
Chapter 2

Trust, Confidence and Assurance

Summary

Ultimate accountability for the business plan lies with the full Board. This chapter sets out the actions the Board has taken to assure the quality of the plan and accompanying data. It has been endorsed in its entirety and signed by the Board.

(The Board has separately signed Board Assurance Statements, which are set out in TA.2.1 – Statement of Board Assurance).

The Board has provided guidance, input and challenge throughout the development of the plan. In doing so, the Board considered the views of customers and other stakeholders, the requirements of Ofwat and other regulators, independent advice and assurance, input from a range of experts from within and outside the sector, as well as applying their own experience and judgement.

The framework through which the Board considered the quality of the plan was developed in conjunction with our strategic assurance partner, PwC, and is based on good-practice principles. It was specifically tailored to the requirements of Ofwat's PR19 Methodology and explicitly provides for more extensive assurance in areas of highest risk to ensure that assurance is targeted and proportionate.

The independent assurance which underpins this plan is far more comprehensive than for any previous price control.

We are implementing a range of improvements to our wider (ongoing) governance and assurance processes ahead of AMP7. The newly strengthened Board and Executive Leadership Team (ELT) (see Chapter 7) are fully committed to delivering the changes required, including to culture and business processes. We are confident our plan is designed to deliver a resilient water future for the South East, meeting customer and stakeholder expectations, within a cost framework that delivers bill reductions for our customers.

Chapter headlines at a glance

- The Board established a dedicated governance and assurance framework specifically for PR19. As part of this, 21 separate components of the plan were subject to independent technical assurance (including data accuracy). Assurers reported directly to the Board
- There has been extensive engagement with the Board on the PR19 plan, far more than for any previous price control. In addition to the ordinary Board meetings, there has been 11 dedicated PR19 Board Engagement Days, 33 PR19 Board sub-committee meetings and dedicated sessions on changes to financing arrangements. Management have discussed the plan every week since the middle of 2017 and have also held one-to-one sessions with Board members to draw on their expertise

- The company is facing a number of historical issues. The Board is overseeing plans to change business processes, reporting and monitoring, underpinned by a Group-wide culture change programme based on ethical business practice
- The plan includes a five-pronged approach to develop customer trust and confidence more broadly. This includes changes to the company capital structure and financing arrangements.

2.1 We, the Board, have provided comprehensive assurance of the Business Plan

*“We, the Board of Southern Water, are pleased to submit our Business Plan for 2020-25. We believe that the plan will enable the company to comply with its obligations and deliver on customers’ priorities. It will enable us to address the issues of the past, become **brilliant at the basics** we know we need to get right for customers today, and provide the foundations for transformative changes to deliver a resilient water future for our customers in the South East of England.*

We have owned the development of the Plan and been fully involved throughout the process. We have listened to what our customers, regulators and other stakeholders expect, challenged the business to be both ambitious and realistic in delivering its long-term goals, and implemented a comprehensive and demanding programme of technical and strategic assurance. We have prepared a high-quality business plan that is ambitious in every respect – in particular, in terms of service delivery and customer performance, achievement of cost efficiencies and the apportionment of risks. The Board will have strong oversight of how these risks are being managed and mitigated.

The plan is built on a careful assessment of deliverables and costs in the round, and on an assessment of a wide range of risks, including cost-sharing rates and the potential financial payments and penalties pursuant to the Outcome Delivery Incentives (ODIs) proposed. We are satisfied that the plan is capable of being delivered on the basis of this assessment. If this risk profile were subject to material additional risks or obligations on Southern Water beyond those anticipated by the company then this is likely to affect our ability to deliver on some or all of the proposals in our plan.

The Plan has been prepared at a time when the company is under investigation by the Environment Agency (EA) and Ofwat, and under scrutiny by the Drinking Water Inspectorate (DWI) for a number of historical issues to do with aspects of organisational culture and behaviours that have not always led to the right outcome for customers, regulators, the environment and other stakeholders. We take these shortcomings very seriously. The Board is very clear that standards and behaviours that may have been followed in the past are not acceptable and will be dealt with openly and decisively, supported by the adoption of ethical practice across the business. In this context, the Board has been making, and continues to oversee, changes to business, processes, reporting and monitoring, supported by a Group-wide culture change programme. These changes are designed to lead to improved data quality and accuracy for business management purposes, as well as improved basic operations, governance and compliance.

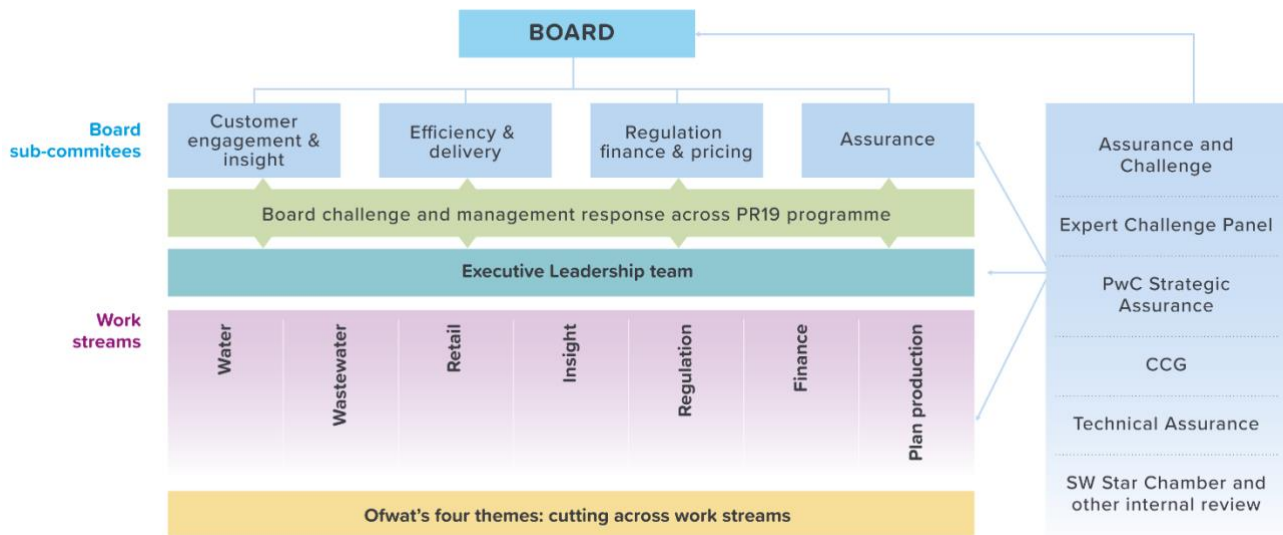
We have provided separately a series of Assurance Statements which together confirm that the Board has satisfied itself with respect to the high quality and deliverability of the Plan. These Assurance Statements cover 14 individual areas and provide details on how we have satisfied ourselves in respect of each area. These areas go beyond the statements that Ofwat requires from company Boards in that we have also included statements on innovation and past performance. We have supplemented the statements because we consider it important for the Board to have oversight of all key areas of the plan.”

(See TA 2.1 – Statements of Board Assurance.)

2.2 We adopted an enhanced governance structure and process for PR19

For PR19, we adopted an enhanced governance process, enabling the Board to have oversight and ownership of the Plan's development, and to provide challenge and input throughout. An overview of the PR19 governance structure is set out below. Each participant in and layer of assurance in this governance structure played an active and important role in helping to shape or review the final proposals in the plan.

Figure 1: Governance of the PR19 programme



Further details of the roles played by participants in this governance structure are provided below and throughout this chapter.

Board Engagement

The full Board met regularly to discuss the PR19 business plan. The programme of engagement commenced in earnest with a strategy and vision session in August 2017, followed by a series of 11 Board Engagement Days, which allowed for focused scrutiny of different aspects of the plan, and review of specific proposals. These Board Engagement Days provided an opportunity to challenge initial proposals, to see how feedback was addressed in subsequent iterations of the plan, and to discuss how the Board will monitor the delivery of the plan¹. Board members also held one-to-one sessions with management subsequent to these sessions to follow up on specific topics. Before submission we held a Board Engagement Day over two days in July 2018 and two Board meetings in August 2018 to sign-off the plan.

To support the Board challenge and assurance process, the Board received comprehensive independent technical and financial assurance on key areas of the plan, and appointed PwC as strategic assurers for PR19. PwC completed a programme of reviews across the plan throughout its development, and provided recommendations to management to improve alignment with the PR19 Final Methodology. PwC also provided their independent view directly to the Board on the quality of the plan at each milestone. The Board took account of the outcomes of the assurance process when providing challenge and guidance.

Figure 2: Summary of full Board engagement and meetings

April 2017		August 2018										
Board engagement days	30th May 2017	14th/15th Aug 2017	10th Oct 2017	29th Jan 2018	20th Mar 2018	19th Apr 2018	21st May 2018	20th June 2018	25th/26th July			
	<ul style="list-style-type: none"> Developing our strategy for PR19 and beyond Future trends and impacts Our strategic priorities in the short and long term How we will deliver on our strategy, and measure our success 	<ul style="list-style-type: none"> PR19 methodology Lessons from PR14 Our PR19 strategic themes Our initial view of efficient totex Financeability Governance and challenge around our plan 	<ul style="list-style-type: none"> Priorities for customer engagement Initial strategic choices and totex plans for Retail, Water and Wastewater Initial financeability assessments across our plan 	<ul style="list-style-type: none"> Our vision and approach for PR19 and beyond Deep dive on costs at LD1, and associated performance levels Assurance plans and cost efficiency Great Customer Service, Resilience, Innovation, Affordability 	<ul style="list-style-type: none"> Update on sector developments Deep dive on costs at LD2, and update on approach to LD3 Financial assessment of current plan at LD2 Scope for further cost reduction Initial proposals for PCs and CACs 	<ul style="list-style-type: none"> Content and format of Board Assurance statements Update on cost challenge Financial levers (PAYG) Cost reduction through Delivery and Operating Model (including E&C, IT and DPC) Updated proposal for PCs and CACs 	<ul style="list-style-type: none"> Update on sector developments Update on base totex plan Shareholder perspective Delivery risks and our plan Choices for the Board to consider around our plan Our plan and the cross-cutting themes Performance risks and our plan 	<ul style="list-style-type: none"> Update on sector developments Update on costs, financeability, customer bill impact and ODIs Update from Board sub-committees Board assurance statements Finalisation of review process in advance of submission 	<ul style="list-style-type: none"> Review of each individual Board Statement Recap on evidence to support each Statement Updates directly from Third Party Assurers (where relevant) Updates from the Chair on the CCG on the quality of customer engagement, and it's reflection in the plan 			
Board meetings	25th Apr 2017	27th June 2017	26th Sept 2017	28th Nov 2017	11th Dec 2017	27th Feb 2018	27th March 2018	24th Apr 2018	24th May 2018	19th June 2018	24th July 2018	20th and 30th August 2018
	<ul style="list-style-type: none"> Timetable to submission, including Board engagement plans Our strategic statement and vision 	<ul style="list-style-type: none"> Lessons from PR14 assurance approach Proposed approach for assurance and the PR19 plan 	<ul style="list-style-type: none"> Procurement AMP7 Board engagement plan, including milestones and Board decisions Key themes for PR19 Stakeholder engagement 	<ul style="list-style-type: none"> Board engagement plans Independent Challenge Panel WRMP and Drought Plan Schedule of publications and timetable to submission Approach to the plan, and the executive summary 	<ul style="list-style-type: none"> Update on insight generated/ used in the plan Owat expectations on engagement Innovation approaches to customer engagement 	<ul style="list-style-type: none"> Proposed sub-committee structure for PR19 plan Update from PwC on assurance work streams for the PR19 assurance approach Timeliness for WRMP and DP consultation 	<ul style="list-style-type: none"> Updates to PR19 sub-committees PR19 programme critical path to submission 	<ul style="list-style-type: none"> PwC Assurance and PC reports PR19 programme critical path to submission CAC and PC submission to Ofwat 	<ul style="list-style-type: none"> PwC Assurance and PC reports PR19 programme critical path to submission 	<ul style="list-style-type: none"> PwC Assurance report PR19 programme update and critical path to submission 	<ul style="list-style-type: none"> Conclusions from the Ofwat Consultation on "Putting the sector back into balance" Owat consultation on Board, Leadership, Transparency and Governance Principles A short Board meeting was held on the 26th to approve key plan parameters 	<ul style="list-style-type: none"> Final Board sign-off
Regular PR19 programme progress updates to Board												

Additional Board sub-committee engagement

Apart from the usual standing committees of the Board, four PR19 Board sub-committees (working groups) were established to allow Board members to provide more granular input on proposals and enable greater Board assurance of details of the plan. Individual members joined one or more sub-committees, as appropriate to take best advantage of their area of expertise and experience. Following each sub-committee meeting, the sub-committees provided feedback to the full Board. The remit and membership of each sub-committee is set out below.

Table 1: PR19 Sub-committees

Topic	Terms of reference	Membership*
Customer engagement and insight	Process and approach to PR19 customer engagement and insight, including the results of customer and stakeholder research/insight, how customer views are reflected in the plan, and programme of engagement with the Customer Challenge Group (CCG).	Wendy Barnes (NED) Michael Putnam (NED) Simon Oates (Exec) Simon Parker (Exec) Helen Simonian (Exec)
Efficiency and delivery	Wholesale and retail costs (including unit cost and efficiency assumptions, and overhead assumptions/allocations), the use of direct procurement and markets, and the AMP7 delivery plan.	Michael Putnam (NED) Paul Sheffield (NED) Sara Sulaiman (NED) Rob Barnett (Exec) Neil Colman (Exec) Jamie Ford (Exec)
Regulation, finance and pricing	Performance Commitments (PCs) and Outcome Delivery Incentives (ODIs), cost adjustment claims, revenue projections and profiling, customer bills and overall affordability, financing, returns, risk, and legacy price control submissions.	Rosemary Boot (NED) Paul Sheffield (NED) Sara Sulaiman (NED) Will Lambe (CFO) Craig Lonie (Exec)
Assurance**	Board assurance statements, SWS PR19 Assurance Framework and plan, scope of assurance work, assurance results and management responses. The results of assurance work were also made available to the full Board.	Wendy Barnes (NED) Rosemary Boot (NED) Will Lambe (CFO) Alison Hoyle (Exec)

* Our Chairman, Bill Tame, and Chief Executive Officer, Ian McAulay, received a standing invitation to each committee.

** The Audit and Risk Review Committee (ARRC) also provided input to the final assurance arrangements, including approving the appointment of assurance providers.

The adoption of this full Board and sub-committee structure enabled the Board to challenge every aspect of the plan. The Board's input generally, and the expertise and experience of individual members, has improved the quality of the plan throughout its development. The table below outlines the key areas of challenge made by the Board, and the corresponding refinements made to the plan by management.

Table 2: Examples of Board challenge to the plan

Topic	Board challenge and review
Totex	The Board discussed the company's baseline view of Totex in August 2017 and kept subsequent iterations of the Totex forecast under review. This was a key part of the agenda both for Board Engagement Days and for the Efficiency and Delivery Sub-Committee. In March 2018, the Board requested management to identify and risk assess further options for reducing estimated costs as initial estimates did not deliver required levels of efficiency or overall Totex. These options were evaluated by the Board at dedicated sessions from April 2018, before the final position on Totex was approved in July 2018.
Performance Commitments and Outcome Delivery Incentives (PCs and ODIs)	The Board discussed initial proposals in October 2017. It asked management to continue to demonstrate the link to customer engagement, and to provide the Board with further evidence of customers' feedback. A refined set of proposals was presented in March 2018. On PCs, the Board asked management to develop a more focused set of measures in line with latest customer insight. The Board sub-committees for both Customer Engagement and Insight, and Regulation, Finance and Pricing reviewed and challenged subsequent iterations of PCs prior to Board approval in May 2018 (PC definitions) and July 2018 (targets). On ODIs, the Board asked management to increase the strength of ODIs, specifically to reflect the implications of ongoing work on Cost Adjustment Claims (CAC), and to provide further information on RORE implications. The Board approved the updated/final proposals in August 2018 following further assurance.
Cost Adjustment Claims (CACs)	The Board discussed a shortlist of potential CACs in March 2018. The Board asked management to focus only on the most material CACs, and those with the strongest supporting evidence. Further evidence was presented to the Board sub-committee for Regulation, Finance and Pricing, and to the full Board in April 2018. The Board approved draft CAC proposals for submission in May 2018, and final proposals in July 2018 (following further assurance work).
Financeability	Initial views on financeability were presented to the Board as early as August 2017. Financeability was kept under review throughout development of the plan. In particular, the Board had visibility of financeability implications at each point when the draft Totex/PC proposals were discussed, and during the Board's consideration of re-financing arrangements. The Board discussed and agreed the final financeability position in August 2018.
Deliverability	The Board discussed the deliverability of the plan at Board Engagement Days in March, May and June 2018. In April 2018, the Board reviewed initial plans for cost reduction through changes to the delivery and operating model. Delivery plans and risk were a key area of focus for the Efficiency and Delivery Sub-Committee which challenged management to develop more granular plans in relation to IT change, Engineering and Construction, Operational Excellence and Organisation Design. Updates were discussed and monitored at each Efficiency and Delivery Sub-Committee meeting. The Board continued to review and challenge updates to the plan throughout July and August 2018. The final plan was approved by the Board in August 2018, who will be keeping management's delivery plans under close review going forward.
Assurance plan	The Board discussed initial plans for challenge and assurance in August 2017. PwC was appointed as strategic assurance partners in November 2017, and provided direct reports to the Board on the progress of the PR19 programme. In January 2018, the Board discussed assurance plans to date and arrangements with third party assurers. The Audit and Risk Review Committee agreed the appointment of third-party assurers in March 2018. The full Board discussed the requirements and choices for Board Assurance Statements in April 2018 and June 2018. The Board agreed the high-level form of the statements, but preferred to keep the final wording under review. The Board Assurance statements remained a key agenda at Assurance Sub-Committee meetings. The Assurance Statements were updated throughout July and August to reflect Board feedback, and were signed off by the Board at the end of August 2018.
Customer engagement	The Board discussed the overall approach to customer engagement in October 2017, alongside emerging results. Management were challenged to further refine conclusions on existing engagement, and to provide a plan for future engagement.

The CCG provided two advice notes to the Board (in April 2017 and March 2018). On both occasions, the Chairman Bill Tame provided a detailed response accepting the advice of the CCG.

The Board maintained a focus on testing the level of customer engagement on and customer support for the Plan through subsequent Board meetings and Engagement Days. This was complemented by the establishment of the Board sub-committee for Customer Engagement and Insight in early 2018 (designed to facilitate deep dives drawing on the expertise and experience of individual Board members) which discussed both PR19 engagement and the strategy for future engagement. This included challenging the customer evidence behind the key components of the Plan outlined above, and feedback from CCG.

(A summary of the full Board engagement programme is set out at TA2.2 – Board Engagement and Challenge.)

ELT and individual workstreams supported Board engagement

The ELT collectively maintained oversight over the PR19 programme. They met fortnightly to discuss and review emerging proposals or issues and to agree formal PR19 papers prior to submission to the Board. The ELT facilitated the Board engagement programme, for example by presenting recommendations and options for the Board to review and challenge at the Board Engagement Days. Relevant members of the ELT also attended and supported the PR19 Board sub-committees. Their involvement in the sub-committees was to facilitate deep dives on key issues, to collaborate with Board members to refine the plan, and to address areas of feedback and challenge provided by the Board. Overall, this process has helped minimise the risk that the plan is prepared in isolation of the broader business, and generated a strong commitment and buy-in from the ELT to delivering the proposals set out in the plan.

Each PR19 workstream was also owned by an ELT member with oversight of the emerging content and proposals. This included sponsorship of the development of the relevant chapters of the plan, and of the supporting evidence and analysis. In addition to the core price control areas and cross-cutting areas (such as PCs and customer engagement), there was also a dedicated ELT owner for each of Ofwat's broader cross-cutting themes – resilience, customer service, affordability and vulnerability and innovation.

2.3 The assurance process ensures a high quality and deliverable Business Plan

The aim of assurance is to provide confidence in the quality and deliverability of our plan, and to set the foundation for how we will report our progress during the AMP. We know we need to deliver a greater level of confidence than achieved in the past and will continue working hard to secure stakeholders' trust.

Our PR19 assurance builds on our experience during AMP6, actions we have already taken to strengthen our assurance, and Ofwat's feedback to companies on the scope of assurance undertaken at PR14. Importantly, it also takes account of the company's 'prescribed' categorisation in Ofwat's Company Monitoring Framework (CMF) and other historical issues. We aim to become the most improved company in the eyes of our regulators by the start of AMP7 and have structured our assurance programme accordingly. We have undertaken a comprehensive review to improve our governance and assurance processes and, ultimately, regain our regulators' trust. Our PR19 assurance programme takes this into account, with far more extensive independent assurance than we have adopted for previous price controls.

Accordingly, this programme set out to provide comprehensive checks and balances with regard to the accuracy of our evidence and methodologies, our analysis and engagement, and the choices and judgements applied in the plan.

Approach to assurance

Our approach to PR19 assurance is captured in the SWS PR19 Assurance Framework². We worked with PwC to design a framework which applies good practice. It adopts a risk-based approach which follows a three lines of defence framework. This ensures our assurance properly reflects the level of risk in each component of our plan. All components of the plan were risk-assessed, with higher-risk areas receiving additional, independent scrutiny. The Board Assurance Sub-Committee reviewed and challenged the SWS PR19 Assurance Framework in March 2018 and continued to do so through subsequent sessions, and the table below describes the key features of good practice embodied in it.

Table 3: Features of good practice adopted

Feature/issue	Comment – our approach
Risk based	We conducted a risk assessment of each component of the plan (such as key models and outputs) to prioritise assurance activities. 10 key risk criteria were considered for each component to assess the likelihood and the potential impact of error. Higher risk items were subject to more extensive assurance.
Three lines of defence	Using the outputs of the risk assessment, we applied the three lines of defence model. The model allows clear responsibilities to be defined and matched to the level of risk – a description of the three lines is set out below.
Strategic assurance	We engaged PwC as our strategic assurance partner for PR19. Part of PwC's role was to work with us to develop and monitor the SWS PR19 Assurance Framework, helping to ensure that the framework and three lines of defence model were applied consistently. PwC also monitored the progress of the PR19 programme overall and reported programme risks directly to the Board.
Adequate coverage and depth of assurance	The SWS PR19 Assurance Framework provides a systematic way of identifying the required coverage and depth of assurance. PwC assisted with this by providing assurance over the scope of independent assurance itself and identifying any gaps or risks in the assurance plan. A dedicated PR19 assurance workstream also reviewed the scope of proposed third party assurance activity to ensure that the scope of assurance was sufficient and properly defined (for example, assurance providers were asked to test the plan against Ofwat's PR19 Methodology).
Independent of management	Assurance providers are independent of management. Their assurance reports were provided directly to the Board Assurance Sub-Committee and the full Board. Management responses were noted and communicated to the Board.
Roles aligned to skills	Assurance providers were appointed based on their relevant expertise. For example, components requiring expert technical assurance were matched to appropriate third-party providers based on skill type (engineering, economic, financial). The CCG's role focused on providing assurance over the approach and application of customer engagement.
Live assurance framework	The framework was kept under review throughout the PR19 programme to allow the assurance plan to accommodate new and emerging areas of risk. PwC assisted us to review and update the framework over time.
Board oversight	The Board Assurance Sub-Committee engaged with the scope and progress of assurance throughout the PR19 programme. They initially reviewed/challenged the scope of assurance in early 2018 and discussed emerging results as available. The full Board met with key assurance providers prior to finalising the plan.

Overall, the SWS PR19 Assurance Framework allowed us to identify aspects of the plan which have material operational, corporate, financial or reputational risks, and to address these risks through greater focus and assurance activity.

(Further detail is at TA2.3 – PR19 Assurance Framework.)

We set out below a description of the 'three lines of defence' assurance model we adopted for the plan.

First line of defence

Each component of the business plan was subject to first line assurance. This comprises a review and sign-off by the workstreams responsible for developing the relevant components of the plan.

This process was broadly consistent across all workstreams and components, although additional checks were undertaken in some areas.

Key components of the first line of defence include:

- **sign-off by the lead on the workstream:** each content area (workstreams) had a nominated lead responsible for reviewing, checking and validating all components produced (including models, analysis, assumptions and judgements). Workstream leads were selected based on their knowledge and expertise of the relevant content area, and therefore conducted reviews from an informed position
- **sign-off by the ELT sponsor:** ELT sponsors had oversight and accountability for specific content areas. In addition, ELT collectively reviewed and challenged key content prior to sharing with the Board
- **expert input:** workstreams had access to a range of external experts and resources to help improve the quality of initial proposals. For example, each Totex business case was reviewed by an independent asset management expert
- **data table process:** each data table underwent a thorough sign-off process. Data providers were identified and were responsible for initially signing off the submission. Senior management then confirmed the accuracy of each table, before a further review from outside of the reporting line. A risk assessment was undertaken across all tables, with third-party assurance applied to medium and high-risk tables.

Second line of defence

As part of our second line, we implemented a review process for medium-risk components. Internal teams, for example the PR19 Assurance Workstream, provided independent verification and a wider view from outside the PR19 programme team into the business planning process.

Key examples of second line assurance include:

- **PR19 Star Chamber:** a forum of technical experts and regulatory specialists (internal and external), and members of ELT, providing critical, constructive challenge of the approach, analysis and evidence on key topics and components. For example, the Star Chamber challenged the approach on individual business cases, cost adjustment claims (CACs), Direct Procurement for Customers, our views on efficient costs, PCs and ODIs. Star Chamber members were not involved in developing the proposals
- **fact-checking process:** key facts were reviewed by an internal, independent team to identify potential inconsistencies. This process helped ensure assertions made had an accurate factual underpinning and provided confidence that a common set of assumptions underpin the plan.

Third line of defence

Our third line consisted of independent, external assurance to address higher-risk components. PwC regularly attended Board sub-committee meetings and all assurance providers attended the final Board Engagement Days in late July 2018 where they explained their findings and answered questions from the Board. In many cases, our final proposals were fine-tuned and improved following expert challenge provided by independent experts and assurers.

Table 4 below outlines the application of the three lines of defence across the plan.

(For further details go to TA.2.3- PR19 Assurance Framework.)

Table 4: PR19 Independent assurance

Area	Specific topic	1 st line	2 nd line	3 rd line	3 rd provider	Comment
Strategic assurance	Overall business plan review	•	•	•	PwC	PwC reviewed early drafts of the business plan and supporting evidence (IAP evidence tracker) against Ofwat’s expectations for high-quality, ambitious and innovative business plans. They provided detailed comments and feedback against these expectations. This helped to identify areas where the evidence might fall short of expectations, and to challenge emerging proposals.
	Approach to assurance	•	•	•	PwC	PwC advised on the SWS PR19 Assurance Framework and plan. They provided an independent view and additional challenge on the areas of the plan where we should consider additional assurance (for example, where management’s view of risk was inconsistent for similar components), and in some instances reviewed the scope of proposed third-party assurance activity.
Data tables	Data tables (non-financial)*	•	•	•	PwC	PwC undertook a risk-based review of non-financial data tables following Agreed Upon Procedures.
	Data tables (financial)*	•	•	•	Deloitte / Jacobs	Deloitte undertook a risk-based review of relevant data tables following Agreed Upon Procedures, including the allocation of costs into the correct price controls. Jacobs carried out sample checks on the transfer of information from the final Investment Plan to Ofwat tables WS1, WS2, WWS1 and WWS2.
	Cost assessment tables (non-financial)*	•	•	•	PwC	This review was undertaken as part of the annual reporting process and included a risk-based review of non-financial data tables following Agreed Upon Procedures.
	Cost assessment tables (financial – including cost allocations)*	•	•	•	Deloitte	This review was undertaken as part of the annual reporting process and included a risk-based review of financial data tables following Agreed Upon Procedures.
Costs and controls	Cost estimation	•	•	•	Jacobs	Jacobs reviewed the methodology and application of our cost estimation strategy. They tested whether the methodology was fit for purpose and commented on any opportunities for improvement (which we implemented). Jacobs also conducted a risk-based deep dive on cost models and cost curves and reviewed the appropriateness of efficiency assumptions adopted in the plan.
	Wholesale cost projections (business/ investment cases)	•	•	•	Jacobs	Jacobs reviewed and commented on the justification for business cases, and the robustness of evidence. They also reviewed the source of costs back to outputs from the SWS cost estimation team.
	Cost adjustment claims (CACs)	•	•	•	Jacobs	Jacobs reviewed and commented on the evidence to support our CACs, including customer support.
	Benchmarking	•	•		n/a	Mott Macdonald benchmarked elements of our cost and delivery model.
	Top-down benchmarking (cost envelope)	•	•		Oxera	Oxera provided expert input into the analysis we undertook to estimate efficient AMP7 cost allowances. They also developed analysis on the frontier shift for the water industry and reviewed the appropriateness of our efficiency gain assumption in light of this.
	Water Regulatory Capital Value (RCV) allocations	•	•	•	Deloitte / Jacobs	Deloitte reviewed the consistency of published and internal source data, and our submission to Ofwat. Jacobs reviewed relevant data tables and commentary against Ofwat guidance.
	Bioresources RCV allocations	•	•	•	Deloitte / Jacobs	Deloitte reviewed consistency of published source data, internal source data and submission to Ofwat.

Area	Specific topic	1 st line	2 nd line	3 rd line	3 rd provider	Comment
						Jacobs reviewed detailed information on sludge treatment centres. Data was sampled from specific sites, and capacity and throughput data relating to sludge treatment centres was reviewed.
	Retail cost-to-serve model	•	•	•	Deloitte	Deloitte reviewed and commented on the cost-to-serve model, including alignment to accepted practice for Excel-based models, and the appropriateness of sign-off procedures.
	Affordability model	•	•	•	Oxera	Oxera reviewed and commented on inputs and outputs of the model. They also reviewed the modelling approach against Ofwat's expectations, and the robustness of the method.
DPC	Direct procurement assessment and value for money	•	•		n/a	n/a
Outcomes	PCs	•	•	•	PwC	PwC reviewed our PC definitions and targeted level of performance against Ofwat's published criteria and guidance.
	ODIs	•	•	•	PwC	PwC reviewed the type and form of ODIs against Ofwat's published guidance.
Risk and return	Financeability and financial resilience	•	•	•	KPMG	KPMG reviewed financeability of the Plan on an actual and notional basis, and our plans for financial resilience.
	Weighted Average Cost of Capital	•			n/a	n/a
	RORE analysis	•	•		n/a	Oxera provided expert input on RORE analysis
	Tax	•	•		n/a	Chandlers KBS provided expert input on tax capital allowances.
Customer engagement and insight	Insight and engagement	•	•	•	CCG / RAND	RAND undertook a technical peer review of research methods, and the quality of outputs. The CCG reviewed and commented on the quality of our customer and stakeholder engagement.
	Application of customer engagement	•	•	•	CCG / PwC	The CCG independently challenged the extent to which customer views demonstrably influenced and changed the plan. PwC reviewed the consistency of the draft plan with Ofwat's guidance regarding the use of customer engagement (part of their overall review of the plan).
	Ongoing customer engagement strategy	•	•		n/a	n/a
Obligations	WRMP	•	•	•	Jacobs	Jacobs undertook a risk-based review of the draft Water Resources Management Plan (WRMP). This included a deep dive review of consistency against regulatory priorities and guidance. They also reviewed the revised WRMP, ensuring revisions set out in the Statement of Response were addressed.
	Other statutory and legal obligations	•	•	•	Jacobs	Jacobs undertook a risk-based review regarding the extent to which investment cases enable the delivery of obligations. Herbert Smith Freehills LLP provided expert advice on statutory and licence obligations more broadly.
Legacy	Legacy mechanisms and data tables	•	•	•	PwC	PwC reviewed our proposed reconciliations (and data tables) against Ofwat's published guidance and source data. They also conducted a targeted review of forecasts to the end of AMP6.

* A risk assessment was undertaken on data tables. Higher risk data tables/items were subject to more intensive, independent third line assurance. Key findings from third party assurers are discussed in relevant chapters (where appropriate).

Innovative additional challenge – bringing global expert perspectives to our plan

Alongside the formal assurance process, we appointed a Challenge Panel of prominent, independent, global subject matter experts to inject new thinking into our plan and help calibrate our level of ambition. Members provided insight on a range of topics, such as customer service, natural capital and innovation³, through a series of one-to-one sessions with the programme team and a formal meeting in June 2018. Detailed feedback from the Challenge Panel was reviewed by the Board Assurance Sub-Committee.

The Challenge Panel meeting allowed members to review the draft content of the plan, including:

- **proposed transformational programmes:** the panel reviewed and provided input on the **5 transformational programmes** in the plan, including their views on the level of ambition and innovation they could see in our plan
- **addressing Ofwat's four themes:** the panel discussed and provided feedback on our proposals across customer service, affordability and vulnerability, resilience and innovation
- **our specific plans:** The panel provided feedback on our water, wastewater, retail and proposed IT investment plans.

Separately, experts from the NCSC read and provided feedback on our approach to cyber-resilience to validate that our proposed approach is considered, thought through, and in line with the four NIS Principles the NCSC is using⁴.

Customer Challenge Group (CCG)

The CCG provided continuous external challenge, focusing on the quality of our customer and other stakeholder engagement and how this has been reflected throughout the plan. Strategic priorities and other results from customer research were shared in detail with the CCG through presentations from subject matter experts in the business. The CCG chair, Anna Bradley, attended Board meetings on a quarterly basis, and met regularly with CEO Ian McAulay. At least one member of the ELT and a NED Board member attended each CCG meeting. Feedback from the CCG to both the PR19 planning team and the Board were captured in a detailed log and formal responses made to the CCG⁵. The CCG process has helped maintain the company's focus on customer views and priorities when developing the plan.

At the end of the 2016-2017 reporting year, the CCG had concerns about our approach to customer engagement, and issued an advice note to the Board. Our Chairman, Bill Tame, provided a formal response to the CCG accepting this advice, outlining our decision to appoint a dedicated Head of Strategic Customer Insight and to develop a Customer Engagement Framework, ensuring full engagement across all segments of our customer base. The CCG issued a second advice note in March 2018, expressing support for our water efficiency measures and the benefits associated with our **Target 100** programme (though it requested more granular details on the plan as it moved from pilot stage to full scale transformation). Our Chairman again responded in full to the CCG in June 2018 with details of our plans. In its latest annual report, the CCG expressed confidence in the quality, depth and breadth of our customer engagement.

We will continue to regularly review our performance, with results reported to the ELT, Board, CCG and Audit and Risk Committee. Externally-assured information will remain the foundation of our Annual Report, which will be reviewed and improved to ensure customers can understand how we are delivering for them.

2.4 Governance structures and processes are designed to deliver operational, financial and corporate resilience

Since the new Board and CEO appointments were made, the Board have committed to and implemented new high standards of leadership, transparency and governance. We have enshrined these in the Southern Water Code of Board Leadership, Transparency and Governance (the “Southern Water Code”), which fully reflects the existing Board leadership, transparency and governance principles issued by Ofwat and which draw extensively on appropriate principles from the UK Corporate Governance Code issued by the Financial Reporting Council (FRC)⁶. Ofwat is currently proposing changes to the corporate governance of water companies, and, in particular, to introduce revised Board leadership, transparency and governance principles. We have responded to the consultation and are supportive of Ofwat encouraging water companies to apply ever higher standards of governance, although we had some comments on the details. Whilst it is not known what the final changes to Ofwat’s principles will be, the Board remains fully committed to maintaining high standards of leadership, transparency and governance, and the company’s governance structure will be modified as appropriate to the revised principles.

We highlight the following features which support operational, financial, and corporate resilience.

The Board

The Board of Directors is ultimately responsible for leading the company. Part of its role is to provide effective leadership and collective responsibility for the long-term success of the company, to the benefit of its customers and stakeholders. It is also responsible for ensuring that sufficient resources are available to operate, manage and develop the business appropriately to provide an essential public service to our customers, and to ensure that appropriate and effective processes and controls are in place to assess and manage risk. There are a number of matters reserved to the Board including (amongst other things) financing strategy, business plans, key regulatory submissions, key customer and stakeholder publications, and approval of dividends. During 2017, Ffion Hague of Independent Board Evaluation facilitated a full Board review, which found the Board to be effective overall.

Shareholders

Certain matters are reserved, by exception, to the Board and shareholders of Southern Water’s ultimate parent company, Greensands Holdings Limited. However, these matters do not have an impact on day-to-day operations, nor do they affect Southern Water’s ability to function as an independent company in providing an essential public service.

Independence

The company is required to act as if it were an independent listed entity, irrespective of the existence of an ultimate parent company and ultimate controlling shareholders. This is reinforced by means of a ring-fenced business and through the appointment of independent Non-Executive Directors (NEDs), including the independent Chairman, to the Board, which must comprise the largest single grouping on the Board, relative to executive members and shareholder representatives. During 2017 a review of Southern Water’s corporate governance was carried out and it was agreed that the Chairman of Southern Water should no longer be a member of the Board of the ultimate parent company, Greensands Holdings Limited.

Committees

The Board has four established permanent committees – the Remuneration Committee, Audit and Risk Review Committee, Nomination Committee and Health and Safety Committee. Although these committees, as well as members of the ELT, have responsibilities which individually support

the resilience of the company, they are supported by a new approach for bringing together the assessment and management of key resilience risks we have developed. Resilience risks are identified and managed as part of the company's risk system, which is discussed quarterly with the Audit and Risk Review Committee.

Further improvements are planned for monitoring of operational resilience risks, including the development of leading indicators which the ELT will monitor (as part of redesigning the company's performance metrics) and escalate emerging issues to the Board. The company plans to undertake a dedicated holistic resilience assessment on an annual basis which the Board will review. Our current resilience assessment is appended to the business plan.

(Further details are set out in TA 7.7 Benchmarking resilience and best practice – annex on BS65000)

Internal controls

The Board is responsible for providing leadership within a framework of prudent and effective controls. The Board and the Audit and Risk Review Committee regularly receives reports on corporate compliance. Compliance with internal controls is subject to review by internal and external auditors, and these controls have been, and continue to be, strengthened.

Three lines of defence assurance

We have adopted the three lines of defence framework for all of our reporting governance and assurance activity across the business, including in preparing our plan. These are:

- **First line:** sign-offs by the workstreams responsible for producing content
- **Second line:** independent verification and review from another workstream
- **Third line:** independent third party expert assurance to address higher-risk components.

The design, delivery and embedding of the three lines of defence model is being led jointly by a new Compliance and Asset Resilience (CAR) Directorate and the Internal Audit team. For the main information and reporting areas across the business, the company applies internal controls and has processes in place to mitigate the risk of supplying incorrect or inaccurate information.

We are working to roll out assurance processes which operate throughout the year (including additional mid-year assurance) and to revisit the prioritisation of our assurance activities. It is crucial that all of our key business functions work together to provide the best conditions to achieve our objective of providing accurate, timely and reliable data for business and reporting purposes. In future, we will make available to Ofwat our independent assurance reports in full. We are committed to being transparent with Ofwat and other regulators about our proposals for (and the outcomes of) our risk-based assurance plans.

PR19 Assurance

As explained below, the Board is an integral part of the specific governance and assurance processes for PR19, which also includes the approach to resilience. During the business planning process, the full Board discussed the most material risks to resilience and provided input into the strategy to improve financial, operational and corporate resilience. The Board also received independent assurance on the financial resilience of the plan.

2.5 The Plan seeks to enhance customer trust and confidence

The Board is overseeing development of a five-pronged approach to developing customer trust and confidence. This will ensure we put customers at the heart of everything we do, by:

- **creating a new and effective customer engagement and participation strategy⁷:** the plan explains the company's new customer engagement strategy and how it is being delivered.

This puts customers at the heart of everything we do as a business – not just for PR19 but on an ongoing basis

- **creating a customer experience that is refreshingly easy to deal with**⁸: the Board has agreed a set of principles that underpin the delivery of our commitment to treat all customers fairly and provide a service that is accessible and inclusive for all customers, including those that are in vulnerable situations
- **developing principles on how we communicate with customers**⁹: We commissioned YouGov to carry out large-scale research with over 1000 customers and other stakeholders on how we can better engender trust. The results give us a clear view of what is important to our customers, and what will help them to trust us. We have used the insights gained to develop principles on how we communicate with customers on the issues that matter to them, in ways that will better engender trust
- **developing a PC on trust**, based on our research into what matters to our customers when they think about trusted companies they use. We will use our customer research to inform the design of a trust measure
- **responding to financial and structural issues that are identified as reducing trust**¹⁰: we have already begun or completed a wide range of activities aimed at increasing trust and confidence through our financial and structural arrangements. These include:
 - a restructure and re-financing – by 2020 this will have reduced gearing to c.70%. The reduction in gearing is being funded at a significant cost to our investors
 - a commitment to making our tax structure and UK tax status more transparent and easier to understand. We already published a simple explanation of our tax policy on our website
 - announcement of the closure of the offshore financing subsidiary
 - a process to review and refine our existing dividend policy to reflect Ofwat’s 31 July 2018 position statement. We expect to publish the revised dividend policy in our 2018/19 Annual Report and Annual Performance Report. The formulation of this revised dividend policy will incorporate a wide range of measures, including financial measures, customer performance measures and public service value measures that apply to our wider stakeholders and gauge our contribution to society at large
 - a plan to reflect the principles set out in the Ofwat consultation on performance-related executive pay in line with our response to the consultation. Our plans to further revise our executive pay policy will build on the principles in our existing remuneration policy (updated less than 12 months ago), which already considers performance across a balanced set of outcomes for stakeholders. We will maintain a link to things our customers value; we will continue to report transparently on performance against bonuses; and we will formally review our policy annually.

(Further details are set out in TA 2.4 Trust and transparency.)

2.6 The Plan has been designed to meet Statutory and Licence obligations

The company continues to work proactively with the EA and Ofwat to resolve their investigations, which are still evolving, and to work collaboratively with the DWI to ensure full compliance with the outcome of its scrutiny. The Board is also committed to monitoring the implementation of activities which will strengthen both information management and the cultural change which is required to make sustained improvements. We are encouraged by the progress that has been made to date and confident that the groundwork has been laid to enable the company to embed the change that is required in a timely manner. We will continue to prioritise this work leading into, and throughout, AMP7.

The Board engaged Herbert Smith Freehills LLP to advise them in connection with PR19, and specifically in respect of the company’s statutory and licence obligations. The Board also received

assurance from PwC on the alignment of PCs to obligations, and risk-based technical assurance from Jacobs regarding the extent to which investment cases enable the delivery of obligations.

Accordingly, we are confident that the plan will enable us to meet our legal obligations during AMP7, including our Licence obligations, our general duties under sections 37 and 94 of the Water Industry Act 1991, and our other statutory duties, as described in further detail in the report.

(See TA.2.5 – Meeting our Statutory and Licence Obligations.)

The Board will continue to monitor delivery of obligations, the outcomes in the plan, and any emerging risks. The Board Audit and Risk Review Committee (ARRC) has already been monitoring a suite of risk-based assurance activities, part of a three-year rolling programme. This has covered the practices, procedures and systems used to ensure compliance with licence and related statutory obligations, and how the company reports against PCs and ODIs. The ARRC will continue overseeing regular monitoring of risk management systems and internal controls throughout AMP7 to build on our improved assurance. To ensure the Board is kept abreast of compliance issues and can plan and react accordingly, all Board meetings have a standing agenda item for an update on compliance matters, delivered by the Director of Compliance and Asset Resilience. Further improvements are underway as part of our transformation activities to develop leading indicators which the ELT will monitor and escalate identified emerging issues to the Board.

Broader transformative changes are being implemented to improve and strengthen both resilience and compliance. Some of the more significant transformational changes include:

- a new Compliance and Asset Resilience (CAR) directorate, created to provide a strong overview of all compliance workstreams, including regulatory reporting. A Compliance Programme is underway to support the identification of Key Performance Indicators and ensure all compliance requirements are addressed. Risk assessing all requirements will enable prioritisation of activity to address risks to the resilience of operational infrastructure
- a cross-directorate Data Team, which is continuing to improve our approach to data management and reporting by centralising data governance, management, reporting and analysis. This enables improvements in monitoring delivery and maintaining assurance of our procedures
- development and implementation of a Modern Compliance Framework which provides a structure to manage compliance across our business, including learning from academics on best practice. This includes developing and consolidating assurance roles, supported by a continuous improvement plan
- work with independent experts to embed ethical business practice – a values-based approach to performance and compliance across our company in parallel with our culture change programme – underpinning our improvement programmes¹¹
- Water First, our multi-AMP improvement programme, developed with the DWI, to embed public health protection at the heart of our water services. It spans our people, processes, systems, culture, training, risk management, information management supported by asset improvements and expanded catchment management
- Environment+, our holistic environmental improvement programme, building on the positive work already underway and ensuring we are better at the basics and transforming the way we protect, respect and enhance the environment by improving our performance, capability, compliance, sustainability and resilience. It ensures that the environment is at the centre of all of our day-to-day activities by embedding more collaborative, effective and transparent work practices, alongside sustainable improvements to our policies, processes and reporting.

(TA.2.5 – Meeting our Statutory and Licence Obligations sets out in greater detail the specific workstreams that are driving transformative change in response to compliance issues. Southern Water's broader programme of transformative change in terms of operational performance is described in Chapter 7.)

2.7 Data governance and assurance continues to improve

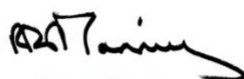
We are continuing to improve the company's overall approach to data governance and assurance. A key focus of the PR19 assurance plan is the consistency and accuracy of the data underpinning the plan.

As for other components of the plan, the financial and non-financial data tables were assured in line with the overall SWS PR19 Assurance Framework (described above). A separate risk assessment was undertaken for each data table line item by our internal PR19 Assurance Workstream. In some cases, this was performed in conjunction with independent assurers; for example, Deloitte carried out an independent assessment of the risks associated with financial data. All data lines (or tables) identified as critical or high risk underwent external assurance, in line with Agreed Upon Procedures. In many cases, medium and low risk data tables were also assured externally.

The risk assessment took account of prior findings of the ongoing investigation by the EA and Ofwat (see above for explanation), the CMF, and data confidence ratings. Overall, this resulted in greater independent assurance by PwC, Deloitte and Jacobs. PwC's report confirms that it provided additional input on some data rated as low and medium risk for Southern Water (compared with its assurance activities for other companies) due to the CMF findings. As flagged in our 2018 Annual Report, Jacobs undertook further technical assurance on information that might be subject to restatement.

The Board Assurance Sub-Committee reviewed the proposed coverage and depth of third-party assurance over data tables. The full Board also met directly with PwC, Deloitte and Jacobs in July 2018 to discuss their findings regarding data accuracy and assumptions.

Board endorsement



Richard Manning
Company Secretary



Mike Putnam
Independent non-executive director



William Lambe
Chief Financial Officer



Wendy Barnes
Non-executive director



Sara Sulaiman
Non-executive director



Ian McAulay
Chief Executive Officer



Bill Tame
Chairman



Paul Sheffield
Senior independent non-executive director



Rosemary Boot
Independent non-executive director

Technical Annexes:

TA.2.1	Statements of Board Assurance	Provides the Boards full Assurance Statements for our plan, and how the Board satisfied itself with each statement
TA.2.2	Board Engagement and Challenge	Provides details on how the Board challenged management to produce a high quality and deliverable plan.
TA.2.3	PR19 Assurance Framework	Provides the Assurance Framework we adopted for PR19, including our overall assurance approach, and the scope of assurance activities undertaken for each component of the plan. Also provides details on the findings from independent third-party assurance.
TA.2.4	Trust and Transparency	Provides detail on our approach to developing customer trust and confidence, and how we will ensure a fair balance between customers and investors. This includes a research report from YouGov.
TA.2.5	Meeting our Statutory and Licence Obligations	Provides information on how the plan will enable us to meet our statutory and licence obligations, and that it takes account of the UK's Government strategic policy statement.
TA.2.6	Legal Instruments (WINEP and DWI Notices)	This annex sets out the legal instruments issued by the Drinking Water Inspectorate and Environment Agency in regard to AMP7.

References:

- ¹ The programme of engagement is evidenced through the schedule of Board meetings – see Board Engagement and Challenge Technical Annex 2.2
- ² This approach is set out in detail in the PR19 Assurance Framework Technical Annex, including how we assessed the level of risk across the Plan – see PR19 Assurance Framework Technical Annex 2.3
- ³ See Board Engagement and Challenge Technical Annex 2.3 for further details on the expertise brought to the panel by each member
- ⁴ The four NIS Principles that have been adopted by the NCSC are designed to be consistent with the NIST Cyber-Security Framework which Southern Water has adopted and is using to underpin the management of cyber-security and our risk posture to the NIS Directive across the company. In addition we have also cross-referenced and aligned our approach to the 'Defra 2017 Cyber-Risk Review' using a defined set of characteristics regarding resilience and security we will aim to incrementally embed from now and through AMP7.
- ⁵ See CCG Challenge Log Technical Annex 4.5
- ⁶ The Southern Water Code is published on the company's website: <https://www.southernwater.co.uk/southern-water-code>.
- ⁷ See Future Customer Engagement Strategy Chapter 5
- ⁸ See Great Customer Service Chapter 9
- ⁹ [See](#) Trust and Transparency Technical Annex 2.4
- ¹⁰ [See](#) Trust and Transparency Technical Annex 2.4