

## PR24 Overview Assurance Letter

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Portsmouth Water  
Regulatory and Technical Assurance Services  
29 September 2023



## PR24 Overview Assurance Letter

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## Letter of Assurance

Attention: Portsmouth Water Board  
Cc. David Walton & Kevin Wightman

### PR24 Assurance Letter

## Overview

In its final methodology for the 2024 price review (PR24), Ofwat sets out expectations of companies and its approach to setting controls for the period from 2025 to 2030 for water and wastewater monopoly service providers in England and Wales. Among other areas, Ofwat expects the board to have considered and satisfied itself that the systems, approach to risk management, and internal controls and processes in place to develop the data and information on which it based its decisions was appropriate and effective.

In addition to the requirements in relation to data, the final guidance sets out specific expectations for the assurance of company plans in five main areas:

- Long-Term Delivery Strategies (LTDS);
- Affordability;
- Costs and Outcomes;
- Risk and Return, and;
- Customer Engagement.

These areas are underpinned by a set of (broadly consistent) Minimum Expectations, which form part of the 'Quality' component of Ofwat's Quality and Ambition test of the overall business plan submission.

This letter summarises our independent, third-party assurance work in support of your PR24 submission. It should be read in conjunction with the supporting assurance letters as detailed below.

## Scope and approach

Our assurance activity has focused on the company's Business Plan and associated documents including the Long-Term Delivery Strategy, enhancement cases and data tables (see Annex 1). Liaison between Jacobs and Portsmouth Water on PR24 assurance has been ongoing through 2023 with the assurance audit scope agreed in July 2023. Our assurance is limited to the areas outlined below and intended to support the Board in making an overall assurance statement to Ofwat.

Table 1: Scope of PR24 assurance

Ofwat PR24 assurance areas	Jacobs scope relevant to assurance area	Jacobs Outputs
Overarching Expectations	<ul style="list-style-type: none"> <li>• Data tables – process and data</li> <li>• (PRT06) Managing Our Resilience in the Long Term</li> <li>• (PRT15) Board Assurance</li> </ul>	<ol style="list-style-type: none"> <li>1. Data tables assurance report.</li> <li>2. Business Plan and supporting documents assurance report.</li> </ol>
Long-Term Delivery Strategies (LTDS)	<ul style="list-style-type: none"> <li>• (PRT18) LTDS document</li> <li>• Data tables</li> </ul>	Included within Business Plan and supporting documents assurance report as described in 2 above.
Affordability	Largely <b>out of scope</b> , other than our assurance of bill impacts within PRT18 LTDS document.	(In part included within) Business Plan and supporting documents assurance report as described in 2 above.

Costs and Outcomes	<ul style="list-style-type: none"> <li>• (PRT01) Excellence in Water. Always- Main Business Plan</li> <li>• (PRT 05) Delivering Outcomes for Our Customers – addressing deliverability of outcomes and expenditure proposals;</li> <li>• (PRT07) Investment Plan and (Enhancement) cases covering options development and appraisal processes.</li> <li>• (PRT 08) Delivering Our Investment Plan covering a robust delivery plan for activities proposed.</li> <li>• (PRT09) Securing Value for Money</li> <li>• (PRT18) LTDS covering options development and appraisal processes for the long term and bill impacts of expenditure proposals.</li> <li>• Data tables – covering forecast performance levels for common and bespoke performance commitments.</li> </ul>	Data tables assurance report as described in 1 above. Business Plan and supporting documents assurance report as described in 2 above.
Risk and Return	<b>Out of scope</b>	N/A
Customer Engagement	Largely <b>out of scope</b> , other than our assurance on line of sight that the LTDS and investment (enhancement) cases have been informed by customer engagement.	(In part included within) Business Plan and supporting documents assurance report as described in 2 above.

Our approach to assurance included offline desk-based reviews of documents and relevant materials supporting the documents. Face to face audits (via Teams) for data tables were completed with data traced back to source. Our assurance is risk and sample based and designed to support your own internal assurance activity.

In addition to the assurance reports noted above, we provided detailed feedback to your teams for each item that we reviewed. We applied a risk score for the long-term delivery strategy and each investment case and data table item, in line with the scoring approach below.

Table 2: Scoring Criteria

Score	Meaning
A	Criterion is fully met (equivalent to low risk – no weaknesses in the approach - no actions)
B	Criterion is not fully met (equivalent to low to medium risk - weaknesses exist but they are modest - must have action)
C	Criterion is only partially met (equivalent to medium to high risk - significant weakness or several minor weaknesses).
D	Criterion is not met (equivalent to high risk – two or more significant weaknesses in the approach.
NA	Not audited as it was outside our scope

## Observations

Over the course of the PR24 assurance work the company showed progress across all documents and data tables being prepared for submission. The role of the Company's PR24 Steering Committee and key liaison staff ensured an organised approach to document preparation and readiness for review. It was clear that feedback provided from assurance reviews was fed back to technical experts within the company so that improvements could be incorporated into developing versions of documents.

Key material issues that were identified during the assurance reviews included a slow start to customer engagement and affordability testing which prevented early reviews from assessing bill impacts and feedback on acceptability from customers. In addition, optioneering presented across the investment cases was limited. This was largely due to investments being site specific or bespoke to Portsmouth Water with limited options available. The company took steps to ensure best value solutions were being proposed across the investment cases and within the long-term delivery strategy.

On data tables reoccurring issues identified included a lack of formal first- and second-line assurance with sign off. In addition, the inclusion of a reporting methodology and a method for classifying data quality such as confidence grading would have supported the commentary requirements set out by Ofwat. Of the company's data table audits, only a small proportion returned with material issues identified and many of these were resolved before submission.

**Table 3: Summary of document review findings**

Area of scope	Findings
<b>PR01: Excellence in Water. Always</b>	We have undertaken three reviews as the document progressively developed. In the early stages we identified some areas where content was limited and was therefore not meeting requirements from the PR24 guidance. In particular, detail of customer research and clearer articulation on how the plan delivers stretching performance were identified as areas for improvement. By the end of our third review cycle significant improvements were shown with more detailed content and feedback from the previous reviews well addressed. The document provides a good overview of the whole business plan.
<b>PRT05: Delivering Outcomes for Our Customers</b>	As the document developed, we completed three reviews. It was identified in the early stages that more focus on performance levels and customer expectations was required. More evidence on calculation of incentive rates and information on the adoption of a marginal benefit different from Ofwat expectations was needed. At the final review the document presented a supporting narrative for most of the proposed performance commitment levels. The context of performance to date was set out with an explanation of how the company expects to achieve its target and why the level has been selected.
<b>PRT06: Managing Our Resilience in the Long Term</b>	Our reviews of PRT06 found that the document narrative was clear and well structured. In the early assurance stages, it was recognised that the document needed strengthening with more on lessons learnt and approaches to continually improving processes. Further explanation on the risk framework model and Copperleaf was needed in relation to decision making on strategic objectives and risk management. By the final review, the document was much improved and many of the early issues identified had been addressed.
<b>PRT07: Our Investment Plan and appended investment cases</b>	<p>Overall, the company has provided clear evidence of the rationale and reasoning associated with the PRT07 Investment Plan. The document reflects on progress in AMP 7 and establishes a baseline of progress to date, setting objectives for AMP 8. There were some minor areas to resolve after assurance Review 2 with it being noted that the document would benefit from more detailed evidence to strengthen the stated position. Upon final review the document had undergone a significant structural update making the plan narrative stronger and addressing each of the major enhancement initiatives separately. Good evidence was shown of the approach taken, rationale and reasoning behind decisions made.</p> <p>Over the course of our investment case assurance, the risk scoring has improved progressively for all of the seven cases to be submitted to Ofwat. However, outputs from reviews have shown some material concerns. These relate to options appraisal evidence and inclusion of customer engagement on bill impacts in relation to affordability and acceptability of the proposed solutions. Inclusion on how risks to delivery will be mitigated and customers protected was also required. By the end of the third investment case review cycle the documents had all improved showing a coherent narrative with clear evidence of need. The reports highlighted options considered although more detail was suggested for the areas of customer support and bill impact evaluations which the company are addressing.</p>
<b>PRT08: Delivering Our</b>	On PRT08 Delivering Our Investment Plan, the company built their document around four principles which are supported by evidence. Examples are given on initiatives proposed for ensuring a robust delivery of the plan. Sections on capability, resources and supply chain factors are comprehensive and well supported with rationale. In early reviews some areas required further evidence to give more

Area of scope	Findings
<b>Investment Plan</b>	weight to the delivery strategy. At the final review cycle the document included more evidence to corroborate statements with examples and diagrams shown. All early review comments had been addressed appropriately. Overall, the document showed good progression through the reviews completed.
<b>PRT09: Securing Value for Money</b>	The PRT09 document shows evidence of the approach taken with rationale and reasoning presented. The overview of the costing process offers a robust validation from numerous external sources and internal reviews. In early reviews the document required improved links back to the investment cases to strengthen the messaging and more compelling evidence to be added. More was also required on how efficiencies would be tracked and measured in order to achieve targets set. At the final review the document included useful examples and sources of evidence to corroborate statements being made. All early review comments had been addressed and sections included strong conclusions to reinforce and strengthen the messages being presented.
<b>PRT15: Board Assurance</b>	This document is clearly structured and accurately represents the Board Assurance approach and how challenge has been taken through the Portsmouth Water PR24 process. In the first review more evidence on challenges made and outcomes which have led to improvement was identified. By the final review more evidence sources had been added and the assurance summary table showed the requirements being addressed.
<b>PRT18: Long Term Delivery Strategy 2025-2050</b>	We carried out iterative assurance of the draft long term delivery strategy, comprising four substantive reviews of content, clarity and alignment to the Ofwat guidance. Appendix A shows the summary of the final assurance review score. The assessment scoring has moved progressively higher over the course of the reviews. In the early review stages, additional content on pathway rationale with clearly set out options, costs and trigger/ decision points was required. The inclusion of customer engagement results (particularly on bill impacts) was needed to show evidence of acceptability testing. Limited information on the wider company scenario and sensitivity testing against common reference scenarios was shown. In the final review cycle the document structure had been substantially altered and reflected a better alignment to the Ofwat expectations. Improved justification for the wider company scenario was included and clearer presentation of the pathway options was shown. Bill impacts and customer acceptability testing on the bill profile was incorporated and additional content on pathway rationale was included.
<b>Data Tables</b>	We undertook process and data reviews for the data tables within our scope (Annex 1). In total 38 data tables were audited through August and September 2023. Common themes that were resolved following the audits included data corrections and commentary details. Material actions included data classification, where additional evidence of source data was unavailable, consistency in reporting figures across other regulatory returns and incomplete commentaries at the time of the audit. Other recommendations identified in most audits (that we note the company are in the process of developing) included a formal reporting methodology associated with the data generation, confidence grading and first and second line assurance processes. The company has stated that it has ambitions to develop the formal methodology for data generation and internal assurance. In most cases the company were able to rectify any material or potentially material actions associated with the audits completed in preparation for the submission.

## Conclusions

We conclude that in relation to the items we reviewed, except where mentioned above:

- The company has the appropriate systems and internal processes in place to identify, manage and review your risks.
- The data you have derived are in line with the reporting guidance and your processes and internal systems are appropriate to derive the data and information on which you have based your decisions.
- The company have taken steps to deliver operational resilience over the next control period and long term shown in PRT06

We have also reached specific conclusions in the following areas, except where mentioned above:

**Table 3: Concluding Assurance Statements**

Ofwat PR24 assurance areas	Assurance statements
<p><b>Long-Term Delivery Strategies (LTDS)</b></p>	<p>Based on the scope of our assurance we conclude that:</p> <ul style="list-style-type: none"> <li>• The company have taken steps to align the PR24 business plan with the Long-Term Delivery Strategy.</li> <li>• The Board has taken steps to challenge company management and determine the best strategy as shown in PRT15.</li> <li>• The company's LTDS presents a strategy to deliver on Portsmouth Water's stated priorities, given future uncertainties.</li> <li>• The AMP8 business plan implements the first five years of the LTDS.</li> <li>• Based on assurance observations, the company's processes and internal systems are sufficient to meet regulatory obligations now and in the future.</li> <li>• The company have taken steps to incorporate adaptive planning principles into their LTDS.</li> <li>• The LTDS has been informed by customer engagement.</li> <li>• The LTDS has taken steps to secure long-term affordability and fairness between current and future customers.</li> </ul>
<p><b>Affordability</b></p>	<p>Largely <b>out of scope</b>, other than our assurance of bill impacts within PRT18 Long Term Delivery Strategy 2025-2050 document.</p>
<p><b>Costs and Outcomes</b></p>	<p>Based on the scope of our assurance we conclude that:</p> <ul style="list-style-type: none"> <li>• The company's process for forecasting expenditure is robust.</li> <li>• The company has taken steps to evaluate the performance improvements expected from both base and enhancement expenditure.</li> <li>• You have followed a process for options development and options appraisal which takes into account financial costs and wider costs and benefits.</li> <li>• The investment plan sets out the company's approach and actions to ensure that investment for the period 2025-2030 is deliverable and the risks are managed.</li> <li>• The company has evaluated deliverability of PR24 plans and expenditure proposals.</li> </ul>
<p><b>Risk and Return</b></p>	<p><b>Out of scope</b></p>
<p><b>Customer Engagement</b></p>	<p>Largely <b>out of scope</b>, other than our assurance on line of sight that the PRT18 Long Term Delivery Strategy 2025-2050 (and through that, investment (enhancement) cases for AMP8)) have been informed by customer engagement.</p>

Yours sincerely,



**Alexandra Martin**  
 Director of Operations

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## **Annex 1: Summary of Assured Documents and Data Tables Submitted to Ofwat**

See data tables assurance report and business plan and supporting documents assurance report for more details on assessment outcomes.

### **Business Case and Supporting Documents**

1. PRT 01 Excellence in Water, Always
2. PRT 05 Delivering Outcomes for Our Customers
3. PRT 06 Managing Our Resilience in the Long Term
4. PRT 07 Our Investment Plan
5. PRT 08 delivering Our Investment Plan
6. PRT 09 Securing Value for Money
7. PRT 15 Board Assurance
8. PRT 18 Long Term Delivery Strategy 2025- 2050

### **Investment Cases**

1. PRT 07.01 Security Resilience and eCAF Compliance at Operational Sites
2. PRT 07.02 Raw Water Resilience Enhancements (Disinfection)
3. PRT 07.03 Raw Water Deterioration and Drought Capacity Enhancements
4. PRT 07.04 The Isolation and Recovery of Service Reservoirs
5. PRT 07.05 WINEP and Protecting the Environment
6. PRT 07.06 Reducing Customer Side Demand (Universal Smart Metering)
7. PRT 07.07 Lead Strategy Implementation

### Data Tables (assured in part or as a whole)

PR24 Submission Topic	Tables	PR24 Submission Topic	Tables	
Outcomes	OUT 1	Water Resources	RES1	
	OUT 2	Retail	RET1	
	OUT 3		RET1a	
	OUT 4	Developer Services	DS1e	
	OUT 6		DS2e	
	OUT 7		DS4	
	OUT 8		DS5	
	OUT9		DS6	
	Costs (wholesale)	CW1	Supplementary Tables	SUP1a
CW1a			SUP1b	
CW2			SUP11	
CW3			SUP14	
CW4			SUP15	
CW5				
CW6				
CW7				
CW8				
CW9				
CW13				
CW14				
CW15				
CW16				
CW17				
CW19				
CW20				