

Anglian Water

PR19 REVISED BOARD ASSURANCE STATEMENT



IAP Response April 2019



This Board Assurance Statement is submitted with the IAP Response. This Board Assurance Statement addresses the IAP Company actions ANH.CA.A1 to ANH.CA.A6 and ANH.CA.A9.

IAP Feedback

We, the Directors of AWS, re-affirm that the whole Board Assurance Statement that we submitted in September 2018 to support the Plan, including the Supporting Information section, was intended to provide the evidence to Ofwat that we had taken responsibility for the Plan, to outline why the Directors of AWS consider that all elements add up to a business plan that is high quality and deliverable and to provide details of how we had challenged management to make the Plan the best it could be.

We are disappointed by Ofwat's conclusion that the assurance provided by the Board in September 2018 fell "significantly short of providing sufficient evidence to demonstrate high quality in the securing confidence and assurance test area". The Board also notes that the principal reason for this conclusion is the apparent absence of certain statements "within the signed component of the Board assurance statement". In response to these comments, we have re-structured this Board Assurance Statement, made the required statements more explicitly, and re-signed the document, to confirm our support for all of the statements made in this document.

Introduction

We, the Board of Directors for Anglian Water Services Limited ("the Board"), are pleased to submit the Business Plan ("the Plan") for Anglian Water Services Limited (the "Company" or "AWS") for the period from 2020 to 2025.

The Plan is published at a critical point for the water sector and the region in which we operate. Climate change, growth and the need to protect the natural environment are all challenges that are particularly acute in the region we serve.

The water industry is under intense public scrutiny and decisions taken now will have an impact long into the future.

The Company has interacted with over half a million customers, as well as regulators and other stakeholders, over many months and through a wide variety of channels to ensure the Plan addresses these challenges while ensuring the service provided to customers meets their expectations.

The Board has provided strategic leadership and direction to the preparation of the Plan from the outset of the process. The resulting plan is fully endorsed by the Board as delivering the best value to customers and the environment, over the next five years and beyond.

This Board Assurance Statement sets out the information required to evidence compliance with each element of Ofwat's Board assurance requirements (detailed in Ofwat's PR19 Methodology) and demonstrates how we, the members of the Board, have owned and are accountable for each element of the Plan including:

1. Business planning
2. Customer engagement
3. Affordability
4. Outcomes
5. Resilience
6. Cost assessment
7. Risk and return
8. Financeability.

The detailed information below explains why we, the members of the Board, are confident that the Plan is the best it can be and that all elements add up to a plan that is high quality and deliverable.

The Plan has been developed following innovative and wide-ranging consultation, to ensure that it is the best possible plan to meet the requirements and expectations of our customers, wider stakeholders and the environment. It builds on the long term proposals for 2020 to 2045 set out in our recently updated Strategic Direction Statement. We believe that the planned investments over the forthcoming five-year period will ensure that we can continue to deliver our core services, whilst supporting sustainable housing growth and ensuring that the environment in which we operate is able to flourish, while at the same time pushing our business to reach the highest levels of customer service.

Over AMP7 AWS will invest a total of £6.9 billion to maintain and enhance the service that we provide to more than six million customers in the east of England and Hartlepool. Shaped and supported by customers, this will be achieved by holding increases to the average household bill to below 1% over AMP7.

As members of the AWS Board, we have participated extensively in the development of the Plan. We have personally attended customer engagement events as well as meetings of the Anglian Water Customer Challenge Group, known as the Customer Engagement Forum.

Different elements of the Plan have been discussed by us at Board and Strategy meetings on 24 occasions between January 2016 and the end of August 2018. PR19 became a standing agenda item at Board meetings from April 2017. We have actively helped to develop the long term strategy, reviewed investment proposals, discussed performance commitments and outcome delivery incentives, challenged our Management Team and helped shape the Plan to ensure it is the best it can be.

Following publication of the Outline Plan in March 2018, we have ensured that customer and other stakeholder views have informed and been reflected in the final Plan. We have a high level of confidence in the Plan largely as a direct consequence of the scale, breadth and quality of the customer and stakeholder engagement undertaken and the fact that such a large proportion of customers support our proposals.

We approved the Plan at the Board meeting on 13 August 2018. We are confident that it is an ambitious, high quality and deliverable business plan that satisfies the requirements in Ofwat's methodology because:

- Over half a million customer interactions have materially shaped the proposals included within our Plan - 10 times more than the last Plan
- The main call from our customers was to invest now to continue the global leadership on leaks, enable sustainable growth, improve the resilience of our region to drought and flood and enhance our environment through investment
- Many customers supported a 5% increase in bills, but we challenged our Management Team to produce a plan that could be delivered with only a small increase in bills to 2025, whilst also putting in place the platform to deliver our long term ambitions and remaining financially resilient
- The Plan will ensure investment to increase the resilience of our water supplies, while delivering an ambitious demand management strategy
- We will maximise the support available to customers who struggle, or are at risk of struggling, to pay their bills, or are otherwise vulnerable
- We have shaped a set of stretching bespoke performance commitments and outcome delivery incentives which respond to specific priorities in our region and the needs of our customer and stakeholders
- We have an excellent track record on efficiency and are one of the most cost-effective companies in the sector, but we always look for better and cheaper ways to deliver our services
- The Plan is financeable on both the notional and actual company structure.

Business Planning

Ofwat requirement: How the Board has challenged and satisfied itself that all the elements add up to a plan that is high quality and deliverable

We, the members of the Board, are satisfied that that all elements add up to a plan that is high quality and deliverable. We set out below some of the evidence that has enabled the Board to reach this conclusion.

The Board is satisfied that all elements of the Plan have been subject to challenge and scrutiny at every level within AWS, from the individuals developing proposals for investment strategies to meet the statutory, regulatory and stakeholder requirements due to be fulfilled during AMP7, to the independent third party assurance providers engaged to review the processes, information and supporting evidence.

An example of this is the 'Red Review'. This is a panel of external experts¹ who we asked to review the Plan, the data tables and the table commentary to identify strengths and weaknesses, and to make recommendations for improvement.

Specifically, the panel reviewed how well in their expert opinion we have articulated and provided appropriate levels of credible evidence and detail to support the Plan and if the requirements in Ofwat's PR19 methodology have been adequately addressed, including the nine test areas.

The Red Review panel concluded that all elements of the Plan will provide a balanced level of investment to meet the requirements and expectations of customers and other stakeholders, while also ensuring we can continue to meet statutory and regulatory obligations.

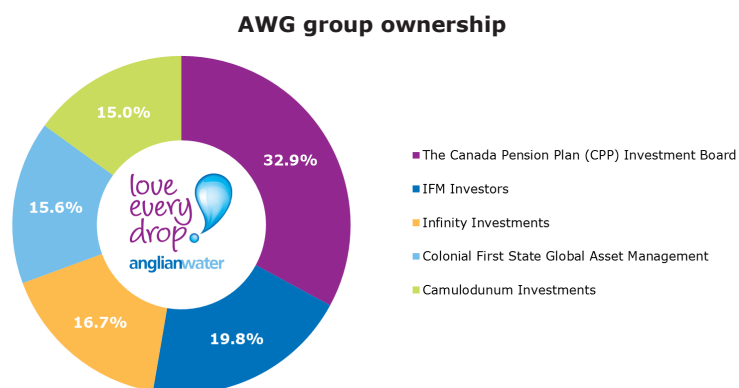
Ofwat requirement: How the Board has challenged and satisfied itself that the overall strategy for data assurance and governance processes delivers high quality data

We, the members of the Board, are satisfied that the overall strategy for data assurance and governance processes delivered high quality data. We set out below some of the evidence that has enabled the Board to reach this conclusion.

The PR19 governance and programme management framework was developed to put accountability and assurance at the heart of it. Overall responsibility for the business planning process lies with us, as members of the Board, with direct links through to the Management Board and PR19 Programme Board.

Ownership

AWS is part of the AWG group of companies which is owned by a consortium of five investors, as shown below, who are represented on the Board.



1 Compass Lexecon, Oxera, KPMG and Linklaters

Board composition

As at 13 August 2018, the Board comprised:

Six Independent Non-executive Directors

- Stephen Billingham (Chairman)
- Natalie Ceeney, CBE
- Dame Polly Courtice, DBE, LVO
- Steve Good
- John Hirst, CBE
- Paul Whittaker.

Three Non-executive Directors

- Niall Mills
- Duncan Symonds
- James Bryce.

Two Executive Directors

- Peter Simpson, Chief Executive Officer
- Scott Longhurst, Managing Director, Finance and Non-regulated Business.

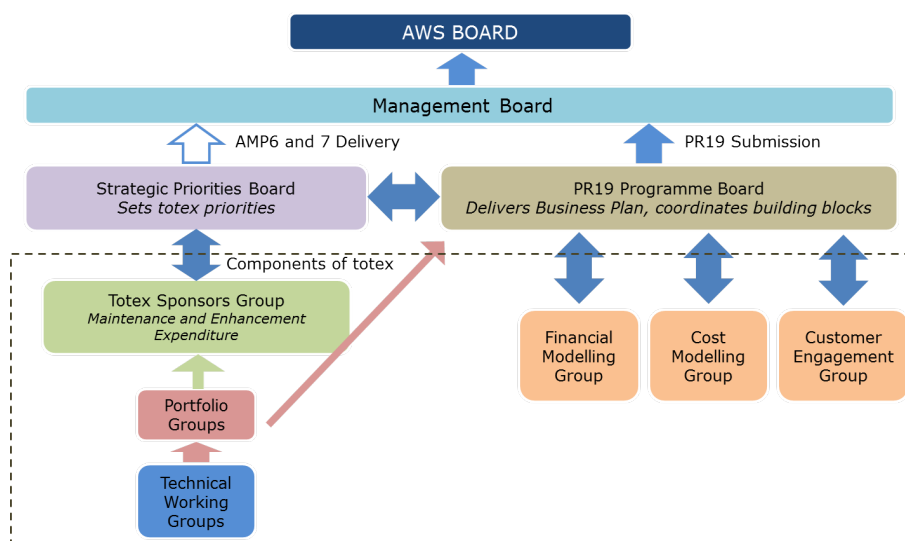
On 31 October 2018, Steve Good stepped down from the Board and Zarin Patel was appointed as an Independent Non-executive Director.

The composition of the Board is now such that Independent Non-executive Directors are in the majority, not just the largest group. We, the members of the Board, are supported by the Management Board, which oversees the day-to-day running of our Business.

PR19 governance

The overall approach to PR19 governance principles were presented to, and agreed at a meeting of the Board in January 2016.

The PR19 Programme Board is responsible for development and delivery of the Plan, is chaired by the Regulation Director and includes representatives from across AWS. It is supported by the Strategic Priorities Board which is responsible for setting performance and expenditure levels by making choices on performance, cost and risk. There are eight Portfolio Groups responsible for delivering options, performance standards and balancing risk with Totex expenditure, 16 Technical Working Groups responsible for delivery of specific parcels of work and nine Specialist Groups set-up for the PR19 process, to deliver or advise on specific elements of the Plan. The diagram below shows the structure of the PR19 governance groups.

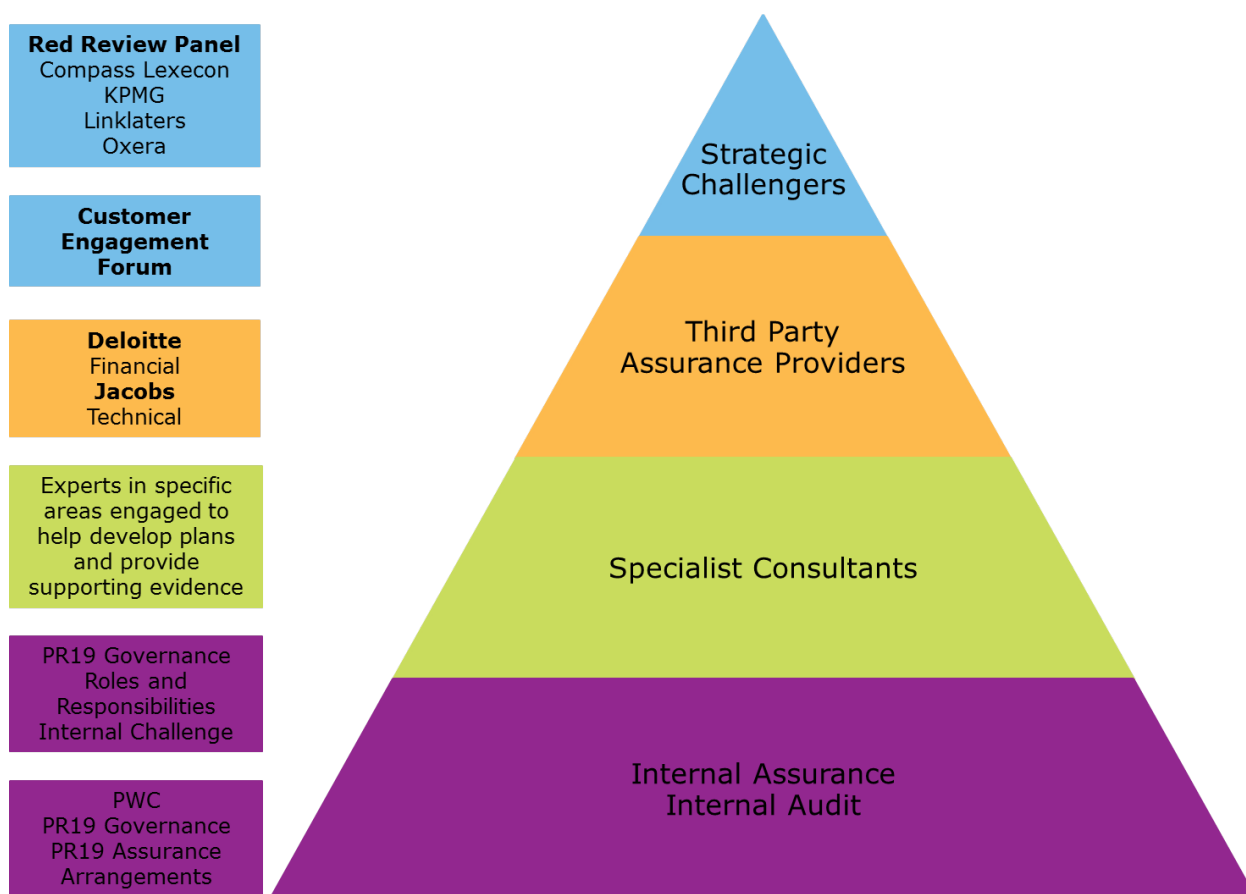


Assurance activities

In March 2018 '[Our Final Assurance Plan for PR19](#)' was published on the AWS website. This document outlined the approach we would take for PR19 assurance activities to ensure that the Plan was rigorously challenged prior to submission to Ofwat. It builds on 'Our Assurance Framework' which is a published document that describes how we ensure information provided to stakeholders meets expected standards of quality.

The Company has engaged a wide range of third parties to draw upon a breadth of experience and knowledge to ensure that our proposals have been challenged and areas for improvement identified. This is in addition to internal challenge which is built into processes for developing proposals and submitting information included in the Plan as well as the accompanying data tables and commentary.

The infographic below shows the four layers of assurance that have been applied to the business planning process. Appendix 1 provides details of external assurance providers and specialist consultants engaged as part of our PR19 planning process. It should be noted that Jacobs was previously known as Halcrow and CH2M.



Each of the areas where specific assurance has been carried out is detailed below, providing a broad scope of review and challenge. Representatives from Deloitte and Jacobs attended our Board meeting on 18 July 2018 to provide feedback on the robustness of the information being submitted to Ofwat as part of the Plan. They provided interim reports on the status of assurance activities at this time and final reports prior to submission. We, the members of the Board, are reassured by the level of assurance activity undertaken by our third party assurance providers and the positive feedback provided when they attended the Board meeting.

Data tables and commentary (April to August 2018): All data tables and associated commentary have been reviewed by either Deloitte or Jacobs. Following the risk based approach to assurance set out in 'Our Assurance Framework' each table was assessed against an agreed criteria to identify the tables with the highest risk, either due to likelihood or impact of inaccurate data.

The results of the assessment indicated that 88% of data tables should be subject to external assurance. Having reviewed the results of the risk assessment in the context of the unique nature of PR19, the fact that the data supports significant investment levels and the importance of providing confidence to stakeholders, it was agreed that every data table should be subject to assurance by an independent third party assurance provider. Each data table was allocated to either Deloitte or Jacobs for this purpose.

A two stage approach was undertaken, the first of which focused on the processes adopted to complete the data tables and compliance with Ofwat guidance, seeking to identify areas for improvement prior to the second stage review. The second stage was to check the accuracy of the data in the data tables along with the appropriateness of the accompanying commentary to meet Ofwat's reporting requirements and definitions.

Governance framework (October 2017 to July 2018): The Internal Audit function, provided by PriceWaterhouseCoopers, carried out reviews of PR19 governance and assurance arrangements during 2017 and 2018. The focus of the reviews was to assess the design of governance arrangements as well as the processes in place to provide assurance over the preparation of the Plan.

Engaging customers (January and June 2018): Jacobs reviewed the approach to customer engagement on two occasions during the preparation of the Plan. This included a review of the effectiveness of how we engaged with customers about Ofwat's PR19 themes, links to the development of proposed outcomes and performance commitments, how longer term issues such as resilience, security of service and affordability of bills are being addressed, the range of techniques used to engage customers and the evidence base used. The customer engagement numbers included in the data tables and the accompanying commentary were also reviewed.

Approach, strategy and structure of business plan (June to August 2018): This is the review carried out by the 'Red Review' panel, who were engaged to review the Plan from a strategic level. The panel from Compass Lexecon, Oxera, KPMG and Linklaters were engaged to provide expert opinion, based on their knowledge and understanding of regulated sectors and the wider context in which this Periodic Review is being carried out.

Performance commitments and outcome delivery incentives (February, March and June to August 2018): Jacobs reviewed the approach to Outcomes on three occasions. The first review was to assess development of Outcomes and the identified shortlist for the bespoke measures, including interpretation and compliance with Ofwat's guidance. The second review was in advance of submitting proposed performance commitment definitions to Ofwat on 3 May 2018. The focus was on developments since the first review and progress towards completing the pro forma template for submission. The third review focused on the data included in the App1 table (Performance commitments (PCs) and outcome delivery incentives (ODIs)).

Investment options (January to July 2018): 17 investment portfolios were reviewed by Jacobs as part of their scope of work. The portfolios were assessed against a set of criteria to identify which should be subject to assurance. This produced a list of 13 portfolios, based on risk and materiality. In addition, Jacobs selected a further four portfolio areas that they wished to review. The reviews were carried out in two phases. The first looked at initial information as input to Copperleaf C55 (an investment decision support tool), including the need, proposed approach and options, identified solutions, justification of options, assumptions applied, supporting evidence, costs and benefits information and risks. The second phase looked at how the portfolios had been developed and optimised to arrive at final proposed investments.

Financial assessments (May to August 2018): Deloitte undertook a review of the key financial model and spreadsheet controls as well as economic and company scenarios. The focus was on the process adopted to interpret Ofwat guidance, process to populate the model,

documentation and approval of assumptions, and proposed review and sign-off arrangements. They also reviewed financial assumptions and financeability of the Plan once the assumptions had been finalised.

Special cost factors (July to August 2018): We are submitting two special cost factors claims as part of the Plan, one for Wholesale Water Network Plus (table Wn6) and one for Wholesale Wastewater Bioresources (table Bio7). Jacobs was asked to review compliance with Ofwat's reporting requirements, to comment on assumptions applied and to comment on estimates of the value of historical expenditure and future cost adjustments to provide assurance around the submitted data and associated commentary.

PR14 reconciliation (June to July 2018): Deloitte and Jacobs have reviewed the data tables and commentary required for the PR14 reconciliation submission in July. In addition Deloitte reviewed the WRFIM, Residential (household) retail, and Totex menu models, as well as the RCV adjustments and Revenue adjustments feeder models. These data tables, commentary and models were submitted on 27 July 2018 as part of the PR14 reconciliation submission, along with supporting reports produced by Deloitte and Jacobs.

Vulnerability and Affordability (April and May to August 2018): The approach to Vulnerability and Affordability has been reviewed by Jacobs. The purpose of the reviews was to assess the approach to addressing affordability and vulnerability in the Plan, including compliance with Ofwat's guidance.

Direct procurement (April and July 2018): A high level review of the approach to Direct Procurement for Customers (DPC) was carried out by Jacobs. The scope of this review was to assess the response to Ofwat's requirements and the approach followed to assess enhancement projects to identify if they should be DPC projects. Deloitte carried out a review of the data and commentary for table App21. An expert consultant, KPMG, was engaged to help develop a structured and robust methodology that was used, and can be adopted in the future, to help consider whether projects are suitable for DPC.

Bioresources RCV (August to September 2017 and August 2018): A number of parties provided assurance in relation to the data tables and accompanying report that was submitted in September 2017. Jacobs, Deloitte, Reckon LLP and Mott MacDonald all undertook assurance activity to ensure the submission was accurate and complete. We, the members of the Board, approved the submission at a Board meeting on 20 September 2017, and Stephen Billingham (Chairman), signed the Board Assurance Statement on our behalf. The feedback provided by Ofwat in February 2018 was considered to help improve the valuation of bioresources assets.

Water Resources RCV (December 2017 to January 2018 and July 2018): Both Jacobs and Reckon LLP provided assurance in relation to the data tables and accompanying report that was submitted in January 2018. We, the members of the Board, approved the submission at a Board meeting on 24 January 2018, and Stephen Billingham (Chairman), signed the Board Assurance Statement on our behalf. The feedback provided by Ofwat in May 2018 was considered and updated Water Resources RCV information is included in the Plan. The data and accompanying commentary has been reviewed by Jacobs prior to submission.

In addition to the PR19 governance framework and activities carried out by independent third party assurance providers outlined above, internal assurance has included the following:

Botex forecasting from cost models (July 2018): Cost models were developed from January 2017 onwards, in conjunction with specialist consultants, the Centre for Productivity and Performance at Loughborough University. A sub-set of these models was used to generate the Botex forecasts for AMP7 and internal resources, independent of this work, tested the accuracy of the forecasts to confirm they had been applied correctly to generate those forecasts.

Internal consistency reviews (July to August 2018): Internal resources were asked to review certain areas of the Plan to ensure consistency between data tables, commentary and the main business plan documents, to ensure that data is consistent throughout the Plan and to check for any anomalies or other issues based on their experience and knowledge of the subjects being reviewed.

Internal Line Providers and Line Approvers: Individuals were assigned responsibility for every line of every data table. This was to ensure that all data was subject to review and approval prior to being included in the final data tables that we are submitting. Line Providers are the experts within AWS with the greatest knowledge of the data requirements and are responsible for producing the data and associated commentary, while the Line Approvers, who are typically senior managers in the relevant area, are responsible for approving the data and commentary.

Ofwat requirement: How the Board has challenged and satisfied itself that the Plan will enable the Company to meet statutory and licence obligations, now and in the future and take account of the UK Government’s strategic policy statements (Action ANH.CA.A1)

We, the members of the Board are satisfied that the Plan will enable the Company to meet its current statutory and licence obligations. Insofar as future legislation and licence changes are consistent with the Government's strategic priorities, the Board is also satisfied that the Plan will also enable the Company to comply with future legal requirements. We set out below some of the evidence that has enabled the Board to reach this conclusion.

Section 37 of the Water Industry Act 1991 states that we have a duty to develop and maintain an efficient and economical system of water supply and ensure supplies are available to those who demand them, and to maintain, improve and extend the water mains and other pipes as necessary to ensure we are able to continue to meet our obligations. We are confident that the Plan will allow us to discharge this duty.

The UK Government’s strategic priorities of Securing long-term resilience, Protecting customers and Making markets work are integral to our Strategic Direction Statement and the Plan. We recognise and agree that these priorities are key to delivering a successful investment plan in AMP7.

By working closely with our Regulators - Ofwat, the Environment Agency and the Drinking Water Inspectorate, along with industry experts, it is has been possible ensure proposals in the Plan will help us achieve statutory and licence obligations.

By liaising with Defra, Ofwat and the Environment Agency it has been possible to ensure delivery of obligations in the Water Industry National Environment Programme (WINEP3) in a way that will deliver greater environmental benefits and better value for money, often through natural capital solutions and working collaboratively with local communities and partner organisations. This approach to ensuring the requirements of WINEP are addressed appropriately in the Plan was reviewed by Jacobs. As part of their review, Jacobs considered our approach to meeting the core obligations as well as actions and priorities to address the drivers.

The Plan has been developed to ensure consistency with the requirements of our draft 2019 Water Resources Management Plan (WRMP), including feedback received from Defra and Ofwat. This included accelerating investments originally planned for AMP8 to bring them forward to AMP7. Our draft WRMP was subject to assurance by Jacobs prior to submission to Defra in 2017. The reports of this assurance confirmed that the WRMP was developed in compliance with published guidelines and that critical assumptions had been identified and tested.

The Environment Agency and Drinking Water Inspectorate play a significant role in informing our Customer Challenge Group, known as the Customer Engagement Forum (CEF) by highlighting any concerns about the ability of the proposed plan to meet statutory obligations. The Chair of the CEF asked these regulators to provide details of any concerns which would be included in the CEF report to Ofwat.

Ofwat requirement: How the Board has challenged and satisfied itself that the Plan will deliver operational, financial and corporate resilience over the next control period and the long term through governance and assurance processes, taking account of our track record of performance (Action ANH.CA.06)

We, the members of the Board are satisfied that the Plan will deliver operational, financial and corporate resilience over the next control period and the long term through governance and assurance processes, taking account of our track record for performance. We set out below some of the evidence that has enabled the Board to reach this conclusion.

In conjunction with specialist consultants, Arup, a holistic resilience framework was developed, which incorporates Ofwat's key theme for PR19 of 'resilience in the round'. The resilience framework allows operational, financial and corporate resilience to be tested against a maturity matrix, to understand both short and long term risks and has been applied to investment proposals in the Plan. Short term management of risks can be considered alongside longer term trends and help lower likelihood risks. It is intended that the framework will be used to help ensure resilience for the benefit of customers and the environment.

Our draft 2019 WRMP, Water Recycling Long-Term Plan and Biosolids Strategy all look beyond the single AMP timeframe. By looking further into the future, it has been possible to develop both our WRMP and the Plan to ensure understanding of and to help meet the changing needs and expectations of customers, partners and stakeholders.

The Company's track record of performance is strong, demonstrating industry leading results in a number of key areas, including drinking water quality, leakage and customer service. In 2017 Mean Zonal Compliance for drinking water quality was 99.96%. Leakage has been cut by more than a third since privatisation in 1989 and it is now at record low levels - around half the national average based on the amount of water lost per kilometre of main. In 2017/18 the Service Incentive Mechanism score was top among water and sewerage companies, with a total score of 88 out of 100.

In Ofwat's 2017 Company Monitoring Framework (CMF) an assurance status of "targeted" was retained, which acknowledges that the performance data provided is clear, transparent and accurate and that stakeholders can have confidence in. This good track record will be built upon in AMP7 and performance reporting processes will be developed to ensure performance data is subject to rigorous assurance arrangements as outlined in 'Our Assurance Framework'.

Business management systems are maintained and are certified to international standards. The framework of policies, procedures and processes ensures that everyone works in a consistent way, and that required standards of performance are met. To maintain these certificates regular audits are carried out by accredited bodies, who challenge the systems and identify improvements. The certified management systems include:

- Quality (ISO 9001)
- Environmental (ISO 14001)
- Occupational health and safety (OHSAS 18001)
- Business continuity (ISO 22301) (the first water company in the UK to be certified to this standard)
- Anti-bribery (ISO 37001)
- Lifecycle management of assets (ISO 55001)
- Asset management (PAS55)
- Greenhouse gas emissions and removals (ISO 14064)
- Carbon management of infrastructure (PAS 2080)
- Competence of testing and calibration laboratories (ISO 17025).

Ofwat requirement: How the Board has challenged and satisfied itself that the Plan will enable customers' trust and confidence through high levels of transparency and engagement with customers on issues such as corporate and financial structures

We, the members of the Board are satisfied that the Plan will enable customers' trust and confidence through high levels of transparency and engagement with customers on issues such as corporate and financial structures. We set out below some of the evidence that has enabled the Board to reach this conclusion and some of the actions that have been taken by the Board.

The Board is committed to ensuring that customers trust and have confidence in the Company as we continue to serve our region responsibly, tackling the challenge of delivering for current and future customers, while addressing longer term issues of climate change, population growth and the maintenance of a flourishing environment.

In March 2018, the Board agreed to make a public commitment to improve transparency and to demonstrate that public interest is at the heart of the Business. This included a commitment to reduce dividends to shareholders and reduce our level of debt and gearing over the course of AMP7. By June 2018 the dormant Cayman Islands subsidiary had been removed and an outstanding inter-company loan of £1.6 billion had been re-paid to simplify the presentation of the accounts.

The composition of the Board is now such that Independent Non-executive Directors are in the majority, not just the largest group. This is a permanent change in the composition.

In the 2017/18 Annual Performance Report a comparison of our actual returns with the returns that would have been made by a notionally financed company have been included.

Customers can see evidence that the investors are committed to providing additional funding to support the Plan. They have already agreed that £100 million that would previously have been paid as dividends should be reinvested in the current AMP period. A further sum of £65 million has been committed to fund resilience schemes not included in our original PR14 Plan, bringing the total reinvestment in this period to £165 million.

Customer views were proactively sought on the measures announced in March 2018 to increase trust and confidence. The feedback from them was strongly in support of the measures taken.

Executive pay

Following its review, the Remuneration Committee has made the decision to align all variable reward to the outcomes that customers have indicated are their top priorities, and to fundamentally restructure executive packages to reflect these priorities.

Executive remuneration will therefore now be comprised of two elements:

- 1. Base pay and benefits:** These are fixed, and tested annually, against the market. The policy is to target median rewards when judged against the sector and organisations of similar scope and scale, which is in line with the policy for the wider workforce. In accordance with the provisions of the AWS 2019 Code, the percentage of salary paid in pension contributions to new Executive Directors will be aligned with those of the wider workforce, i.e. they will be no more than 12%.
- 2. Deferred bonus scheme:** The previous annual bonus scheme and LTIP will be replaced by one scheme which only rewards measures that customers have indicated are important to them. There will be no reward directly linked to securing shareholder returns, as the Remuneration Committee believe that achieving these goals will be in everyone's long term interests – an efficient, sustainable organisation with customer's interests at its heart will deliver for everyone, including shareholders. The Board believes AWS is the only Water and Sewerage Company to have taken such a customer centric approach.

The Deferred bonus scheme will have three sets of measures:

- Direct customer measures such as CMEX and the achievement of our ambitious support proposal for most vulnerable customers
- Customer delivery measures – a small number of ODIs which represent the most important priorities as determined by customers
- A customer focused measure of efficiency – customers want the company to provide these services as efficiently as possible, and we will reward the achievement of efficiency which is shared with them.

Executives will earn an annual bonus based on achieving base, threshold, and stretch performance against these measures. The measures will be published in the AIR, and be directly linked to the 2020 to 2025 outcomes that are agreed following the Business Plan submission. In other words, Executives will be directly remunerated on achieving the Business Plan endorsed by customers.

At the end of the year for which the bonus has been set, achievement will be calculated and half of the reward earned will be paid out.

The remaining half will be paid out in two tranches – two years and three years after the first payment – and therefore three and four years after the performance period begin. These payments will be dependent on a number of serviceability measures being achieved over the three year period, to ensure that performance is sustained in the long term.

Importantly, the degree of discretion and oversight applied by the Remuneration Committee is increasing. It is critical to customers, and to the future success of the company that short term decisions are not taken at the expense of the long term viability of the water infrastructure in the region. The Remuneration Committee will therefore apply a series of tests to ensure that there are material deductions to any award in the event of a deterioration in Environmental, Health and Safety record or reputation, but retain full discretion to look at performance in the round, with the ability to stop any award in full in the event of short term focus at the expense of long term customer needs. Comprehensive malus and clawback provisions will also be built into the scheme rules to ensure that Executives are held to the highest standards of behaviour.

The Remuneration Committee believes that this policy and the publication of measures and achievement will mean that:

- The reward reflects long term sustained performance for the benefit of customers
- Any rewards are transparent and there is read across from achievement to the level of reward
- Rewards are proportional to the challenge of the goals set, so that maximum rewards are only payable against outstanding delivery
- Rewards reflect achievement of the goals and challenges set out in the final Business Plan
- Rewards will reflect outperformance which has also benefited the customer, for example through ODI reward, re-investment or the sharing of outperformance.

The detail of the measures, once the targets are agreed in the Final Determination, will be published in the AIR, and the detail will continue to be published annually.

Customer feedback is so important that AWS has gone further than other companies, and consulted customers about the changes that are planned, in order to assure that customers agree that these changes are significant improvements. The online community was consulted about the high level principles that are planned to be applied, and 82% agreed that this was an improvement. This gives a high level of confidence that the policy has significant support and as agreed with the Customer Engagement Forum, AWS will continue to feedback the details of the remuneration policy as it is developed in detail to seek their feedback and support. A clear guide to executive remuneration will also be published in the AIR which is published on the AWS website, in plain English, so that the policy is clear to customers.

In line with the 2018 Regulations, the Board will also be implementing the recommendations with regard to Employee Voice, and are currently working to ensure that there is an employee voice in all Remuneration decisions. As required by the 2018 Regulations, the Company will

explain in the 2020 AIR how directors have engaged with employees, and how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

The elements of the variable pay strategy are therefore linked to stretching customer centred goals, whether that is through the achievement of ODIs, CMEX or efficiencies which flow through into financial outperformance which is shared with the customer. It has been demonstrated in the Remuneration Report in the past years an exceptional level of transparency, detailed the objectives and the base and stretch targets and outcomes, and AWS is committed to continuing this practice in the next AMP and beyond, widening the transparency even further through explicit customer and employee engagement over remuneration policy.

Dividend policy

It is confirmed that the future dividend policy as announced as part of the March 2018 commitments is consistent with Ofwat's recent Back in Balance expectations and by working with Ofwat it will help increase the perceived trust and legitimacy of the sector.

Ofwat requirement: How the Board has provided ownership of the overall strategy and direction of the Plan in the long term

We, the members of the Board, confirm that we have provided ownership of the overall strategy and direction of the Plan in the long term. We set out below some of the evidence which supports this statement.

We, the members of the Board, have participated extensively in developing the long term strategy, including the refreshed Strategic Direction Statement and the Plan for AMP7. The Board, helped shape the development of the Plan, by setting some high level objectives at an early stage in the process:

- To inform and shape public policy, creating a positive backdrop against which our business plan will be received
- To win maximum recognition for our operational performance, innovation and thought leadership programmes
- To secure a solid base of positive evidence to underpin a successful PR19 submission
- To ensure a price determination that enables sustainable, resilient and fair finance for the business
- To achieve the best possible price determination for AMP7.

We, the members of the Board, have personally attended customer engagement events as well as meetings of the CEF. Duncan Symonds and Niall Mills attended focus groups on 10 and 18 April 2018 respectively. In June 2018 four Independent Non-executive Directors and a representative of a Non-executive Director attended the CEF meeting.

Different elements of the Plan have been discussed at Board meetings on 24 occasions between January 2016 and the end of August 2018. PR19 became a standing agenda item in April 2017. We, the members of the Board, have actively helped develop our long-term strategy by reviewing investment proposals and discussing performance commitments / outcome delivery incentives. We, the members of the Board, have challenged the Management Board to make the Plan the best it can be for customers and the region.

Customer engagement

Ofwat requirement: Assurance that the Plan has been informed by customer engagement

We, the members of the Board, are satisfied that the Plan has been informed by customer engagement. We set out below some of the evidence which supports this statement.

The customer engagement activities have been innovative and wide ranging to ensure understanding of stakeholder priorities and the ability to respond to them in the plans as they developed. Our Outline Plan for 2020-2025 was published for consultation in March 2018. This also included digital engagement, have your say and be the boss. Over half a million customer interactions have shaped the Plan. 87% of those engaged on bills for 2020 to 2025 found the proposals for the level of bills to be affordable and while 94% found them acceptable.

Given London, experts in customer engagement were commissioned to help develop and shape the customer engagement activity to ensure a wide range of customers was reached, especially those who may normally not engage. Focus groups have covered specific areas such as those in potentially vulnerable circumstances, for example, low income earners, young women, older people, hearing impaired, English as a second language and visually impaired.

38 different channels of customer engagement and communication were used. These were categorised as Targeted engagement, Business as usual / operational data and Valuation. This ensured a robust, balanced and proportionate evidence base was used to inform the Plan. It was ensured that the overall customer base was represented in customer engagement activities. Surveys with sampled quotas aligned to ONS statistics, random self selection participation, segments of the customer base in vulnerable circumstances, future customers and those in particular geographical regions were all approaches taken to ensure a wide evidence base. Customer segmentation was a key part of the engagement strategy. Alto Consulting carried out a quantitative survey of 1,200 customers asking about their attitudes to water, the environment, technology and money to identify six segments within our customer base.

The overall approach to customer engagement has been subject to review and challenge by independent third party assurance providers, Jacobs, on two occasions – the focus being to check the effectiveness of the engagement, including the range of techniques and activities used, the range of customer engagement activities and the role of independent challenge. Jacobs commented that the customer engagement activities were in many areas breaking new ground for the sector and that a major and comprehensive exercise had been undertaken to engage with customers using innovative techniques which may be unique to the water industry.

Ofwat requirement: Assurance that the Plan has been informed by feedback from our Customer Engagement Forum about the quality of our customer engagement and how this has been incorporated into the Plan

We, the members of the Board, are satisfied that the Plan has been informed by feedback from our Customer Engagement Forum about the quality of our customer engagement and how this has been incorporated into the Plan. We set out below some of the evidence which supports this statement.

The CEF comprises a range of stakeholders. Originally established for PR14, the forum continued meeting and is now a business as usual group, not just for Price Review purposes. The CEF meets on a regular basis throughout the year, receives company updates and challenges performance and business plan proposals.

The CEF has been instrumental to the development of the Plan, challenging the development of proposals to meet stakeholder requirements. Jeff Halliwell, Chair of the CEF has attended our Board meetings to provide feedback. Four supporting sub-panels have provided opportunities for more in depth challenge on key aspect of the business planning process. The sub-panels are for Hartlepool, Sustainability & Resilience, Valuation and Affordability & Vulnerability.

A representative from Jacobs attends the CEF meetings and provides independent updates on the activities they have undertaken. All assurance information and associated reports are readily available for members of the CEF to view should they wish to. The CEF is also able to request additional assurance activities should it feel the need. One area that was requested was a review of the approach to WINEP and WISER. Jacobs carried out a review of the approach for both water resources and wastewater elements.

Affordability

Ofwat requirement: Assurance that the Plan is affordable for all customers, including in the long term and including appropriate assistance for those struggling, or at risk of struggling, to pay

We, the members of the Board, are satisfied that the Plan is affordable for all customers, including in the long terms and that the Plan includes appropriate assistance for those struggling, or at risk of struggling, to pay. We set out below some of the evidence which supports this statement.

Affordability and vulnerability have been key in decision-making about what customer engagement activities should be carried out. To ensure those in potentially vulnerable circumstances are reached, focus groups have specifically covered areas such as low income earners, young women, older people, hearing impaired, English as a second language and visually impaired.

It is recognised that bills matter to customers. The scale of investment that customers have asked to be delivered in AMP7 will result in a less than 1% increase in bills.

While over 80% of customers supported this bill increase, some did not. For customers struggling to pay, their water bill is not the main driver of affordability problems in the household. The issue is wider than water, and the approach to supporting them centres on tackling wider affordability and proactively identifying the right support for the customer's circumstances. Much greater support will be provided to customers with affordability issues and those in vulnerable circumstances in ways which are inclusive, targeted and accessible, recognising the positive role that can be taken to tackle poverty.

The Plan includes innovative approaches to work closely with other organisations and local authorities so that support can be readily signposted. Support will be offered to all customers with affordability problems. The 'Debt Free in 2 years' programme will match customer payments and clear debt after two years of sustained payments.

Two outcome delivery incentives have been proposed that will support vulnerable customers. The first will extend the number of customers on the Priority Services Register to 382,000 by 2025 and the second will be an independent panel assessment of performance against the vulnerability strategy. We, the members of the Board, are committed to reinvesting all financial rewards on these measures to further investment in supporting these customers.

Outcomes

Ofwat requirement: Assurance that the Plan will deliver – and that the Board will monitor delivery of – outcomes and performance commitments (Action ANH.CA.09)

We, the members of the Board, are confident that the Plan will deliver the outcomes and performance commitments set out in it and that they meet relevant statutory and licence obligations and take into account the UK Government’s strategic policy statements. The Board also confirms that it will monitor delivery of those outcomes and performance commitments. We set out below some of the evidence which supports this statement.

Building on the outcomes developed for AMP6, 21 bespoke performance commitments are proposed for AMP7, in addition to the 14 proposed common measures. We, the members of the Board, as well as the members of the CEF have shaped the development of the proposed bespoke performance commitments and outcome delivery incentives.

The CEF has been engaged throughout the development of the proposed performance commitments and outcome delivery incentives. At the April 2018 Board meeting, we, the members of the Board, agreed an additional outcome following discussions with CEF members - that of Social Capital, which is a measure to recognise the role the company plays within society at large.

In addition to influencing the final selection of proposed outcomes we, as Board members, approved the submission of proposed performance commitment definitions on 3 May 2018.

Since May, a further Outcome has also been added to the bespoke performance commitments, at the suggestion of one of the Board members - that of the Event Risk Index, which is a DWI measure to assess the impact of water quality events on consumers and to promote proactive risk mitigation.

The CEF Valuation sub-group reviewed and challenged the proposals in more detail on 21 June and 9 July 2018. The Sustainability and Resilience sub-group has also reviewed the proposals.

Customer views were sought on understanding and level of stretch in the performance commitments. This included focus groups, acceptability research, the online community and "Be the boss". Overall there was a strong level of support for the proposals from those engaged with. On average, 70% of household and 79% of non-household customers considered the proposed performance commitment levels stretching.

The overall approach to outcomes has been subject to review and challenge by Jacobs, on three occasions – the focus has been to ensure Ofwat’s requirements have been addressed and that feedback from stakeholders has been responded to.

Monitoring delivery of outcomes and performance commitments will form part of the established performance reporting process. Performance data is prepared on a monthly basis and is provided in a dashboard format, that we, the members of the Board, review on a regular basis along with the Management Board. Performance will be recorded on an annual basis in the annual performance report and published on the AWS website for stakeholders reference. Assurance activities for annual reporting are governed by 'Our Assurance Framework' which is reviewed and updated on a regular basis. Outcomes will be subject to review on an annual basis as part of the year end reporting processes.

Ofwat requirement: Assurance that the proposed outcomes, performance commitments and outcome delivery incentives (ODIs) reflect customer preferences and are stretching

We, the members of the Board, are satisfied that the outcomes, performance commitments and outcome delivery incentives (ODIs) proposed in the Plan reflect customer preferences and are stretching. We set out below some of the evidence which supports this statement.

Customers have been extensively engaged in the development of outcomes and performance commitments, including:

- Co-creation and acceptability testing
- Willingness to pay for service improvement
- Acceptability testing of proposed performance commitment levels
- Testing proposed performance commitment levels via the online community
- Sought customer views on appropriate RoRE ranges, relative priority of performance commitments and appropriateness of financial incentives
- Proactive engagement with our CEF and sub-panels at each stage of development.

The performance commitment levels represent stretching improvements to levels of service, including frontier shifting leakage performance and upper quartile performance for internal sewer flooding, pollution incidents, interruptions to supply and per capita consumption.

For acceptability testing 1,000 customers were engaged on the affordability and stretch in performance commitment levels as part of the outline business plan. Customer views on proposed performance commitment levels varied by measure. However for each performance commitment, on average, 70% of household and 79% of non-household customers considered the proposed performance commitment levels stretching.

Ofwat requirement: Assurance that the proposed approach to reporting on its performance commitments, ODIs and projections of outcomes is robust

We, the members of the Board, are satisfied that the Company's proposed approach to reporting on performance commitments, ODIs and projections of outcomes is robust. We set out below some of the evidence which supports this statement.

Monitoring delivery of outcomes and performance commitments will form part of the established performance reporting process. Performance data is prepared on a monthly basis and provided in a dashboard format, that we, the members of the Board, review on a regular basis along with the Management Board. The CEF also receives an update on performance data at each of their meetings. Performance will be recorded on an annual basis in the annual performance report and published on the AWS website for stakeholders reference. Assurance activities for annual reporting are governed by 'Our Assurance Framework' which is reviewed and updated on a regular basis. Outcomes will be subject to review on an annual basis as part of the year end reporting processes.

There is a performance portal which customers can access via the AWS website. This provides information about progress against the AMP6 performance commitments. The portal provides an overview of each of the outcomes and outcome delivery incentives, as well as specific performance data about them. Users can explore each outcome, look at latest performance results and find out more information if they wish. This will continue to be used in AMP7 as it is a visual and engaging way to provide performance information to stakeholders.

Resilience

Ofwat requirement: Assurance that the Plan has been informed by a robust and systematic assessment of the resilience of the Company's systems and services

We, the members of the Board, are satisfied that the Plan has been informed by a robust and systematic assessment of the resilience of the Company's systems and services. We set out below some of the evidence which supports this statement.

An integrated management framework is used to ensure that the same approach is used across all systems and processes. This framework enables certification to a variety of standards, including new and emerging standards that are applicable to the sector.

The management framework is certified to the internationally recognised standard for societal security and business continuity management - ISO 22301 (the first water company in the UK to be certified to this standard). There is an established business resilience management system to prepare for and respond to events as and when they occur. The purpose being to provide a business framework that builds greater resilience in order to ensure continuity of products and services. The system is applicable to all activities that are undertaken. It provides a basis for understanding, developing and implementing business continuity and resilience arrangements within an organisation to give confidence in business-to-business and business-to-customer dealings.

Business continuity is a critical theme in our resilience thinking. We carry out detailed business impact analysis to drive through team and personal resilience in all our systems and services. As well as resilient processes and systems, it is important that we have resilient people and teams.

Assessment is carried out on a regular basis by external certification provider, LRQA, to ensure that the requirements of the standards continue to be met and are improved upon.

Ofwat requirement: Assurance that the Plan has been informed by customers' views about managing resilience

We, the members of the Board, are satisfied that that the Plan has been informed by customers' views about managing resilience. We set out below some of the evidence which supports this statement.

The results of customer engagement activity showed that resilience is viewed by customers as the most important of our four long term strategic ambitions. Interruptions to supply and severe water restrictions are both areas that customers are concerned about. Another area of concern is flooding, particularly internal flooding. Of the seven water quality and customer satisfaction goals, zero pollutions and flooding is rated as one of customers' top priorities.

Most customers appear to support investment in maintaining asset health and resilience, including proactive replacement of pipes and sewers and attempts to ensure there is capacity in the systems to deal with problems such as extreme floods, power outages and long periods of drought. Evidence suggests customers prefer options that avoid perceived waste (leakage reductions and recycling / reusing treated waste water) and promote efficiency (water saving).

Customers regard ensuring that Supply Meets Demand as one of the most important of the 10 Outcomes. Customers are concerned about water conservation water, particularly by tackling leaks.

A stretching performance commitment has been developed that responds to customers' views about managing resilience. These include:

- Water supply interruptions for periods of three or more hours (planned or unplanned) has a performance commitment level of 5 minutes and 34 seconds compared to a target of achieving 11 minutes by the end of AMP6
- Risk of severe restrictions in a drought, with a performance commitment that would ensure no customers would be at risk of severe restrictions in a 1 in 200 year drought

- Reducing our Leakage performance commitment level to a three year average of 166 MI/d compared to the end of AMP6 target of 177 MI/d
- Reducing the number of properties flooded internally from sewers to achieve upper quartile performance at the end of AMP7.

Jacobs has reviewed the approach to customer engagement and has challenged to ensure that proposals for managing resilience have been shaped by feedback received.

Ofwat requirement: Assurance that the Plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests

We, the members of the Board, are satisfied that the Plan has been informed by a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests. We set out below some of the evidence which supports this statement.

In conjunction with specialist consultants, Arup, a holistic resilience framework has been developed, which incorporates Ofwat's key theme for PR19 of 'resilience in the round'. The resilience framework allows testing of operational, financial and corporate resilience against a maturity matrix to understand both short and long-term risks and has been applied to investment proposals in the Plan. Short-term management of risks are considered alongside longer-term trends and lower likelihood risks. The framework is used to help remain resilient for the benefit of customers and the environment.

Cost assessment

Ofwat requirement: Assurance that the expenditure forecasts included in the Plan are robust and efficient

We, the members of the Board, are satisfied that the expenditure forecasts included in the Plan are robust and efficient. We set out below some of the evidence which supports this statement.

An investment decision support tool called Copperleaf (C55) has been used to develop and track all investment proposals. It ensures a common framework is used to assess each investment portfolio. The system is designed to help identify the optimal combination of investments and timing while meeting constraints and resource availability to deliver the best value for the business and customers. To deliver an optimal portfolio all investments need to have a consistent assessment of risk which this system is able to do. The system is compliant with ISO 55001, the internationally recognised standard for asset management.

All investments in C55 use a common set of cost and value models. The cost models have been built using data from completed projects over the past 15 years. The value models cover both private benefit to us as well as the societal benefit to customers. The cost and benefit is addressed where appropriate through the corporate Risk Opportunity and Value (ROV) process.

Deloitte MCS carried out a review to examine and provide a high level assessment on the implementation of the C55 system. This included a review of the system set-up and configuration, the suitability and effectiveness of its implementation.

The portfolio teams have completed internal quality checks using a seven step 'sprint' process to confirm supporting evidence is robust, validate the assumptions used, correct any missing or incorrect information and balance the groups of investments against cost and performance constraints.

17 of the investment portfolios were reviewed by Jacobs as part of their scope of work. The portfolios were assessed against a set of criteria to identify which should be subject to assurance. This produced a list of 13 portfolios, based on risk and materiality. In addition, Jacobs selected a further four portfolio areas that they wished to review.

The reviews were carried out in two phases. The first looked at initial information as input to C55, including the need, proposed approach and options, identified solutions, justification of options, assumptions applied, supporting evidence, costs and benefits information and risks. The second phase looked at how the portfolios had been developed and optimised to arrive at final proposed investments.

In addition to the reviews of specific investment portfolios, Jacobs reviewed the cost estimation process and the process for optimising portfolios. This included a review of the sprint process that was applied.

KPMG has undertaken some work in relation to the proposed capital delivery programme and delivery approach. This included a review of the alliancing model, assessment of the proposed capital delivery model, a review of best practice guidelines, development of a qualitative assessment framework and a quantitative assessment of the efficiency of capital delivery models.

Input price forecasting for cost assessment purposes has been provided by expert consultants, First Economics. They were able to provide evidence on current best estimates of the likely changes in labour, material and plant / equipment input prices, drawing on a qualitative overview of current and prospective pressures on costs, recent and observed trends in input price indices and independent input price forecasts.

Productivity forecasting for cost assessment purposed have also been provided by expert consultants, First Economics. They provided evidence on productivity trends in the water and wastewater industry to made recommendations on what might be reasonable benchmarks for productivity growth through to the end of AMP7.

Botex cost modelling has been supported by input from the Centre for Productivity and Performance at Loughborough University. Work on Botex modelling was reviewed, improvements identified and the results published. Following this, assistance was provided to develop the Botex models used to inform the Plan.

Ofwat requirement: Assurance that large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers (Action ANH.CA.A2)

We, the members of the Board, are satisfied that large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers. We set out below some of the evidence which supports this statement.

The opportunities that Direct procurement for customers (DPC) may provide to deliver greater value for money for customers were considered from an early stage in the PR19 business planning process. External advisors were appointed to help inform the Plan. An expert consultant, KPMG was also engaged, to help us develop a structured and robust methodology that has been used, and can be adopted in the future, to help consider whether projects are suitable for DPC. The methodology for assessing projects includes a series of tests which enables filtering of projects that are most likely to be suitable for DPC and have the greatest potential to deliver customer value for money. The tests closely follow Ofwat's guidance on DPC. More detail on the approach to DPC is included in the main narrative for the Plan and the commentary for Table App21.

Large enhancement investments in the Plan are driven by the 2019 Water Resources Management Plan (WRMP). Investments are largely targeted at improving resilience and meeting long term supply and deficits in the region to ensure that customer receive a sustainable and resilient service. The investments were assessed for suitability for a DPC delivery, and development costs are expected to be incurred in AMP7, with delivery in AMP8 and AMP9. The WRMP was subject to public consultation and feedback was provided by Ofwat in June 2018. It was acknowledged that the draft WRMP demonstrated good practice through the focus on demand management to achieve the supply demand balance, including the setting of ambitious leakage reduction targets across the planning period, but that there were a number of areas where it did not provide convincing evidence that it would deliver in the best interest of customers. This feedback has been taken on board in framing our final WRMP.

Extensive liaising with Defra, Ofwat and the Environment Agency will find a suitable approach to the delivery of obligations under the Water Industry National Environment Programme (WINEP). Although WINEP3 is more than double the size of the current programme and represents around 20% of the national quantum, there is commitment to seeking solutions that allow for better environmental outcomes and better value of money, benefiting customers and stakeholders. Natural capital solutions are an alternative to traditional engineering and chemicals solutions and 'no build' options reduce carbon and costs. All the options identified would create approaches that are better for customers, enhance the environment and bring benefits for society more broadly. In particular, where options add to the region's natural capital balance sheet, they would also enhance social capital, by developing schemes with environmental groups and local communities.

Alliancing has been key to the strategy for delivering large engineering solutions since 2004 when the first Alliance model, the @One Alliance, was established. Moving away from traditional project-by-project client and supplier relationships these are long term partnerships with collaboration at their heart, so that common goals, shared incentives, culture and leadership are aligned. Alliance model looks to transform efficiency among delivery partners, so everyone's incentives are aligned, which drives innovation and savings. Innovation is therefore key to ensuring proposed solutions are the best available to meet stakeholder needs, including those of customers. For example, looking to reduce carbon, using no-dig technology, constructing off-site, re-purposing and re-using old assets where possible. Alliancing is held up as best practice and has become a model that others are also looking to adopt.

Risk and return

Ofwat requirement: Assurance that the Board has identified the risks associated with delivering the Plan (Action ANH.CA.A3)

We, the members of the Board, confirm that the material risks associated with delivering the Plan have been identified by the Board. We set out below some of the evidence which supports this statement.

There are a variety of uncertainties that could adversely affect or impact on the company's financial condition, operational performance, business resilience and reputation. A structured approach to risk assessment is followed where we, the members of the Board, define its risk appetite and monitor principle risks in the context of our obligations to keep employees safe and provide an essential and efficient service to customers. Senior management determines mitigating activities required to control risk likelihood and the impact to acceptable levels.

The Board, regularly reviews the internal controls and risk management processes to support our decision making. Delivery of the Plan has been included on the risk register and is subject to the regular reviews.

A separate risk log is managed by the PR19 Programme Board which has been reviewed on a regular basis to ensure all requirements have been addressed.

One of the main risks to delivering the Plan is ensuring an organisational structure which allows the stretching targets we have set to be met, to ensure delivery of performance commitments and outcome delivery incentives, while providing excellent customer service and meeting the challenges faced in the region served.

Understanding the challenges that faced in AMP7, changes to the organisational structure have already begun. There will be much more to do, with little or no extra resource and it is clear working more innovatively and efficiently is more important than ever before. The business will be re-purposed into three core functions – Water, Water Recycling and Retail Services. Each of the core functions will be made up of people from across the Business, integrated into teams within the function. Supporting these core functions will be enabling functions whose job will be to set standards and consistency, develop good practice and facilitate the delivery of service to customers. This includes a Customer Experience Centre of Excellence, which will wrap around the core functions to make sure customer experiences are truly leading. The new structure is due to be in place by April 2019. This will give a year to embed different ways of working before AMP7 begins in April 2020.

Ofwat requirement: Assurance that the risk mitigation and management plans the Board has in place are appropriate (Action ANH.CA.A4)

We, the members of the Board, are satisfied that risk mitigation and management plans are in place and that such plans are appropriate. We set out below some of the evidence which supports this statement.

The risk management process identifies, assesses and manages risks. These risks are broadly categorised as safety, operational, financial, regulatory, and compliance with current regulations and law. Risks are formally identified and mapped to ensure consistency and completeness. The potential causes and impacts of risk are analysed using a range of governance, compliance and audit activities. Business unit and top-tier risk registers remain key tools that help senior managers to monitor risks and evaluate the impact of individual risks, and also to evaluate risks in the aggregate across a broad spectrum of threats to overall business performance. The Board meets regularly during the year to assess the level of risk that we are willing to accept in respect of our strategic priorities for customers and the environment. For each strategic outcome the principal threats that might put the achievement of those outcomes at risk have been identified. Management also considers new, changing or emerging risks. Through a process of review and discussion a methodology for setting an appropriate target position for each principal risk has been identified. Where the existing level of risk is assessed as not meeting the target, additional controls or mitigating measures are identified in order

to reduce the risk to the target level. This is formally recorded in the top tier risk register. In addition, the principal risks are linked to the annual assurance plan to ensure assurance is properly focused on the most significant risks.

The Board requires assurance that the controls implemented are tested and, where required are externally tested. This assurance is delivered through business resilience planning and scenario testing, health and safety audits and compliance, internal and external audit activities, external certification, governance and compliance activities.

Covenants and financial discipline exists due to securitisation. Common Terms Agreements (CTAs) include financial and non-financial covenants and other provisions relating to information requirements. This provides a high degree of governance and control over the way the company is able to transact with suppliers and customers, and imposes a number of cash and debt performance tests that help ensure financial resilience. Most CTA compliance tests are measured annually. Failure to meet certain tests, principally interest cover ratios and gearing ceilings, would result in a dividend lock, or in the most severe circumstances control of the business is transferred to the principal bank in the CTA.

Members of the senior management team take responsibility for owning covenants and report compliance on a monthly basis. The reporting process is managed by Group Treasury who also hold annual reviews with each of the covenant owners to confirm understanding and sharing of covenant requirements. In addition group Internal Audit conducts annual reviews to assess the effectiveness of compliance monitoring using a risk based approach. Any potential issues are raised at monthly meetings. All business plans and forecasts are tested for CTA compliance.

Financeability

Ofwat requirement: Assurance that the Plan is financeable on both the notional and actual capital structure and that the Plan protects customer interests in both the short and the long term (Action ANH.CA.A5)

We, the members of the Board, confirm that the Plan is financeable on both the notional and actual capital structure and that the Plan protects customer interests in both the short and the long term. This assurance is given on the basis that the Appointee WACC is 2.4% with an underlying cost of equity of 4.0% in line with the Ofwat guidance. We set out below the steps taken to provide this assurance together with some of the evidence which supports this statement.

The Board confirms that the Plan is financeable on both a notional and actual basis, inclusive of the legacy adjustments from the previous AMP. In order to ensure customer interests are protected we will not be seeking to buffer through bills. We will instead achieve financeability by reducing leverage and foregoing dividend income over the AMP7 period.

The Board reviews the viability of the Company for the purposes of the Price Review as an integral part of the overall business planning process. This includes financial forecasting, robust risk management assessment, regular budget reviews, scenario and stress test planning. The aim to ensure operations are resilient and finances are sustainable and robust.

Our resilience has been assessed against a series of potential shocks, following Ofwat's guidance and the Plan ensures that operations are robust and finances sustainable.

In conjunction with specialist consultants, Arup, a holistic resilience framework which incorporates Ofwat's key theme for PR19 of 'resilience in the round' has been developed. Arup undertook independent assessment of overall resilience, including financial resilience. This provides a level of confidence because of:

- The protection provided to the finances of the regulated business by the securitised structure and additional reporting and control that this entails
- The financial flexibility provided by being a privately owned company with the ability to take a long term view and if necessary reduce dividends. or inject equity, as a buffer against financial shocks
- Annual reviews of, and reporting on, long term viability.

Robust business forecasts have been developed for AMP7 and AMP8. These have been stress tested against a range of scenarios and have identified appropriate mitigations against the potential risks. If business risks were to materialise which resulted in an unacceptable level of deterioration in the company's financial metrics, the principal actions would include further reducing the level of shareholder distributions, potential shareholder equity injections, reviewing the financing structure and identifying further opportunities to reduce the Company's base or financing costs.

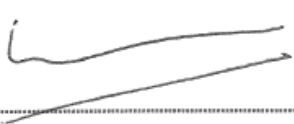
We, the members of the Board, are therefore confident that the Plan is deliverable and that our customers' interests are protected in both the short and long term.

By signing below, each Director confirms that he or she has reviewed and approved this whole Board Assurance Statement (comprising 26 pages plus a two page Appendix). This Board Assurance Statement was approved at a meeting of the Board held on Wednesday 27 March 2019.



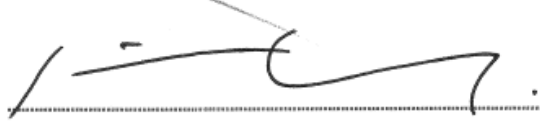
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Stephen Billingham, Chairman



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John Hirst, CBE, Senior Independent Director



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Natalie Ceeney, CBE, Independent Non-executive Director



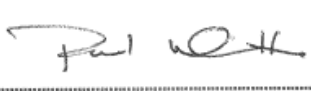
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Dame Polly Courtice, DBE, LVO, Independent Non-executive Director



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Zarin Patel, Independent Non-executive Director



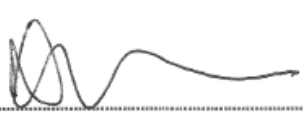
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Paul Whittaker, Independent Non-executive Director



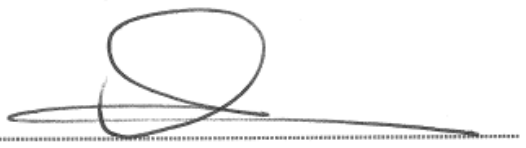
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James Bryce, Non-executive Director



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Niall Mills, Non-executive Director



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Duncan Symonds, Non-executive Director



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Peter Simpson, Chief Executive Officer



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Scott Longhurst, Managing Director, Finance and Non-regulated Business

APPENDIX 1 EXTERNAL ASSURANCE PROVIDERS AND SPECIALIST CONSULTANTS

The table below sets out details of our external assurance providers and a non-exhaustive list Specialist Consultants engaged as part of our PR19 planning process and the scope of their activity.

Assurance Providers	Scope of activity
Compass Lexecon KPMG Linklaters Oxera	Review our Plan from a strategic level to identify strengths and weaknesses, and to make recommendations for improvement
Customer Engagement Forum	Challenge current performance and check that we are delivering on the commitments made to customers in the 2015 to 2022 business plan Independently challenge us on the quality and breath of our customer engagement and provide assurance to Ofwat that the customer engagement is informing business plan decisions for PR19 is robust, reliable and proportionate
Deloitte	Perform a set of assurance support reviews on financial elements of our Plan
Jacobs	Provide assurance on technical elements of our Plan
PriceWaterhouseCoopers	Internal Audit function, review of PR19 governance and assurance arrangements
Specialist Consultants	Scope of activity
Accent	Acceptability research with household and non-household customers Ethnographic research
AECOM Ltd	Cost modelling support, validating cost models and updating cost model library
Alto Consulting	Customer behavioural segmentation research
A R Siddans	Provide expert opinion for cost modelling purposes
Arup	Develop resilience framework and maturity assessment / stress test
Atkins Consultants	Hydraulic modelling of growth impact Modelling for WINEP investigations Modelling of low pressure areas using hydraulic models Geospacial analysis of pipes and crossing with other infrastructure
Avon Polymer Products	Materials analysis to predict failure likelihood (asbestos water mains)
Barhale	Engineering support for root cause analysis and needs identification, water recycling non-infra
Business Modelling Associates	Bioresources operating model development
CAPCAN	Assessment of natural capital options for P removal in WINEP programme
Centre for Productivity and Performance, Loughborough University	Botex cost modelling for cost assessment purposes
Centre for Research into Environment and Health	Investigative studies relating to bathing waters
Copperleaf	Provision of IT platform for costing and optimisation of investment alternatives

Corporate Culture	Consultancy for customer behaviour programme (keep it clear)
Cranfield University	Support to develop flooding outcomes and performance commitments
Deloitte MCS	Develop collaborative working processes for developing and delivering our Plan
Deritend Group	Advise on maintenance strategy for raw water abstraction
Dunnella	Provide expert opinion for cost modelling purposes
Eftec	Main willingness to pay study, second stage water resources study and environmental study
Emcor	Condition assessment of core offices and operational buildings
First Economics	Input price forecasting for cost assessment purposes
Frontier Economics	Productivity forecasting for cost assessment purposes
Given London	Development of an economic model for setting performance commitment levels and incentive rates
ICS Consulting Ltd	Development of strategy for customer engagement carrying out focus groups
Incling	Create an approach to engaging customers on large investments
Intertek	Advice and societal valuations for outcomes and performance commitments
Isle Utilities	Recruitment of an online community
JCP Consultancy	Model development and scenarios to test proposed solutions
Jeremy Benn Associates	Pipe deterioration work
KPMG	Develop a collaborative planning process to enable effective engagement with delivery alliances
Mott MacDonald	Modelling for pluvial and fluvial flood risk
MWH	Development of a methodology for assessing suitability of projects for DPC
NERA	Resilience analysis for water non-infra water treatment
Oasis Utility Solutions	Engineering design and support for options development for the WRMP
Reckon LLP	Benchmarking / validating of enhancement expenditure costs have been against industry costs
RPS Group	WRC capacity assessments
Skanska	Asset deterioration modelling with likelihood and consequence of failure
Sutlow Dobbs	Developing a PR19 societal valuation strategy
Sweco	Pipeline inspections
The Behaviouralist	Accounting separation for bioresources price control and RCV
UEA	Flooding solution development using hydraulic models
WSP UK	Identification of upgrades to water distribution network for developer growth purposes
	Engineering support for root cause analysis and needs identification, water recycling non-infra
	Hydraulic modelling of growth impact
	Engineering support for root cause analysis and needs identification, water recycling non-infra
	Using behavioural science for managing bad debt
	Q-analysis environment study
	Hydraulic modelling of growth impact