

31 August 2018

Anglian Water Services Limited  
Lancaster House  
Lancaster Way  
Ermine Business Park  
Huntingdon  
Cambridgeshire  
PE29 6XU

For the attention of the Regulation Director

Dear Sir

## **Price Review 2019 (PR19) Assurance Support**

This summary letter provides the background to our PR19 assurance support role, the scope of our work and the summary findings. This letter and our related reports were prepared under the terms of our engagement letter dated 16 March 2018 solely for Anglian Water Services Limited (Anglian Water) use for the purpose of assessing key elements of Anglian Water's development of the PR19 business plan submission.

### **Background**

PR19 will set the prices that water companies in England and Wales can charge its customers, alongside the expected outcomes and delivery incentives for a five year period starting on 1 April 2020. Anglian Water needed to submit a high quality business plan and developed a corresponding PR19 assurance plan in support of this objective.

Anglian Water established a programme team dedicated to preparing and delivering the PR19 business plan and submission to Ofwat by 3 September 2018. Anglian Water developed an assurance approach for its PR19 programme in order to provide confidence to its stakeholders (including the Board and senior management) that the production of the PR19 business plan was of the required quality to meet Ofwat's expectations.

The assurance framework sets out the assurance activities undertaken by first, second and third lines of defence. As part of its third line of defence, Anglian Water engaged Deloitte and other external providers to provide assurance support and undertake individual elements of the assurance plan. Deloitte's primary focus has been on the in-scope PR19 data tables and financial model assessments. Anglian Water remained responsible for overall delivery of the assurance plan, collating the results of individual assurance activities and the programme assurance summary provided to the Board.

### **Scope of work**

Anglian Water engaged Deloitte to carry out a series of assessments as part of the overall PR19 business plan submission. A terms of reference was agreed for each of the assessments prior to commencement. The scope of each of the assessments is summarised below:

- **Business plan:** including an assessment of 64 of the 103 Ofwat specified data tables Anglian Water is submitting. We completed an initial assessment of the process adopted by Anglian Water to populate the in-scope data tables. Subsequently we completed a set of defined assessment procedures over the in-scope data tables and identified any exceptions within the data tables. The exceptions were either due to input/calculation or where guidance had not yet been applied.

The Business Plan assessment included the following sub elements:

- **PR14 performance reconciliation:** including an assessment on a sub-set of data tables specifically in relation to the PR14 performance reconciliation and the early submission required to Ofwat.
- **IFRS16 (operating leasing requirements):** including an assessment of a specific data table used to report information about the future cash payment commitments of existing operating leases.
- **Financial Model Assessment:** including an assessment of the key financial model spreadsheet controls; financial assumptions and financeability planning; and economic and company scenarios.

## Overall Summary

In relation to the business plan, we completed assessment procedures on 64 data tables. This work included the sub elements for PR14 performance reconciliation and IFRS16. We completed this over 2 stages, from May to August 2018. Overall Anglian Water had a defined process and approach to populating and reviewing the data tables. Data table owners demonstrated a good understanding of Ofwat requirements. The data input was largely traceable to a preceding level of source documentation and had been compiled in line with Ofwat guidance.

We raised a number of exceptions and associated recommended actions with Anglian Water management and discussed their plans to address them. On the basis of our work these exceptions have been individual and isolated points and did not indicate any wider systematic or pervasive issues. The Anglian Water PR19 Programme team are now tracking the remaining actions through to closure, prior to submission of the business plan to Ofwat by 3 September 2018. Where exceptions are noted as closed by Anglian Water, we re-tested those specific elements/data values following data table updates made by Anglian Water. In these instances, we did not perform a full re-assessment on the entirety of each table.

We completed our work in relation to the financial model in 2 stages. Stage 1 which was completed during May and June 2018 focused on the key financial model and spreadsheet controls; how Anglian Water used Ofwat's final PR19 financial model, developed its financial assumptions and economic and company scenarios. On the basis of the procedures performed, we identified areas where interim methodologies were in place, either where inputs were required at the time from Ofwat (for example cost to serve), or where further work was required from Anglian Water (such as the PAYG run-off rate). Therefore, as expected, Anglian Water's work was in progress and draft form at the time. Stage 2 was performed in August 2018 and focused on the key financial ratios and metrics used by Anglian Water to demonstrate financeability. We were also provided with the populated Ofwat financial model and Anglian Water's narrative regarding the financial ratios.

A report with detailed findings and recommendations was prepared for each of the assessments listed above.

## Out of scope elements and limitations of our work

The scope of our work was limited solely to those procedures in the scope areas we agreed with Anglian Water. Accordingly we do not express any opinion or overall conclusion on the procedures we have performed. Anglian Water is responsible for determining whether the scope of our work specified is sufficient and we make no representation regarding the sufficiency of these procedures. If we were to perform additional procedures, other matters might come to our attention that would be reported to you. Our reports should not be taken to supplant any other enquiries and procedures that may be necessary to satisfy the requirements of the recipients of the report.

The procedures we performed did not constitute a review or an audit of any kind. We did not subject the information given to us by the Directors to checking or verification procedures except to the extent expressly stated above. This is normal practice when carrying out such procedures, but contrasts significantly with, for example, a statutory audit.

In regard to the financeability assessment, we did not provide an assessment on the specific financial assumptions or overall financeability of Anglian Water's plan. The assessment focused on the process and governance in place to support these assumptions. In regard to the data tables assessment, our procedures involved checking back to the data source but not auditing or verifying the source data.

This letter has been prepared solely for the use of Anglian Water in accordance with our Letter of Engagement dated 16 March 2018. Our work has been undertaken solely for the purpose of informing Anglian Water's assessment of its plan and scope for the PR19 Programme. Our work was not planned or conducted with any other objective in mind and so cannot be relied upon for any other purposes. Our letter may be provided to the Water Services Regulation Authority (Ofwat) and included within the PR19 documentation published on Anglian Water's website in full for information only without any liability on our part. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Anglian Water for this letter or for the work we have performed.

We should like to take this opportunity to thank all Anglian Water staff involved for their support during our work.

Yours faithfully

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly stylized font.

Deloitte LLP