



Portsmouth Water Limited

Response to Ofwat Initial Assessment of Plan

Board Assurance Statement



Delivering excellence
for our customers,
our people and our
environment





Introduction

The Board of Portsmouth Water is responsible for the strategic development and oversight of the Appointed Business and takes its responsibilities seriously at all times. Led by an Independent Chairman, with three further Independent Non-executive Directors and an Investor Director, the Board seeks to foster a culture that places customers at the heart of the business, encouraging innovation, constructive challenge and debate at all levels of the organisation. This culture ensured that the full Board led a consistent and robust approach throughout the process of developing the Business Plan for PR19, from its inception through to the final submission, with customer priorities being the “golden thread” at its heart. In addition this same process has continued through to the Initial Assessment of Plan (IAP) submission on 1st April 2019. In particular this new version of the Board Assurance Statement has been modified in line with Ofwat’s IAP feedback at the end of January 2019 and has included a number of changes to the wording as well as specific reference to the areas of focus within the IAP response. We appreciate that the new regulatory approach developed by Ofwat requires the Board to clearly demonstrate how this had been achieved and what assurances it has relied upon. The most important element of this approach is the development of a Plan that is focused on the delivery of customer priorities.

Our smaller scale and flat management structure provides close links between the Board, senior management, colleagues throughout the Company and the communities and customers that we serve. In developing a Business Plan that is focused on delivering our customers’ priorities, both now and in the long-term, the Board set out a clear framework at the start of the process to ensure that:

- all the elements add up to a plan that is of high quality and ambitious, but deliverable through adopting innovative solutions;
- the overall strategy for data assurance and governance processes delivers high-quality data;
- the Business Plan will enable the company to meet its statutory and licence obligations, now and in the future;
- the Business Plan will deliver operational, financial and corporate resilience over the next control period and the long term;
- it will enable its customers to continue to have high levels of trust and confidence in the Company, through transparency and engagement with customers on issues such as its corporate and financial structures; and
- the Board has taken ownership of the overall strategy and direction of the plan in the long term.

Throughout the process, the full Board has provided strategic leadership and has been deeply involved in the preparation of the Plan, including robust challenge of key Plan assumptions, without use of sub-committees. This has continued throughout the IAP response process.

Strategy

In 2016, the Board reviewed its approach to its long-term strategy through a process facilitated by Professor Dave Cooper (Head of University of Chichester Business School). It agreed its goals for the future that would drive the PR19 Business Plan. As a long term infra fund investor, these goals were further endorsed by the new shareholder, Ancala, post the change of ownership of the business in March 2018. The goals are:

1. To put customers at the heart of everything we do.
2. To be in the top 25 companies in the Institute of Customer Service survey.
3. To be a resilient business for both our own customers and to support the wider South East.
4. To promote a culture that is innovative, vibrant, open to change and rewards those behaviours.
5. To recruit and retain the right people and support them to deliver to the best of their ability
6. To be recognised for meeting our social and environmental responsibilities.
7. To ensure that health and safety of our workforce and members of the public remains our number one priority.

Throughout the PR19 process the Board has provided strategic leadership and taken an active involvement in the preparation of the Plan. In this way, the Board has taken overall ownership of the strategy and direction of the PR19 Business Plan and will continue to do so in the long-term. The Board has established a culture of “doing the right thing” and putting customers at the heart of the business. This has resulted in high trust scores in surveys conducted by the Institute of Customer Service and the Consumer Council for Water. It has had a responsible dividend policy and this will continue into the next period.

Resilience of water supplies has been central to the Company for decades. Examples of this are the purchase of the land where the Havant Thicket Winter Storage Reservoir will be located, in the 1960's and the building of the River Itchen Treatment Works in the 1970's. At that time it was seen that in the longer-term resources in the region would need to be increased and the current Board continue to see this as a priority. A key part of the Board's strategy is to use the resilience in water resources to support the wider South East Region, which is seriously water stressed. The questions raised by Ofwat around the development of Havant Thicket Winter Storage Reservoir development form one of the key elements of the IAP response.

The Company is an upper quartile performer in several of the common performance measures to be used at PR19 and the Board established its policy to remain in that position.

These strategic policies have set the tone and direction of the business plan and the planning and assurance process.

In the following section, we specifically address how the Board is able to give assurance on the Business Plan as amended and supplemented by the IAP process.

Business Planning

How has the Board challenged and satisfied itself that all the elements add up to a Business Plan that is high quality and deliverable.

PR19 has been a standard item on the Board agenda since July 2017 in order to address assurance and governance through the following processes:

- In December 2017, the Board agreed a clear plan for assurance of all elements of the plan, including where third-party assurance was required. This was reviewed, and changes made as the Plan developed. This assurance plan and the subsequent actual dates when items were considered is presented in Appendix 1 to this document.
- A RAG report showing an updated status of progress on the Business Plan was included in Board Papers every month.
- The Board received evidence from Executives and third- party assurers to ensure the quality of data and the robustness of assumptions. Third parties producing

reports were invited to speak to the Board. Chapter 13 of the Plan contains a full list of independent third party reports to the Board.

- The Board ensured that an independent Board member attended every CCG meeting and invited the chair of the CCG to three Board meetings during the process.
- It reviewed and assessed compliance with its statutory duties and licence obligations and Government policy statement early in the process to ensure the overall strategy meets these requirements.
- A Board report summarising customer engagement is included with the Board papers every month.
- The whole Board has been involved throughout the PR19 process, with no separate board committees being established.
- Independent Board members have, where deemed appropriate, conducted deep dives into aspects of the plan to gain assurance that a proper process has been followed and to provide further assurance to the whole Board.
- The Board has rigorously challenged each ODI, the targets set, and how they will be achieved. As part of this process it considered the key risks to the delivery of the Plan and the mitigations required. These risks are included in the RoRE analysis.
- The above measures have continued over the last two months as the IAP response document has been developed. In addition to the monthly Board meetings, there have been several supplementary sessions between the Board and senior management to discuss and agree the key aspects of each area of the submission. In addition CCW have been fully engaged and there has been close co-ordination with Southern Water in respect of the Havant Thicket project. The Board has had direct access to external advisors as necessary. Please see the last section of the appendix for details of the Board and CCG engagement.

How has the Board challenged and satisfied itself that the overall strategy to data assurance and governance processes delivers high-quality data.

The Board has in place a tried and tested process for providing assurance on the quality of data submitted for the Annual Performance Review. We consider feedback from Ofwat on the quality of data submissions to improve our Company Monitoring Framework and our processes. Our data submissions are subject to independent audit and the auditor is invited to the Board meeting to discuss their reports.

For PR19, the Board has approved internal control procedures to ensure that the data submitted has been peer reviewed and the Chairman of The Audit Committee confirmed that there was good evidence that this had been followed. It has received third party assurance (as set out also below) covering financial and non-financial data from KPMG and Atkins respectively.

In addition, individual NED's have taken responsibility for reviewing certain aspects of the Plan, including data, and then reporting to the Board. All of the above mechanisms have remained in place for the IAP response review process.

How has the Board challenged and satisfied itself that the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK Government's strategic policy statements?

The induction process for new Directors covers such matters to ensure they understand their duties and all changes to the obligations are brought to and discussed at the Board.

The Board has put in place a rigorous Risk Management process which addresses the risk of non-compliance with its duties.

In relation to the Business Plan submission, the Board assessed its statutory and Licence obligations, and evidence of compliance at its 2018 February Board meeting. The session also included the Government's priorities. The Board has recognised the Government's Strategic policy statement to Ofwat and the Government's 25 Year Environmental Plan. Resilience is a key pillar of the Government's policy statements and the Company's plan not only addresses resilience for the Company, but also the wider South East Region, by providing substantial additional bulk supplies to Southern Water, through the development of HTWSR. This will help them to meet the environmental challenges at two of their current river abstractions and ensure that the region is more resilient to droughts. The Board has also ensured the plan is consistent with the Environment Agency and Natural England's WISER document.

As a result of Board challenge, the Company has sought to enhance resilience by more aggressive leakage and PCC targets in the long-term which have been reflected in revisions to the Water Resource Management Plan. Also as a result of Board challenge, the initial proposal for mains renewals was increased from 70km to 90km over AMP7. **As far as the IAP response is concerned the Board has further challenged the Company's plans in respect of PCC and leakage and has concluded following a detailed review that a more stretching target should be adopted for leakage than was included in the original PR19 submission last September.**

How has the Board challenged and satisfied itself that its plan will deliver operational, financial and corporate resilience over the next control period and long term through its governance and assurance processes, taking account of its track record of performance.

The Board has conducted a review of risks faced by the Company in terms of potential impact on the customer and the level of mitigation and resilience against those risks. It has looked at historical performance, including the Company Monitoring framework of the current AMP, on a range of measures to identify where interventions may be required. As part of its AMP 6 Programme, the Board commissioned a study to establish the level of resilience to catchment and non-infrastructure asset failures, which has driven key elements of the plan. A NED has undertaken a deep dive into the level of operational resilience within the organisation. The Board has reviewed several financial viability and financeability scenarios (see below).

In addition, the Board has reviewed the plans to ensure that the Company remains able to attract, retain and provide continual training of its staff to deliver the services required by our customers.

The Board has made a final review of the Company's assessment of resilience in the round and its conclusions are included in Chapter 6 of the Plan. This includes how the Plan has been informed by a range of options to manage resilience in customers' long-term interests. Within the IAP response the studies on resilience have been reviewed in the context of a 'systems based' approach and we are confident that we illustrate in our IAP Response submission the strong links between this study and the performance measures and ODI outcomes that have been chosen for the wider business.

How has The Board challenged and satisfied itself that it will enable its customers' trust and confidence through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency and engagement with customers on issues such as its corporate and financial structures.

The Board have continually ensured there is a fair balance between customers and investors. At PR14, the Board voluntarily agreed to waive over £5m of legacy adjustments to keep bills lower than they would otherwise have been.

The Board has overseen a large and varied interaction with customers which has continued through the IAP response process. Entirely separate to the PR19 process, the Board took a decision to join the Institute of Customer Service, so that it could build on its strong historic performance on SIM scores and measure its performance against a broad spread of companies, not just other water companies and other utilities. The customer satisfaction score for 2018 was the highest of any water company and the Company was the second placed utility. Through this process, we also receive a trust score in the Institute's surveys that demonstrates our customers have a high level of trust in our business. Retaining and improving this score is of fundamental importance to the full Board. An Independent NED has been present at every CCG, since the PR19 process started. The CCG has been fully involved in the IAP response process as shown in detail at the end of appendix 1.

The Board has reviewed specific customer research on financial matters, including the support for a specific company adjustment and how much they are prepared to adjust bills to finance our capital programme. This is evidenced in the minutes and papers presented to the Board. The Dividend policy set by the Board during AMP6 has been responsible and well within the level modelled by Ofwat at PR14; its policy for AMP7 onwards is clearly set out in the Business Plan with a base level of 5% of Regulatory Equity which will be subject to satisfactory delivery against our performance commitments. Portsmouth Water has a transparent approach to executive pay, with the performance related elements based primarily on satisfactory delivery against a wide range of customer performance metrics and this process will continue in AMP7. Additional information regarding executive remuneration has been included as part of the IAP response.

Although gearing levels set out in the plan are well below 70%, an out-performance sharing mechanism will be included. Portsmouth Water has a simple corporate structure that is explained clearly to our customers and has never used complex offshore structures in its financing. Our new shareholders, Ancala, are investing for the long-term on behalf of large UK based pension funds. In order to ensure the long-term financial resilience of the Company, the shareholders are making significant, efficiently structured capital injections during AMP7 to ensure the Company will remain resilient in the long-term.

How has the Board provided ownership of the overall strategy and direction of the plan in the long term?

The Board's strategy is set out above and was established early in the process and was designed to maintain excellent customer service at an affordable price whilst at the same time meeting the challenges set by Government in terms of resilience for its own customers and the South East generally. As the Board progressed the Plan, it ensured that the performance commitments and the ODIs were consistent with this strategy.

The Board confirms that it has taken collective ownership of the overall strategy and direction of the plan, in the long-term, at all times and not just as part of the Business Plan process. An example of this is the decision taken in January 2016 to exit the non-household retail market, so that we could concentrate on further improving our services as a wholesaler and provider of household retail services

Board Challenges

The Board has continued to challenge the Executive and the interpretation of the research to ensure that the plan delivers the key strategic priorities for Government and Ofwat's key themes for PR19. It has used the independent expert reviews of aspects of the plan, to challenge the evidence of what was proposed, in some cases asking for further research and as a result, in some cases, made changes to the plan. It has challenged in many areas and we show below examples that have had a significant impact on the plan:

- Although research showed that customers were happy with current performance in a number of the common performance commitments (PC's), particularly where we were already in the top quartile, the board asked that further testing be done, and as a result of this work and partly in response to expert opinion, a number of PC's were stretched. These included Interruptions to supply and vulnerability. As a result of the IAP feedback, further limited customer research has been undertaken; PC's have been further reviewed and in most cases further changes made.
- There was little support in our research (both that undertaken for the Business Plan submission and the more recent research for the IAP) for the Company to be rewarded for out-performance and the quantum of the result was not consistent with the range of 1 to 3% of RoRE. Having considered the research the Board took the view that a key objective of PR19 was to move the frontier of performance for the industry and decided to include extended rewards if the Company achieved very stretching or industry leading targets on certain performance commitments. These were in the outcomes that customers felt were a priority. Penalties and rewards have been extended further as a result of Ofwat's IAP feedback despite this not being supported by the customer research.
- An independent review of the evidence for the proposed mains renewals strategy suggested that one assumption could have been treated in an alternative manner and possibly changed the overall resulting level of renewals. The Board asked for the analysis to be recalculated with this change in assumption. This resulted in an increase in renewals activity to maintain stable burst rates and the Board decided to accept this change in the interests of resilience.
- Our customer research has generally supported the view that those who can benefit from a switch to a measured charge should be able to do so, but did not support compulsory metering through change of occupier. It was clear to the Board that reducing Per-Capita Consumption is a key component of the Government's strategy and this was repeated in the Minister of State's letter in response to the Company's Water Resource Management Plan (WRMP). In recognition of this, some further research was undertaken, and the Board decided to include some change of occupier metering within the plan for AMP7 and commit to further promoting the benefits such that it can get customer support for full change of occupier metering in AMP8. Please note the Board's preferred approach is for the Government to enact legislation to allow us to compulsory meter where it is possible. Defra were approached in 2017 for this change to be used in the WRMP 19, but we were advised that this was not possible in this timeframe.
- The Board encouraged the Executive Management to look for innovative solutions to issues faced by the company and this has been reflected in the approach to reducing leakage and metering as key examples. In the case of leakage the Company has included a more stretching target following the IAP feedback and further internal review.

Customer Engagement

At each meeting the Board receives a paper summarising all the research activity undertaken and to be undertaken and have received papers explaining the outcome and conclusions from all of the Customer Research undertaken. They have also received, at several meetings, for discussion a paper summarising the thread of how the Outcomes, Performance commitments, and ODI's have been evidenced and derived from the research, including triangulation. This has been updated for each piece of new research.

As noted above, the Board have fully recognised the feedback from the CCG, with an Independent Director attending every CCG and full access to the Board for the CCG chair made available. The CCG chair has met the whole Board on three occasions this year. The Board were fully briefed on the outstanding CCG issues in June and July and are confident these have been addressed. During the process the Board have reflected on the issues raised

by the CCG, particularly metering, leakage and stretch targets and have made changes to the Plan.

The Board also meets regularly with the regional Chair of CCW to discuss company specific and industry issues.

Feedback from customers is a key feature of every meeting and the Board receive a summary of every complaint and letter of thanks.

The Board believes that the Business plan has been fully informed by the customer engagement undertaken and reflects feedback from the CCG. In addition further customer research has been undertaken as part of the IAP response to Outcome Delivery Incentives.

Affordability

The Board have considered the proposed average bill and social tariff against national average household income and the Government threshold for a low-income household. It has done this comparison on Portsmouth Water charges alone and with Southern Water charges for wastewater. The combined average bill and combined social tariff are well below the threshold for water poverty and the Portsmouth Water bill is only approximately one third of the combined water bill. In addition, at the June meeting the Independent NED's asked to see comparisons of recent bill changes against energy and Council Tax bills. These compared very favourably.

The Board has also considered the long-term affordability and stability of bills. The Company has proposed a stable bill, in real terms through AMP7 and into the following two AMPs.

The Board therefore considers that its bill levels arising from its Business plan are the most affordable in the industry and with access to the social tariff, is affordable for all customers. The Board recognises that the key task is to make sure everyone is made aware of the social tariff and the payment options available and following the IAP response we have made a stronger commitment to expand our social tariff to a larger number of customers than was the case in the original plan submission. Together, with a proposal for stable (real) bills over the longer term, the Board has also concluded that this provides long-term affordability.

Outcomes

The Board has considered a paper summarising the PR19 key delivery risks and mitigation plans, including the potential range of customer and financial impacts. Monitoring of the outcomes and PC's established at PR19 and the key delivery risks will be standard items on the Board agenda. They will also form part of the weekly review of operations by senior managers in the company. These items will also form a large element of Executive Director bonuses from 2020.

After reviewing and challenging the key risks and mitigation and challenging Executives, the Board is confident that by driving efficiency and embracing innovation, it will deliver its Outcomes and Performance Commitments contained in the plan.

As noted above, the Board has reviewed the customer research, taken account of CCG views and challenged using expert opinion whether the ODI's are stretching. In some cases, the Board have set higher performance commitments than is indicated by the customer research which have been made more stretching following the IAP feedback. It therefore considers that the proposed outcomes, PC's and ODI's reflect customer preferences and are stretching.

Throughout the current AMP, performance against key ODI's is reviewed at every Board meeting and, where necessary, appropriate corrective actions discussed and agreed. The Board have reviewed and accepted a proposal for reporting on its performance commitments and ODI's for the next AMP. This CCG would continue to play a part in this process. The board

endorsed the proposed approach, which will be a continuation of the current process, with a review of performance against key ODIs at every Board meeting.

Resilience

The Company has built a resilient supply and water resource network over many years and the resilience study undertaken in AMP6 has confirmed this. In addition, the Board has embedded risk management into its day-to-day activities and reviews its risks on a quarterly basis. It has procedures in place to identify trends in performance and to react to events and incidents.

For the Business Plan the Board conducted a thorough review of this risk analysis based on the Cabinet Office core principles in relation to fulfilling its statutory duties and responsibilities and meeting customer expectations; the review looked at how resilient the business was against them, including its response and recovery. In AMP6 (included in the PR19 Plan) the Board approved a study to consider its key risks and potential single and multiple points of failure in the supply network and the outcomes of this work are a key part of the plan. The Water Resource Management Plan is a key element in ensuring that we have resilient water resources in the long-term and the key components have been independently produced by third parties. We also have a robust and well tested Emergency Plan for when incidents do occur, most recently used in the “Beast from the East” event, when, despite a very rapid thaw, only a very small number of customers were affected for a short duration. This event in itself serves as a strong indication of the underlying resilience of the Company’s infrastructure along with the long hot summer that followed where again no significant supply issues were encountered.

Through its governance processes, the Board is confident it has the people, processes & systems, assets, plans and financing to enable the delivery of the Plan and longer-term business objectives under a wide variety of adverse scenarios. This includes the changes to the Plan made through the IAP review process.

The Board have approved a Water Resource Management Plan that will ensure resilient water supplies in a 1 in 200-year drought until at least 2045. This Plan allows for the provision of bulk supplies to Southern Water Services and includes the construction of a winter storage reservoir.

The Havant Thicket Winter Storage Reservoir scheme represents a major investment for the Company and a significant management challenge. To address this the board has approved the appointment of a specialist consulting and cost engineering company with specific experience in this type of project to ensure that it can assure the delivery of all aspects on this project in a timely and cost-effective manner and ensure that the project does not distract senior management from delivering the PR19 business plan commitments.

A standing item on the Board agenda is a review of the Company’s ability to withstand and recover from cyber-attacks and to ensure that its protection is up-to-date. Two papers have been presented on this in the January and February 2019 Board meetings.

The Board has conducted a robust assessment of its financial resilience and longer-term financial viability, to ensure it can withstand a range of events. A suite of down-side financial shocks have been modelled. These include both the financial viability scenarios set out by Ofwat and a range of “severe but plausible” company specific scenarios (which were underpinned by our Company risk assessment). The Board has also provided an updated company Viability Statement to support its conclusions.

An Independent Non-Executive Director has undertaken a deep dive assessment of our resilience, both currently and for the future.

The Board considers, therefore, that its Business Plan is informed by a robust and systematic assessment of the company's systems and services.

Whilst starting from a high base level, we are proposing to make several interventions on resilience in PR19 to improve raw water quality issues and to enable delivery of further bulk supplies of water. An assessment of these intervention options was made to determine the best way to manage long term resilience in customer's best interests and approved by the Board. The Board also considered feedback from the DWI on water quality schemes. It was satisfied that the options chosen were in the customers' best interests.

From customer research on priorities the Board were clear that "a safe and secure water supply" was the highest priority for customers and it was therefore believed that its proposals in this area were supported. However, research was undertaken to test our specific proposals for resilience and a paper summarising this was presented to the Board. This paper was discussed and as a result the Board are confident that the Business Plan has been informed by customer views on resilience.

Cost Assessments

The Board reviewed the overall capital expenditure programme, considering a report from Atkins on the approach taken by the Company to achieve a cost effective programme including the benchmarking of costs. It also discussed this report with its author. The Board specifically challenged the levels of contingency in the costs and was reassured that these were acceptable.

For Non-Infrastructure capital expenditure unit costs, an independent quantity surveyor and independent auditor were used to determine and review the costs. For Infrastructure, the actual Unit Rates used by the incumbent contractor was used. These were competitively tendered in 2015 and were regarded as efficient.

The Board asked Oxera to conduct an analysis of the various potential Ofwat models to produce a forecast of our baseline Botex for AMP7. The results of this work, after adjusting for controllable items, produced a range of £138m-£153m. The Oxera analysis therefore suggests that the proposed Botex of £135m is likely to be better than upper quartile and that the Plan will meet Ofwat's expectations in terms of cost challenge.

The Board considers therefore that its expenditure forecasts are robust and efficient.

The Company has one large investment proposal, a new reservoir which is supported by option appraisal carried out on behalf of the Company by Water Resources in the South East (WRSE) and an analysis by PA Consulting. Atkins has appraised the deliverability of the project and believe the costs are at P50 level. PA consulting also conducted a review of whether the project should be considered as a DPC contract. The conclusion was that this was not the best way forward for customers. The reservoir will be used to enable an additional bulk supply to Southern Water services and we are working in collaboration with them. They also conclude that this is the best approach to deliver for their customers. The Board evaluated these reports and analysis to ensure deliverability and cost efficiency, determining that the proposals were both deliverable and the most cost efficient option. In doing so, the Board concluded that the proposal put forward in the Business Plan is in the best interests of the customers of both companies. Further work on the DPC analysis and on customer protection has been completed as part of the IAP response process and the Board has been fully engaged in contributing to and reviewing this work. The Board maintains its position that DPC is not the best way forward for customers. In addition robust arrangements included within the regulatory arrangements for the project and within the proposed bulk supply agreement between the Company and Southern Water will ensure that both groups of customers are fully protected under a range of scenarios.

Collaborative work with Southern Water on the Havant Thicket project commenced in 2018 and there is a full governance process in place led by a Steering Group which includes non-executive directors. Our recent risk analysis of the project programme has led us to conclude that the current 2029 target for water into supply is tight and there are risks that environmental factors such as weather conditions, soil conditions and drought could easily have a major negative impact. This is one of several reasons why we believe the DPC option is not appropriate.

Third party assurance has been received in relation to the data tables and supporting information (KPMG – Financial, Atkins – Non-Financial) and the Board have discussed findings with the relevant organisation.

Risk and Return

As identified under item under “Outcomes”, above, the Board has considered the key delivery risks and identified a range for the potential costs of failure including mitigation costs. These costs together with potential rewards and penalties for performance on ODI’s have been included in the RoRE analysis. The Board has reviewed this work and can provide assurance that it has identified the risks associated with delivery of the plan and the risk mitigation plans in place are appropriate.

Financeability

The Board has considered Financeability on both a notional and actual structure basis and the steps taken and assumptions made to assess this are detailed in Chapter 11 and updated in the Company’s IAP response. The Board considered its approach to establishing whether the Company was financeable and agreed the process to be followed. Further explanation of the Board’s assessment process for financeability and long-term financial resilience is included in the IAP response (Chapter 2.1). The process taken was informed by a Board review of the PR19 methodology including the ‘Putting the sector in balance’ publication. The Board assessment considered both quantitative factors (an assessment of financial results in relation to ratings agency methodology and ability to withstand financial shocks) and qualitative factors (a wider range of factors impacting financeability such as company track record, investor support and ability to raise debt).The Board assessment process of quantitative factors is summarised below:

- I. The assessment was largely based on rating agency methodology, in particular focusing on metrics relating to the servicing of debt, as these are typically the ratios with the least headroom for us. The Company used rating agency published methodology and informal discussions with the agencies to establish a basket of thresholds to support the target credit ratings in the notional and actual capital structures.
- II. To decide what rating to target for the notional structure we considered a range of factors including the balance between financeability and bill levels, the ability to raise debt and levels of financial headroom. Although we originally targeted A3. In the notional structure this was revised to Baa1/BBB+ following IAP feedback.
- III. The business plan results were considered in the notional structure and assessed against the key financial metrics. It was determined that, in the notional structure, PAYG levers would need to be used to achieve this target rating. The impact of PAYG adjustment on bills was quantified and the Board reviewed customer research undertaken showing customer support for the use of PAYG levers. The resulting PAYG was used in the actual structure
- IV. In the actual structure it was agreed that an Investment Grade of Baa2/BBB+ should be targeted. This is a notch lower than the current rating Baa1/BBB. The Board considered the adequacy of this rating in terms of factors such as financial resilience and ability to raise debt and concluded that it was appropriate.

- V. The results of the Business Plan in the actual structure were considered, including additional, efficiently structured capital and the PAYG adjustment noted above. These results were assessed against the key financial metrics.
- VI. A suite of down-side financial viability scenarios was run together with appropriate management mitigations. The results of these scenarios, together with the ability to adequately mitigate any adverse financial implications, were considered and concluded upon.
- VII. A final review of the results of the above process, taken in the round, was undertaken and the Board concluded on the quantitative aspects of financeability.

The Board then considered the qualitative aspects of financeability and long term financial resilience considering a range of relevant factors in order to conclude on financeability in the round.

After considering the financial projections to be submitted using the Ofwat model, the Board concluded:

- After applying PAYG levers in the notional structure with a Baa1/BBB+ target credit rating that the Business Plan is financeable.
- After applying PAYG levers and with efficiently structured capital injections in the actual structure with a Baa2/BBB target credit rating that the Business Plan is financeable.
- After considering the customer research, that the use of PAYG levers is supported by customers and in their best interests for the short and long term.
- After considering the customer research that the bill level and bill profile is supported by customers.
- After undertaking financial viability scenarios and considering available mitigating actions that the Business Plan is financially resilient.

The Board has robust governance and assurance processes and believes they are appropriate to ensure long-term financial, operational and corporate resilience. These include a rigorous budgeting process, which projects 5 years and an established viability review looking at aggressive downside scenarios. The scenarios have been used in assessing this Business Plan.

As a consequence of the Board's review of financeability and financial resilience, the Board concluded that the Company's Plan;

- Is financeable in the notional and actual capital structures
- Remains financially resilient over the longer-term
- Protects customer interest in the short and long-term

Assurance Summary

As a result of the actions and evidence taken by the Board, it believes that its Business Plan:

- Is endorsed by 80% of our customers.
- Will maintain customer trust and confidence and has a fair balance between customers and investors and has high levels of transparency and engagement on issues that matter to customers.
- Is of high quality and ambitious, but deliverable using innovative solutions.
- It will deliver long-term operational, financial and corporate resilience on behalf of our customers.
- Reflects our customer preferences obtained through a comprehensive process of engagement and ensures that we are transparent with our

customers on all key aspects of the plan and its delivery, including corporate and financial structures.

- Meets its statutory obligations, licence conditions and the Government's priorities throughout the plan.
- Is based on robust data and efficient costs.
- Is affordable for all of our customers, even those with vulnerabilities and on the lowest incomes, including in the long term.
- Will continue to deliver excellent customer service.
- Is financeable on both the notional and actual capital structure.
- Protects customer interests in both the short and long term.
- Has responded comprehensively to the questions raised by Ofwat through the IAP feedback and has modified and improved the Plan as appropriate.

Signed



M P Kirk



B Taylor



H Benjamin



M Johnson



D Owens



M Coffin



H M G Orton

PR19 and IAP Response plan for Board Governance papers and actual Dates of Presentation

	Paper	Responsibility	Plan Date	Actual Date
Business Planning	1 Summary of data key controls and governance	SM/ HMGO	22 Feb	22 Feb
	2 Assessment of statutory obligations and business plan approach	RCP/NS	22 Feb	22 Feb
	3 Disclosure and transparency of corporate structure	HMGO	22 March	22 March
	4 Board to prepare summary of the ongoing oversight and input into the long terms strategy and Business Plan process. Interim and Final papers.	Chairman	26 Apr (I) 26 July (F)	24 May, 28 June, 26 July
	4a Overarching Strategy	NS	28 June	28 June
5 Business Plan Summary Position	NS	24 May	24 May	
Customer engagement	5 Customer engagement activity. See also 8 (outcomes), 12 (resilience)	PAB	Monthly	25 Jan, 22 Feb, 22 Mar, 24 May, 28 Jun, 26 Jul, 30 Aug
	5a CCG Action List			
	5b Acceptability Testing			28 June, 26 July 30 Aug
Affordability	6 Work supporting bill levels, profile and social tariff.	HMGO/ PAB	24 May	28 July, 9 Aug 30 Aug
Outcomes	7 Outcome and ODI proposals including rewards & penalties	SM	26 April	26 April, 28 June, 26 July
	8 Customer engagement activity against Outcomes and Performance Commitments.	SM	22 Feb	22 Feb
	9 Company's planned approach to reporting on PCs & ODIs.	SM	26 April	26 April
	10 Supporting PC levels (stretch targets).	SM	26 April	26 April
	10a Paper covering results of research on Rewards and Penalties		26 April	26 April, 28 June, 26 July 26 April, 24 May, 26 July
Resilience	11a Papers covering; operational resilience,	RCP/NS	22 Feb	22 Feb, 26 April, 28 June
	11b financial resilience (scenario modelling),	HMGO	22 March 26 April	30 Aug 22 March, 24 May
	11c and overall "resilience in the round" – reports from individual Non Exec	MJ	26 April	24 May, 28 June
	12 Review of customer engagement activity in relation to resilience.	SM	24 May	24 May
Cost assessments	13 Company challenges in relation to cost and efficiency including overall TOTEX benchmarking.	NS RCP/	April/May	25 Jan, 28 June, 26 July

and Capital Programme	<p>14 Specific papers covering large investment proposals;</p> <ul style="list-style-type: none"> • Overall CAPEX plan • Havant Thicket • Catchment management • Infrastructure renewals • Water quality investments • Resilience schemes <p>14a Enhancements costs adjusted claims</p> <p>14b Atkins report on capital programme</p>	MM	<p>25 Jan</p> <p>22 March</p> <p>22 March</p> <p>22 March</p> <p>22 March</p> <p>22 March</p> <p>28 June</p>	<p>25 Jan</p> <p>22 March, 26 April, 28 June</p> <p>22 March, 22 June, 9 Aug 28 June</p> <p>22 March, 28 June</p> <p>22 March, 28 June</p> <p>26 April, 26 July</p> <p>26 July</p>
Risk & Return	15 Board review of Company paper summarising PR19 delivery risk and mitigation plans (including impact on ODI outturn and RORE assessment).	RCP/NS	24 May	28 June, 26 July, 9 Aug, 30 Aug
Financeability	<p>16 Approach to assessment of financeability (Principles & Results).</p> <p>17 Review of the Company's modelling and sensitivity analysis of financial outturn including key ratios (in line with Business Plan guidance and Ofwat Scenarios).</p> <p>18 Customer engagement covering Bill Profiles, PAYG adjustment and Small Company Premium</p>	<p>HMGO</p> <p>HMGO</p> <p>HMGO</p>	<p>25 Jan (P)</p> <p>28 Jun (R)</p> <p>28 June</p> <p>24 May & 28 June</p>	<p>25 Jan, 9 Aug</p> <p>26 July, 30 Aug</p> <p>17 Aug, 30 Aug</p> <p>24 May, 28 June</p> <p>26 July</p> <p>30 Aug</p>
Board sign off	<p>19 Develop and review wording of assurance & Governance statement.</p> <p>20 Approval of business plan for submission.</p>	<p>HMGO</p> <p>Board</p>	<p>28 June</p> <p>28 June</p>	<p>24 May, 28 June, 26 July</p> <p>9 Aug</p> <p>30 Aug</p>
Other Governance	21. Risk register and RAG report	HMGO	Monthly	25 Jan, 22 Feb, 22 Mar, 26 Apr, 24 May, 28 Jun, 26 Jul,
Water Resources	<p>22 Metering Strategy</p> <p>23 Letter from Therese Coffey Leakage Strategy</p> <p>24 Board discussion of WRMP</p> <p>25 Board discussion of Havant Thicket</p> <p>26 Board approval of Draft WRMP</p> <p>26 Board approval of Draft Final WRMP</p>			<p>Nov 17, 26 April</p> <p>26 April</p> <p>28 June</p> <p>July, Sept, Nov, Dec 2017, 9 Aug</p> <p>Oct 2017</p> <p>23 Nov 2017</p> <p>30 Aug</p>

Table and Final Data Average	27 Report from KPMG – Financial 28 Report from Atkins – Non-financial		30 Aug 30 Aug	30 Aug 9 Aug 30 Aug
Final Report from CCG	Final Report – Reviewed		30 Aug	30 Aug

IAP Response	<p>The Board has led the IAP response through calls and full meetings on the following occasions:</p> <ul style="list-style-type: none"> • 6 February 2019 – Board conference call to discuss IAP contents and initial thoughts • 28 February 2019 - full Board meeting • 6 March 2019 - Board members attend customer research • 19 March 2019 - Board conference call to discuss IAP response progress • 26 March 2019 – full Board meeting (final approval) <p>The CCG have input to the IAP response as follows:</p> <ul style="list-style-type: none"> • 4 February 2019 - Company shared its initial view of IAP with CCG • 7 February 2019 - Phone call hosted by Company discussing IAP and proposed plan of action • 4 March 2019 - Phone call hosted by Company discussing planned customer research • 6 and 7 March 2019 - CCG members attend customer research focus groups • 12 March 2019 - Phone call hosted by Company providing members with feedback from the customer research • 14 March 2019 - Company shares its revised ODI package with CCG; tracker shared with CCG Chair only. • 20 March 2019 - Phone call hosted by Company receiving CCG feedback to revised ODI package. • 28 March 2019 - CCG submits its report to the Company to accompany its response to the IAP
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