

DIRECTORS' CERTIFICATE ON THE SUFFICIENCY OF RESOURCES AND PROTECTION OF THE APPOINTED BUSINESS

Financial resources and facilities

In the opinion of the Directors, Anglian Water Services Limited ("the Company") will have available to it sufficient financial resources and facilities to enable it to carry out, for the next twelve months, the Regulated Activities (including the investment programme necessary to fulfil its obligations under the appointment). Additionally, the Directors have approved a business viability statement covering the ten year period to 2030 which is included in the Annual Performance Report.

Management resources

In the opinion of the Directors, the Company will, for the next twelve month period, have available to it management resources which are sufficient to carry out the Regulated Activities (including the investment programme necessary to fulfil the Company's obligations under the Instrument of Appointment).

Systems of planning and internal control

In the opinion of the Directors, the Company will, for the next twelve month period, have available to it systems of planning and internal control which are sufficient to carry out the Regulated Activities.

Rights and resources other than financial

In the opinion of the Directors, the Company will, for the next twelve month period, have available to it rights and resources other than financial resources which are sufficient to carry out the Regulated Activities.

Contracting

In the opinion of the Directors, all contracts entered into include all necessary provisions and requirements concerning the standard of service to be supplied to the Company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

Outsourcing arrangements

In 2002 the Company agreed a new licence obligation to maintain an updated plan on its intentions for sourcing services from third parties, and to prepare an annual report on its outsourcing activities. In 2005 Ofwat agreed to suspend this licence requirement, following the Company's decision not to pursue a wholesale outsourcing strategy, provided outsourcing levels remained materially unchanged.

We here restate Anglian Water's commitment to retaining core functions in-house and confirm that we did not engage in any significant new outsourcing during 2019-20.

Material issues – Covid-19 / CMA Referral

The Directors have also taken into consideration the effect of the Covid-19 pandemic and the impact of Ofwat's PR19 Final Determination and referral to the Competition and Markets Authority into account when making this statement. Despite the potential impact that both could have on the business, in the opinion of the Directors, these will not impact the ability of the Company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

RELEVANT FACTORS

The following main factors have been taken into account by Directors in giving this declaration:

Financial resources and facilities

- i. **Financial details** – In considering the requirements of Condition I17, the Directors took financial resources and facilities to mean the cash requirements and funding arrangements needed to run the Company;
- ii. The financial strength of the Company is recorded in the statutory financial statements for the year ended 31 March 2020. Cash flow projections for the forthcoming year have been prepared and subjected to sensitivity analysis using various downside scenarios. This analysis has shown that it is reasonable to believe that facilities will be sufficient for the next twelve months. The full going concern assessment, which highlights the increased uncertainty in relation to Covid-19, can be found on page 147 of the Annual Integrated Report;
- iii. The Euro 10 billion global secured medium term note programme of financing implemented on 30 July 2002 by Anglian Water Services (Financing) Plc (AWSF), a subsidiary Company to, inter alia, provide future financing for the Company (including the investment programme necessary to fulfil the Company's obligations under the Instrument of Appointment);

- iv. Cash and deposit balances at 31 March 2020 for the Anglian Water Services Limited Group were £1,048.1 million and the Company, through its financing subsidiary (AWSF), has access to £400.0 million of liquidity facilities, consisting of £279.0 million to finance debt service costs and £121.0 million to finance operating expenditure and maintenance capital expenditure in the event that the Company was in default on its debt obligations and had insufficient alternative sources of liquidity. All bank facilities and debt capital market issuance are issued pursuant to the Global Secured Medium Term Note Programme dated 30 July 2002 between the Company, AWSF and Deutsche Trustee Company Ltd (as agent and trustee for itself and each of the finance parties). This agreement provides that any facilities drawn by AWSF will be passed directly on to the Company upon utilisation of the facility.
- v. **Performance against the FD** – Overall the Company has outperformed the FD by £339.1 million (12/13 prices), mainly through our innovative approaches to capex expenditure. This outperformance will be shared with customers through a reduction in RCV in a ‘midnight adjustment’ at the start of AMP7.
- vi. **Credit related factors** – The Company has maintained its investment grade credit rating at a level that allows adequate access to the financial markets;
- vii. **Business plans and long-term viability** – In considering ii above, the Directors are mindful that there is a reliance on the accuracy of forecasting. The Company has undertaken a detailed planning and budgeting process that incorporates the period of twelve months commencing on the date of the Certificate. The Directors have reviewed forecasting accuracy and are satisfied that it is acceptable for this purpose;
- viii. In addition the Company prepares a valuation model that includes these forecasts as well as a long term viability statement that are both externally assured.

Management resources

- ix. In respect of the adequacy of management resources, the Directors have gained assurance from the Company’s chosen business model and organisational design resulting from the ring fencing of Anglian Water Services. Robust identification and allocation of resources has been made through alignment of objectives, processes and manpower requirements.
- x. **Management skills, experience and relevant qualifications** - The Company is managed operationally by the Management Board. The Board believes that the members of the Management Board have the appropriate mix of skills, experience and relevant qualifications to continue to run the Company effectively for the next 12 months.

- xi. **Recruitment process, staff engagement** – The Company has a robust and fair recruitment process, using an applicant tracking system (ATS) to ensure GDPR compliance. The Company is an equal opportunities employer which means inclusion, diversity and fair treatment for all. The Company promotes this throughout the application process, including detailing it within job adverts and within its hiring manager recruitment and selection training. A new inclusion section has been launched on the Company's careers website as the Company values and recognises that diversity and inclusion is central to its success as an organisation and believes that the Company is better able to understand and meet the needs of its customers if the organisation reflects the communities it serves. The Company regularly engages with employees in a number of different ways, including regular consultations with trade unions and the Open House representative forum. During the 2019/20 financial year the Company undertook its latest 'Love to Listen' employee survey with more than 5,500 employees taking part. Following the survey an action plan has been agreed which will be implemented during the 2020/21 financial year. A further 'Love to Listen' survey is planned for the 2020/21 financial year. Since late March 2020, the majority of the Company's employees have been working from home due to Covid-19. During this time, communication and engagement with employees has been increasingly important. Therefore, there have been regular text, email and video messages to employees to ensure they remain up-to-date with the Company's approach to handling the impact of the pandemic. In addition, employees were asked to feedback on their homeworking experience and wellbeing via short surveys.
- xii. **Succession Planning for key management staff** - The Company's succession plans for its key management staff are developed by the Management Board, led by the Group Director of People and Change. The succession plans are reviewed and challenged annually by the Company's Nomination Committee (which consists of a majority of Independent Non-Executive Directors). Further information can be found on page 115 of the Company's Annual Integrated Report 2020.

- xiii. **Quality of management/staff induction and other training and development** - On joining the Company all staff attend an induction day and are required to complete further online training. In addition, all new starters are provided with a booklet entitled '*Making the Right Choices*'. The booklet summarises key Company policies in a clear and concise way to ensure that its values and standards are clear to colleagues from their very first day. The Company offers a wide range of training and development to its employees during their careers in both operational and non-operational roles including the externally accredited 'Licence to Operate' programme. The training and development team have been working in collaboration with senior leaders to ensure that during no critical or essential training expires and that competence continues to be assured during the Covid-19 pandemic. The Company has worked closely with its regulators and training providers and by using a combination of extended grace periods, e-learning options, remote/virtual assessments, socially-distanced training and competency checks by Front Line Managers the Company is able to ensure that operational teams are able to undertake all key tasks for the duration of Covid-19. Many employees have also taken the opportunity during the current working arrangements to use the Company's comprehensive suite of industry-leading e-learning modules and video content to learn about the critical processes that the business relies upon.
- xiv. **Process for ensuring diversity of perspectives** - The Company is committed to creating an environment where all employees feel included and valued in order to achieve their potential. The Company also recognises the importance of reflecting the diversity of its customers within its workforce (see paragraph xi above). Therefore, the Company has adopted a diversity and inclusion action plan, which is incorporated into its 2025 People Strategy. Further information on the Company's approach to diversity and inclusion can be found on pages 114 to 115 of the Company's Annual Integrated Report 2020.
- xv. **Board or management activities, reports or statements** – Both the Board (consisting of Executive Directors, Independent Non-Executive Directors and Non-Executive Directors) and Management Board meet regularly to consider and decide upon a range of operational, financial and strategic matters impacting the Company. Further information on the operation of the Board can be found in the Section 172 Statement on pages 20 to 27 and in the Corporate Governance Report on pages 101 to 109 of the Annual Integrated Report. The Company publishes a range of annual and periodic reports including: Annual Integrated Report, Annual and Interim Financial Results, Annual Performance Report, Drinking Water Quality Report, Gender Pay Gap Report, Drought Modelling Report and Water Resources Management Plan.

xvi. Independence of Board – It is a requirement of Ofwat’s Board Leadership, Transparency and Governance Principles that ‘independent non-executive directors are the largest single group on the Board’. The Board confirms that, at the date of this certificate, that it complies with this requirement, with half of the Directors being Independent Non-Executive Directors and it intends to continue to do so for the next 12 months. Further information on the structure of the Board can be found in the Corporate Governance Report on pages 101 to 109 of the Company’s Annual Integrated Report 2020.

Systems of planning and control

xvii. **Governance procedures; risk management frameworks, oversight procedures** – In March 2019, the Board adopted the Anglian Water Services Corporate Governance Code 2019 (2019 Code), which incorporates Ofwat’s BLTG Principles and most of the provisions contained in the 2018 UK Corporate Governance Code. Full details of the compliance against the 2019 Code is detailed in the Corporate Governance Report on pages 101 to 109 of the Annual Integrated Report 2020. Compliance against the 2019 Code for the 2020/21 financial year will be reported in the Company’s Annual Integrated Report 2021. The Board regularly reviews the Company’s Top Tier Risk Register and the Company has a full risk management framework in place, details of which can be found on pages 73 to 75 of the Company’s Annual Integrated Report 2020.

xviii. **Internal and external audit policies, processes, activities** - The Company’s external audit is Deloitte, who were appointed on a four year contract in September 2016. During the 2020/21 financial year Deloitte’s contract was extended until September 2021. To ensure the independence of the external auditors, the Company’s Audit Committee approved a new policy on fees for non-audit work with effect from 1 April 2020. Under the new policy, only work permitted under the Financial Reporting Council’s (FRC) ‘whitelist’ may be undertaken by the external auditors and the level of non-audit fees is restricted to 70 per cent or less of the average of the previous three years’ audit fees. The provision of internal audit services is outsourced to PricewaterhouseCoopers (PwC). The Company’s Audit Committee approves the internal audit plan each year and plan in respect of 2020/21 was approved in March 2020. However, in approving the plan the Committee recognised the challenges the Company was facing with regards to Covid-19 and it was agreed that there may be the need to flex the plan over the course of the financial year. In preparing the internal audit plan, PwC met with key personnel across the Group to obtain their views on the risks facing the Group. PwC then developed its plan based on the Group’s organisational objectives, priorities and the risks that may prevent those objectives from being achieved. The plan is assessed on the basis of risk but also the nature of the review for particular areas that can be carried out on either an annual, rotational or value-enhancing basis.

- xix. **Systems for maintaining supply / business continuity** - the Company has robust business resilience mitigations in place to ensure our essential services to customers can continue during events that affect the company's assets, people or processes. These include plans and procedures, incident room facilities, workplace recovery facilities, emergency equipment stocks, card warning stocks and bottled water. All processes and plans are regularly reviewed against risks to the business, and the Company undertakes training and exercises to validate these. With regards to the Covid-19 event, we continue to develop our established Business Impact Analysis; a systematic approach to assessing the criticality of activities delivered within the business and the people, buildings, equipment, partners and systems that teams need to deliver them. This information then forms a whole range of Business Continuity plans such as workplace recovery arrangements and reduced manpower plans. These plans are regularly tested and exercised with all our critical teams. Business Impact Analyses forms part of the Company's ISO 22301 Business Continuity certification for which the Company is audited annually by Lloyd's Register. In terms of our operational response, we have adapted our incident response processes to ensure we can respond during an incident while maintaining social distancing and continue the day to day operations while limiting the risk to staff and customers as much as possible.
- xx. **Policies to prevent fraud and other unethical behaviour including whistleblowing** – The Company expects all employees, partners, agents and contractors to adopt a high standard of business ethics and have zero tolerance of bribery and corruption. The Company requires all employees to complete training, including anti-bribery, maintaining a level playing field and on data protection. The Company has a whistleblowing policy whereby employees can, in confidence, report on matters where they feel malpractice, criminal activities, improper or unethical behaviour is taking place. Employees can raise any concerns with management, or if this is inappropriate, to raise them with the externally facilitated helpline or confidential email address. The internal auditor maintains a register of all allegations and senior management decide whether there are grounds for further investigation.
- xxi. **Risk, compliance other assurance statements** - The Company has an extensive risk management process, with key risks regularly reviewed by the Board. A full disclosure relating to resilience, risk management and viability is included in the Company's Annual Integrated Report 2020 on pages 72 to 91. The Annual Performance Report contains a risk and compliance statement, confirming that the Company complies with the relevant sections of the Water Industry Act and its License. In addition, annual assurance statements from external assurance providers are included in the Annual Performance Report on page 212 to 219.

Rights and resources other than financial

- xxii. **Corporate missions and values** – In 2019 the Company created a values framework, the North Star, which combines its Purpose, Mission and Values to give a common goal that all employees can get behind. This is outlined in more detail in the Annual Integrated Report (pages 12 to 13) and along with the Company’s public interest commitment, which is enshrined in the Company’s Articles of Association, it will provide direction and guidance across all areas of the business to support the Company to deliver its purpose and keep the business running over the coming years.
- xxiii. **Technology and other systems for ensuring checks and balances** - In preparation for AMP7 the Company had completed a review of the systems it has in place to ensure corporate governance of financial budgets and progress against delivering performance improvements. The Company has robust systems in place to ensure the management of a stagegate approach to investment delivery, as well as a change control process for the initial allocation and subsequent re-allocation of capital and operational expenditure budgets. The Company has also worked to better integrate these systems to improve the consistency of management information and enable improved benefits decision making. In addition to the systems it has in place to manage the delivery of the investment programme the Company also has a corporate risk tool which hosts the corporate risk register and allows risk owners to update their risks prior to board updates.
- xxiv. A wide range of technology and systems are deployed to ensure the functioning of the business, including an Enterprise Resource Planning (ERP) system, risk management system, extensive operational monitoring and control systems, field scheduling systems, employee management and customer and billing systems. The Heads of each business area are required to assess and confirm annually that the Business Unit Information Technology requirements are adequately met. Additionally, the Company’s Audit Committee approves an annual Internal Audit Plan and in 2019/20 audits were carried out on its approach into areas such as Cloud Computing and Software Lifecycle Management.
- xxv. **Policies to encourage an integrated approach and ‘systems thinking’** - The Company’s management systems help ensure it meets customer commitments and deliver its outcomes. The Company’s integrated management system framework sets out all its management system standards in a clear and consistent way aligning to strategic priorities, business goals and good outcomes. Strategic and business unit plans form the basis on which Anglian Water sets and reviews its objectives, obligations and targets. These cover areas such as the following:
- *Customer* - Putting its customers first by delivering a personal, trusted and effortless experience to make Anglian Water a leading service provider in the UK.
 - *Water Quality* - Protecting water quality from source to tap, providing confidence that its drinking water supply is always safe and clean.

- *Environment* - Protecting and enhancing the air, water and land where we live while sustaining and maintaining the environment.
- *Asset Management* - Coordinating business activities to realise value from the Company's assets, reducing capital and operational carbon, providing the services customers expect.
- *Resilience* - Effective preparation, response and recovery arrangements to mitigate, minimise and ensure we can cope with the impact of disruptive events.

xxvi. Certified Business Management Systems (BMS) have been established to reinforce the management of risks associated with many areas of the business and compliance with obligations. Areas covered by BMSs include water and water recycling operations, capital investment delivery and Health and Safety management. Audits of compliance with the requirements of these systems are conducted internally and by third party certifiers (LRQA).

xxvii. The Company uses the integrated human resources management software system Workday – to ensure a common approach is taken across the business in areas such as performance management, and to ensure compliance and training on key policies (e.g. acceptable use of IT, Bribery Act, GDPR).

xxviii. **Planning systems** - The Company has an asset management approach based on continuous planning and management of assets and investments, supported by the Company's Copperleaf C55 system, that ensures that the Company delivers efficient outcomes for customers. This is used to test all investment proposals and ensures that funds are allocated in the most efficient way to deliver benefits of greatest value to customers at the lowest whole-life cost. The approach is described in detail in the Company's PR19 Business Plan ([Our Plan 2020-25](#) pages 107-108).

xxix. **Assets maintenance / insurance factors** - Anglian Water is one of the leaders in the industry when it comes to coverage of asset information and asset models. The Company completes deterioration modelling coupled with an assessment of criticality of the Company's asset base to identify maintenance needs, and complete site by site reviews to create bespoke site and catchment asset plans. For AMP7 the Company has developed this approach further to complete system plans, which look further at the interactions between the Company's assets and the communities they serve.

xxx. The Company appoints a London Insurance Broker to facilitate the placement of its insurance programme. The broker in conjunction the business will annually (or more frequently if required) undertake a review of business activity combined with an assessment of the corporate risk profile, to determine the key threats to the business and its ability to meet its overall corporate objectives. This process combined with a review of historic business losses and overall loss trends in the wider insurance market, determine how these financial risk exposures can be transferred to the insurance market. The Company will via their pointed Brokers, ensure it has met its statutory obligations to procure certain insurance policies and then combined with approval from The Board seek to place all other policies to the required limits to ensure key assets are protected against significant loss.

Contracting

xxxi. **Position/ status of key contracts in place** - The Company's Delivery Investment Programme key alliance Tier 1 & 2 contracts are sourced compliant with EU procurement regulations and signed by all shareholders. The contracts are differentiated by the degree of integration and alignment, and the opportunity for longer-term collaboration with financially sustainable contractors. They adopt an appropriate works allocation to assure no material fringes are present to the Company's covenants and assured monthly through Company procedures.

xxxii. As key contracts within the investment programme the alliances follow the below principles:

- Commercial arrangements that align partners' return with the Final Determination.
- Targets and arrangements that incentivise innovation and performance.
- Stretching targets be set around affordability, outcome performance, a carbon challenge, and time to deliver.
- A strong focus on culture and behaviour across all of the Alliances, leading to greater collaboration and a constant exchange of best practice.
- Engaging with the partners at programme / portfolio level rather than project level, enabling far greater degrees of efficiencies through governance procedures.
- Developing common supply chain frameworks, providing scale benefits and more effective supplier management.

xxxiii. This creates a greater level of cost efficiency, shared resourcing, and exchange of best practice and is assured through Self Assurance Contacts embedded into the alliances.

xxxiv. The terms of contracts awarded by the Company to independent third parties for the provision of certain services and operations is issued in compliance with the Utilities Contract Regulations 2006 and or 2015 (as applicable at the time of tender), and other appropriate UK regulations and EC Directives for the procurement of such outsourced services;

xxxv. The Company currently sources a proportion of services from external sources such as:

- water main repairs
- sewer repairs
- facilities management.

xxxvi. The Company has no intention to materially extend its outsourcing beyond current levels in the twelve months following the date of this certificate;

xxxvii. The Company also complies with the requirements of the licence conditions and guidance issued by Ofwat in respect of cross-subsidies between the Appointee and any Associated Company.

xxxviii. No Guarantees or Cross-Default Obligations have been given without Ofwat's written consent.

xxxix. The terms of contracts with all Associated Companies include service levels and appropriate terms and conditions, and have been reviewed by the Company's Auditors as part of their annual audit. Any conflicts of interest of Directors must be disclosed under the Company's Article of Association. No Director may vote on any contract or arrangement between the Company and any other Anglian Water Group Company if he/she is also a Director of that Anglian Water Group Company.

Material Issues or Circumstances

xl. **Coronavirus/COVID19** - The Company's COVID19 response has been strong reflecting its business resilience planning processes. The Company's workforce have been working effectively from home or in key field based roles from day 1 of the lockdown following successful work from home trials in the preceding weeks. By working collaboratively with the wider industry the Company has been able to source PPE and necessary materials. In terms of financial resilience, the Company has been able to access a quick drawdown of £600m in order increase its ability ensure cashflow is maintained against a challenging backdrop.

xli. **Referral of Ofwat PR19 Final Determination to the Competition and Markets Authority –** In the opinion of the Directors the Final Determination awarded by Ofwat in December sets the lowest ever rate of returns to investors stifles the Company's ability to deliver growth in what is the driest and one of the fastest-growing areas of the country and leaves it almost £750 million short of the funding required to deliver the ambitious plans that the Company put forward to safeguard the long-term resilience of water supplies in the face of climate change and rapid population growth in the East of England.

xlili. While the short term impact will not affect the Company's ability to carry out its Regulated Activities, the Directors consider that if they were to accept the Final Determination, many areas of the business would have to adopt short-term, sub-optimal solutions rather than tackling issues head on and creating infrastructure which is fit for the future, as the Company and its customers agreed that it should. Decisions taken now will have consequences for many years to come. If investment needed now is postponed or cancelled, and returns to investors are lowered to the point where investment on the scale required becomes difficult or impossible to finance, customers, businesses, wildlife, environment and future generations will all suffer as a result.

This Directors' Certificate on the sufficiency of resources and protection of the appointed business was approved by the Board of Anglian Water Services Limited on 15 June 2020. The provision of this Certificate of Adequacy and the statement of the main factors considered by Directors in giving the Certificate are licence requirements under Conditions I17 and I19 of Anglian Water's licence.

Under Condition I17, the Company is required to obtain and submit to the regulator a report prepared by their auditor stating whether the auditor is aware of any inconsistencies between the Company's certificate as to the sufficiency of financial resources and either the regulatory accounting statements or the information which the auditor has obtained in the course of their work as auditors of these regulatory accounting statements.

In order to meet the requirements of the Company's Licence, the audit report submitted with this certificate will state whether, in the auditor's opinion, the information contained in this certificate is or is not inconsistent with information received by the auditor as at the date of the auditor's statement in relation to the audit of the regulatory accounting statements for the Company for the year ended 31 March 2020 insofar as the information relates to the availability of financial resources. This can be found [here](#).

Certified by



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Claire Russell
Company Secretary

Dated: 13 July 2020