4 billion the full scope of this investment is four times larger than our equivalent plans in AMP7. The Board is aware that the scale of the WINEP investment is close to requiring the five-year total AMP7 level of investment every year of the AMP8 period.

The Board support the view that the cumulative impact of the current programme on customer bills and the sheer volume of deliverable measures in AMP8, presents a significant risk to the whole plan.

The Board appreciate the efforts over the last few months within the EA, alongside Defra and Ofwat to work with us to find sustainable ways to deliver these statutory programs in a timeframe that can be afforded by our customers, and we will need to continue this dialogue if we are to arrive at plans all of us believe can be delivered.

We as a Board are committed to making this all happen and have supported options that could sensibly phase our WINEP investment phased over 8 years to balance affordability and deliverability. The final WINEP phasing will be concluded through the regulatory process to maintain full statutory compliance. Rephasing from 8 years to 5 years would add £100 to bills per household over the PR24 period. Without the proposed re-phasing the plan is neither affordable nor deliverable.

11.5.1.2. Key uncertainties: WRMP mitigations

The Board recognises that the PR24 plan needs to deal with the significant challenges and risks of the major schemes we must deliver to secure supplies in Hampshire and Sussex to ensuring that the risk of using drought orders and drought permits is minimised.

The Board recognises the absolute needs of the water environment, in particularly in our western area, and as this submission and the linked WRMP submissions in August and September 2023 does not yet close all the deficits. The Board supports efforts by the company to continue to work with regulators to develop mitigations over the medium term to provide drought contingency as the solutions are built. Within the PR24 process we will be positioning the mitigation actions as an area of uncertainty to ensure we have mechanisms in place for the final WRMP to receive the funding required in the final AMP8 Ofwat determination.

11.5.1.3. Key uncertainties: Challenges on Alternative Delivery

A significant element of our plan is delivered through alternative delivery. This has been driven by our need to support our affordability agenda, support financial resilience and financeability and meet our regulatory and statutory obligations.

The Board support the use of alternative delivery and its benefit of spreading the costs of investment over a longer period and freeing up internal resource to focus on the delivery of other elements of our plan. The Board is aware that prior to submission Ofwat has yet to agree to circa £2 billion of Alternative Delivery projects. We are aware that these will not be subject to agreement before the Business Plan submission. We are clear that the plan is contingent on gaining these agreements after submission.

11.5.1.4. Key uncertainties: Deliverability

Our plan for 2025 to 2030 will see a major increase in our current investment programme. We know delivering investment at this scale and pace will be a challenge – and that our performance and delivery has not where it needed to be. A key focus for the Board has been to support and challenge the strategies put forward to mitigate this challenge. The strategies include an updated supply chain strategy, a novel approach to portfolio planning delivery and performance and a strategic workforce review.

Increased investment programmes across the water sector will lead to heightened demand on the supply chain. We will need to ensure careful co-ordination and collaboration to ensure sufficient capacity and capability. We must also work hard to drive best value. Our plans for the period include the use of more advanced solutions and technologies, which will require specialist skills. We will face challenges in attracting and retaining key people, from field force to skilled environmental scientists, in a highly competitive region of the UK.

11.6. Ofwat assurance test areas

11.6.1. Approach to the assurance and governance of the PR24 Plan

Our approach to assurance and governance for the PR24 submissions significantly expands in scale upon our established approach to assurance and governance we use for the production and publication of our annual reports and accounts. This builds and expands upon the annual Board review, approval and sign-off of our Condition P licence conditions, and the Board Assurance Statement on the Accuracy and Completeness of Data, both of which are published as part of our Annual Performance Report.

The Board has actively engaged and challenged the assurance processes we adopted. The Board are satisfied that the processes have appropriately identified and addressed any risks to the provision of accurate and complete data and information. The assurance process has supported the Board to challenge the plan, assure itself that it delivers long-term resilience, is of high quality, and responds to the evidence from extensive customer involvement and engagement.

This has included an extensive programme of internal and external assurance covering the content of the plan, finally drafted chapters and technical annexes, and data tables. This assurance has been supported by key external partners including KPMG, Jacobs, PwC, Sia, and legal review by Herbert Smith Freehills. Assurance letters from our partners are included in this submission.

We are confident that the overall strategy for data assurance and governance processes delivered high-quality data across all aspects of the plan and Long-term Delivery Strategy and are confident that we had access to a complete and transparent view of the company's historic and expected performance when making decisions. Furthermore, we are satisfied that all the elements add up to a submission that is high quality in the round.

11.6.2. Long-term Delivery Strategies (LTDS)

We have challenged the business and satisfied ourselves that the Long-term Delivery Strategy is high-quality. We commissioned a range of technical and strategic assurance that was conducted to support the development of the PR24 Plan and our LTDS. Our engagement on our long-term strategy and priorities culminated in a full Board session on the topic in November 2022. The approach to LTDS is based on adaptive planning principles and we have developed it in line with specific Ofwat guidance. The LTDS has also been informed and guided by input from our customers – material that has been shared with the Board at regular intervals throughout the development of the PR24 plan.

Central to the LTDS has been the development of both our WRMP and the DWMP. The Board has been fully

engaged and approved key submissions on the DWMP and the WRMP both of which meet our statutory and regulatory obligations, as reflected in the assurance we have had on both submissions (accepting that there is uncertainty in some elements of the WRMP and WINEP). As discussed above, the Board understand the uncertainty around the WRMP and WINEP and supports the on-going dialogue on the matter with our regulators. (Please see [SRN12: Long-term Delivery Strategy technical annex](#) for a more detailed LTDS Board Assurance Statement.)

11.6.3. Affordability

We have challenged the Executive and are satisfied that the full implication of the 2025–30 Business Plan for customers has been considered and that the plan achieves value for money. We are also satisfied that the Long-term Delivery Strategy protects customers' ability to pay their water bill over the long-term, delivering fairness between what existing customers will pay and what is paid for by future customers.

An investment programme on this scale carries costs for our customers. It will require an average increase in water bills of 65% over the period. Customers have told us that they see the case for this level of investment and consequent increase in bills. But there will remain a section of vulnerable customers for whom the plan makes special provision.

11.6.4. Customer engagement

Assurance of our customer engagement activity, conducted by Sia, has provided us with confidence that the company's customer engagement and research meet the standards for high-quality research and any other relevant statements of best practice and has been used to inform our Business Plan and Long-term Delivery Strategy.

We have had visibility of the outputs of engagement with more than 20,000 customers, providing a rich and robust insight into the needs of current and future customers. We have also seen the rich engagement of customers in the creation of the LTDS.

We have engaged deeply with our customers about their wishes and priorities. They expect us to be much more than providers of clean water and removers of wastewater. They say, and we accept, that we have a critical role in safeguarding the unique environment of our region. Customer insight on acceptability testing helped identify three areas where customers want to see real ambition for storm overflows, pollutions, and leakage. This was a key input in helping the Board help to steer the content of the plan and helped to define the priorities of the plan and the LTDS.

11.6.5. Costs and outcomes

We have challenged the Executive and are satisfied that the performance commitment levels in the plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure. Further the plan includes price control deliverables covering the benefits of material enhancement expenditure.

We have reviewed and are satisfied that the expenditure forecasts included in the company's Business Plan are robust and efficient and that the options proposed within the Business Plan are the best option for customers and a proper appraisal of options has taken place.

As part of the PR24 planning process we were presented with detailed customer feedback on the options available and are clear on the areas our customers want us to be more ambitious. As a Board we support the focus on key metrics and the push for upper quartile performance in CSOs, pollutions and leakage. This approach reflects our pragmatic view that we need to make choices on the areas of focus and the need to align these to customer informed priorities. We believe that the options proposed within the Business Plan are the best option for customers and have had visibility of the detailed process and appraisals that has taken place.

The Board is acutely aware that the package of proposals outlined in the plan do raise customer bills significantly. We support these proposals as we feel these are necessary to support the ambitious programme, which has itself been supported by customer views.

11.6.6. Financeability

The Board is clear that our Business Plan is financeable, consistent with maintaining the target credit rating on the basis of the notional and actual capital structures and provides sufficient headroom to a minimum investment grade credit rating under stress scenarios, taking account of mitigating actions as set out in the [SRN10: Risk and Return chapter](#). For this assessment, the Board has considered the plan using a WACC of 3.77%. This is in line with the WACC and ranges set in the PR24 methodology update for market movements. For the actual company we have assumed a WACC of 4.58% in line with our expectation for the WACC as set out in [SRN60: Financeability and cost of capital technical annex](#). As part of this process the Board has scrutinised a range of relevant financial ratios including interest cover ratios and gearing ratios.

The Board is aware that there is limited financial headroom against the key financeability ratios for both the notional and actual capital structures. Mitigation of material financial risk will therefore need to include a re-prioritisation of expenditure, which is not detrimental to the long-term health of the business.

The Board has received regular updates on notional and actual financeability during the development of the PR24 plan, as well as a regular update of the impact on

average household bills. These updates have included an assessment on a range of plan sizes and a review of sensitivity of the plan to financeability inputs such as the cost of capital and RCV depreciation.

Given the challenges the water sector as a whole faces, and the scale of investment required, and against a background of volatility in interest rates, we believe there is a growing need for the sector to attract new equity capital, based on reasonable risk and reasonable returns.

We have adopted Ofwat guidance provided in the PR24 Final Methodology. We have, however, made representations in our Plan on the cost of capital guidance provided in the Final Methodology.

For the future, it is important that there continues to be a reasonable balance of risk and return which in turn incentivises investment and operational improvements. The plan expresses our concern about the risk exposure in Ofwat's methodology, as well as the proposed return. We are proposing some, limited changes, in the interests of our customers.

11.6.7. Financial resilience

The financial resilience of the company is improving, supported by equity injections into the group funds managed by Macquarie Asset Management, amounting to £1.65 billion in the current investment period. The Board is satisfied that the company is financially resilient over the period of the price review and beyond under its Business Plan. Successful delivery of the operational Turnaround Plan to 2025 will be an important part in stabilising the credit ratings of the company and in building confidence with financial stakeholders.

However, the demand of significant investment from our environmental regulators, and the support from customers to improve water resilience and environmental performance, will improve operational resilience, but place pressure on financial resilience due to a large investment plan for PR24 and associated rapid growth of the business. Financial resilience is therefore limited.

The Board has been extensively briefed on the financial resilience of the company. This has included the work of a specific treasury working group (comprising members of the Board with financial backgrounds) who reported back to the full Board on a number of assessments including:

- An assessment of financial risk for the notional and actual geared companies, and a comparison of risk assumed in the Final Methodology. This forms a separate Risk Annex ([SRN57: Risk technical annex](#)) in our plan
- A representation of mitigations, including collars (Regulatory Adjustment Mechanisms), to reduce financial risk
- A review of the cost of capital and a representation for an inclusion of a risk adjustment to compensate for asymmetric risk

11.7. How the plan meets our statutory and regulatory obligations

11.7.1. Modern Compliance Framework

As a regulated service provider, our primary obligations and duties are set out in the Water Industry Act 1991, the Drinking Water Regulations, and our Instrument of Appointment (the Licence). These set the standards under which we must provide our services. We are also subject to a range of environmental quality obligations including the Environment Act, the Water Framework Directive, the Urban Wastewater Treatment Directive, the Bathing Water Regulations and the Farming Rules for Water. These are in addition to our wider corporate responsibilities that all companies are required to meet.

We are committed to driving structural and cultural change to support the development of a transparent and ethical compliance framework.

We operate our Modern Compliance Framework (MCF) which was introduced six years ago and has become our 'Business as Usual' approach to managing compliance. The framework brings together key elements of our approach to risk and compliance (see Figure 7) including our regulatory obligations, our policy framework, ethical business practice and work to manage the quality and transparency of our regulatory reporting.

The MCF is designed to promote transparency and accuracy across our operation, drive compliance improvements and improve reporting results:

- Provide oversight over a range of compliance improvements across our business
- Provide a structure on which compliance can be build and managed in all areas
- Further improve our performance and increase the trust our customers, stakeholders and regulators can have in us





Figure 7: Embedded Approach of our Modern Compliance Framework.

The MCF is supported by strong governance in key areas of our operation – most notably in our monitoring and reporting programmes – supported by extensive training programmes to ensure good practice is embedded across our company. This work has been embedded into our BAU processes. Key elements of the MCF are outlined in more detail below.

11.7.2. Statement of Compliance (SoC)

All members of the Executive are required, every six months, to provide a declaration that they and their teams are fully compliant with our procedures and controls for areas of the business for which they are accountable.

During the current price control period, our Statement of Compliance (SoC) programme has been consistently applied and is now well established, entering its sixth year. The six-monthly self-assessment that each

directorates conducts includes a review of their maturity and compliance with their various legal and regulatory obligations. This provides the Board with:

- Reasonable assurance that key risk areas covering Governance, Compliance and Ethical Business Practice are reviewed and assessed regularly to drive improvement
- A prompt for assessment and update of the accountability and responsibility for core obligations (Register of Obligations)
- A reminder for the review, and where necessary update, of key policies supporting business activities (Register of Policies)
- A check on the Directorate’s risk management controls

An action plan is required to address any areas of non-compliance. We have made improvements to this 'Statement of Compliance' process during the last six years. The updated process includes additional internal assurance and co-ordination of resulting action plans, providing a compliance maturity assessment of each directorate.

The programme promotes second line of defence assurance to more accurately identify high risk areas of concern. Our dedicated risk and assurance, water quality and environment quality teams have a clear role and responsibility to provide a separation of duties in monitoring key performance metrics of drinking water quality and wastewater performance. These teams also provide 'second line' internal assurance of our front-line teams and also manage key 'third line' external assurance of key aspects of our front-line performance.

Now in its 12th edition, our SoC programme offers a regular 'temperature check' to track the overall status and maturity of compliance and using a measured way of making comparisons and driving improvements at Directorate level. We have honed the SoC template and Guidance, so that the information gathered is presented in consistent measures that we report at regular intervals across the business and at regular intervals to the Board's Audit Committee.

11.7.3. Register of Obligations (RoO)

The Register of Obligations (RoO) is a centralised listing of over 300 laws, standards, rules, and regulations we must adhere to, to remain compliant. This register brings together all technical and regulatory requirements to which we are subject, including non-binding guidance and codes of practice.

The RoO outlines Executive sponsorship and allocation of responsibilities to Directors and Heads of Department, and identifies the central point of control for each obligation. The Register is reviewed and updated as new requirements are identified and at least every six months in association with our Statement of Compliance programme.

11.7.4. Register of Policies (RoP)

The Register of Policies (RoP) is our centralised listing of Policies which underpins the arrangements for governance set out in our Policy Framework, and it records the Executive sponsorship, responsible Directors, and a business owner for each policy.

The register helps us to maintain oversight of the timely and consistent management of policy reviews as well as providing a reference list for the completion of the Statement of Compliance (SoC) reviews and associated maturity assessments.

The RoP additionally identifies Policies requiring public publication and for reference in our mandatory training for colleagues. The register provides visibility of the frequency of policy update required, on either an

annual or three-yearly basis (dependent on the nature of the policy). The RoP is also linked to our six-monthly SoC process which gives directors and the Executive oversight of the status of policies in their part of the business.

11.7.5. Ethical Business Practice (EBP)

Throughout AMP7 we have maintained an active and inclusive Ethical Business Practice (EBP) values-based approach to performance and compliance across our company in parallel with our culture change programme – underpinning our commitment to improvement.

We have maintained corporate membership of the Institute of Business Ethics (IBE) and actively engage in networking with other utilities and wider industry corporate members to understand best practice and to access and review research for application to our own EBP programme.

We require all colleagues, Executives, and Board members to sign up to our Code of Ethics (CoE) which we benchmark against good practice offered by the IBE. The CoE is reviewed and updated annually and tabled for Board review and endorsement. A values-based decision-making tool is included in the CoE, and copies are distributed across our offices and workplaces.

We provide mandatory training on our values of Doing the Right Thing and Speaking Up. We champion our colleagues' rights to safely Speak Up without fear of recrimination and offer a dedicated Ethics mailbox to provide a safe place to raise issues and report concerns for investigation and action.

We offer our teams workshops on 'Ethics Moments' to challenge their thinking. 'Ethics' as a golden thread is referenced in other offerings of technical and operational training. We also have specific course offerings around decision making and ethical approaches delivering through our Inspire Leadership Development programme.

We survey our colleagues annually on matters of ethical practice to track how our programme is embedding across the business and have included in our regular Statement of Compliance programme references to assess the maturity of these arrangements.

11.7.6. Regular licence review

We carry out an annual assessment of our compliance with the terms of the our Licence. The assessment, which emerged from our S19 undertakings to Ofwat, is reported to our Audit Committee in March each year.

The assessment looks at each element of our Licence and requires evidence that we are compliant with the terms of each element. The licence review has been conducted for the last three years. Where gaps have been identified these have been reported to the Board Audit Committee and tracked as a priority until they have been closed.

In January 2023, we completed our most recent annual assessment of compliance with our company Licence. The review provides a key evidence base and additional assurance for our Board Assurance Statement, our Ring-Fenced Certificate (required under Condition P of our Licence), and the assurance requirements of the undertakings agreed with Ofwat in 2019 in connection with historical misreporting of our wastewater performance (see section 11.7.8 below).

Overall, the assessment found that the business has in place processes and evidence to demonstrate compliance with the Licence. Our maturity assessment is that our compliance with the terms of Licence is adequate. Overall, the business has in place processes and evidence to demonstrate compliance with the Licence for all 21 key licence conditions.

11.7.7. Condition P Review and Assurance

In order to meet the Licence Condition P Certificate requirements of the Ofwat Licence and the Section 19 undertakings, our Board needs to be able to clearly evidence the level of diligent enquiry that the board has undertaken, to ensure that it can demonstrate that the company will have sufficient:

- Financial resources and facilities
- Management resources
- Systems of planning and internal control

Our Board reviews, approves and signs-off Condition P assurance statements. These enable the Board to clearly demonstrate it has discharged its responsibilities and has made diligent enquiry into the principal risks facing both the wider business and the wastewater business (to support the Ofwat Section 19 undertakings).

The Condition P certification process was subject to an external review of Assurance Statements from our external auditor Deloitte LLP. The external assurance to support the discharging of our Condition P obligations also acts as key evidence for our Board Assurance Statement on the accuracy and completeness of data. Whilst not specifically assured by independent assurers, the Board Assurance Statement draws from evidence that has been provided by our external auditors and our technical assurers.

11.7.8. S19 undertakings

As reported previously, Ofwat investigated our wastewater reporting and imposed a financial penalty of £3 million. In addition, we agreed to make significant customer bill rebates, totalling £122.9 million (in 2017–18 prices) between 2020 and 2025.

On 8th October 2019 we signed formal Undertakings pursuant to Section 19 of the Water Industry Act 1991 relating to the numerous changes we have put in place, and continue to develop, to ensure that the issues identified in the investigation have stopped and cannot be repeated.

The Undertakings contain a wide range of corrective actions and interventions across seven themes:

- A. Customer redress measures
- B. Technical review of Wastewater Treatment Works
- C. Organisational compliance process measures
- D. Organisational cultural change measures
- E. Ensuring transparency
- F. Condition P Certificate assurance undertaking and
- G. Reporting on compliance with the undertakings

We continue to make good progress on all the Undertakings, with most of them now substantially complete. Our focus now moves to embedding the improvements and monitoring the effectiveness of that embedment, whilst closing out remaining actions. Compliance with the Section 19 Undertakings is subject to a formal assurance regime which is reported to our Board and then to Ofwat on a regular basis.

In our February 2023 update to Ofwat we were able to report that the actions arising to ensure compliance have either been completed or are on track to be fulfilled within the five-year period of the undertakings, which run until 9th October 2024.

11.8. Applying the MCF to PR24

Our PR24 Business Plan has been subject to an expansive programme of assurance. This has been further supported by the application of our embedded 'business as usual' compliance focus and our commitment to operating our MCF.

In developing the core elements of our PR24 Plan, our MCF principles have guided our behaviours, the management of information, the application of controls, consideration of risk and uncertainties and transparency in reporting performance, assumptions and resilience. Review and testing has been applied to key areas of the PR24 Plan to ensure accuracy and confidence in our Technical Annexes, Enhancement Business Cases, Cost Adjustment Claims and data table submissions.

11.8.1. Meeting our statutory and licence obligations

In a step-change from our PR19 submission that demonstrates how compliance has become more embedded in our day-to-day activities, we have assessed each element of our PR24 Business Plan against our statutory and Licence obligations. Each chapter of our plan reflects the relevant legislative and regulatory drivers, now and into the future, to determine what funding is sought to deliver performance that meets our obligations and acknowledges the known risks and uncertainties. This is dependent upon the relevant authorities confirming that they are content with our proposed phasing of our WINEP programme and the proposals in our WRMP as supplemented by our proposed mitigations. Central to this approach is

the reliance on the embedded MCF approach with the six-monthly Statement of Compliance and the Register of Obligations being key tools to support the business in understanding its relevant obligations.

Each of the main elements of the plan have been subject to technical assurance from an assurance provider (e.g., Jacobs) and a legal review from Herbert Smith Freehills LLP. Both have looked at the content of the plan from a quality perspective – focusing on the requirements in Ofwat’s guidance and our approach to ensuring the plan enables us to meet our regulatory and statutory obligations. This has provided a top-down view on the compliance of our plan. These inputs have been key to identifying key uncertainties in the plan (as detailed in our Board Assurance Statements above – see section 11.5).

To support this top-down assessment of our regulatory and statutory obligations we have supported teams by providing considered information gathered from our regular periodic Statement of Compliance reviews, our annual License assessment, and our horizon scanning for new, developing and changing requirements. We have referenced our full listing of responsibilities, maintained in our Register of Obligations and considered what is needed to ensure compliance is met overall and in each of the separate aspects of the plan.

11.8.2. Attestation process

As part of our governance, we have set up a one-off attestation process to cover the key content in the chapters of our plan. The process allows chapter owners to state and evidence that our identified obligations have been considered and reflected in our proposals. Statements from the individual authors of our plan chapters attest to their understanding of this methodology. This approach has enabled checks into areas or aspects of the plans where potential risk had been identified, to inform changes to the plans and other mitigations, and to inform our reporting of key uncertainties.

The bottom-up process has allowed chapter owners to identify areas of risk which have been a key input, alongside that of our technical and legal assurers, to identify and evidence the key uncertainties to the plan and has functioned as an input into the Board Assurance Statement process.

11.8.3. Data and assurance – obligations

In preparing this part of our Business Plan we have had full regard to ensuring we continue to comply with existing statutory and Licence obligations through our business-as-usual assurance process and we have provided details in this chapter as they relate to matters of data and assurance.

We are satisfied that the proposals in relation to data provision and assurance in this section of the plan are such as will enable us to meet relevant statutory and licence obligations both now and (to the extent known) in the future. We are not aware of any new statutory and licence obligations which are anticipated to emerge in the course of AMP8 in relation to data and assurance.

In meeting our wider responsibility for the assurance of our PR24 Business Plan overall, we have ensured that, for those areas or aspects of the plan proposals where there is a potential risk that the Business Plan may not be sufficient to enable us to meet our statutory and licence obligations, there has been appropriate review and scrutiny.

Throughout the Business Plan any relevant and emerging obligations have been identified, considered, and addressed within our proposals, and mitigated or reported openly as areas of uncertainty.