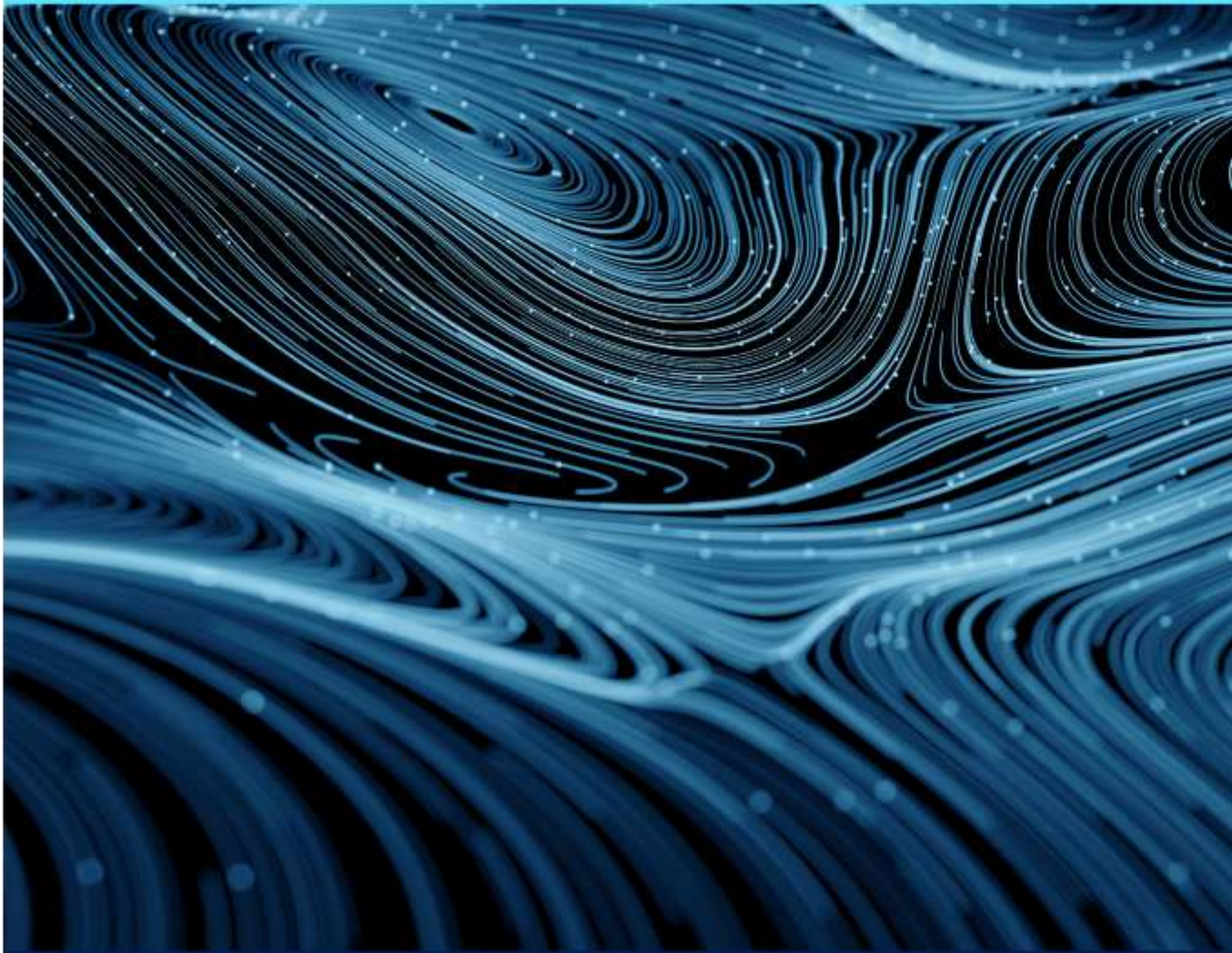

Large Gated Schemes – [redacted]

Independent Assurance Report

Revision: 3.0
Southern Water
Commercial Assurance

[redacted]

[redacted]

Large Gated Schemes – [redacted]

Client name: Southern Water

Project no: B2430117

Project name: Commercial Assurance

Project manager: [redacted]

Revision: 3.0

Date: 30 September 2025

Document history and status

Revision	Date	Description	Author	Checked	Reviewed	Approved
1.0	22/09/2025	Draft	[redacted]	[redacted]	[redacted]	[redacted]
2.0	25/09/2025	Updated draft – respond to SRN's comments	[redacted]	[redacted]	[redacted]	[redacted]
2.1	26/09/2025	Updated draft – respond to SRN's comments	[redacted]	[redacted]	[redacted]	[redacted]
2.2	29/09/2025	Final Updated draft	[redacted]	[redacted]	[redacted]	[redacted]
3.0	30/09/2025	Final	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

This assurance was completed in accordance with the ISAE 3000 (Revised) standard including following ethical and quality requirements.

Attention: Southern Water board

Introduction

Large Schemes are those enhancement schemes within the investment programme where the requested value is greater than £100 million, and where Ofwat has concerns around scope, cost, deliverability, complexity, or if schemes involve novel elements or complex technologies.

For the 2025-2030 period Ofwat requires independent third-party assurance for delivery of enhancement schemes, confirming that companies are using the enhancement allowances to deliver the benefits that customers are paying for.

[redacted] have been requested to undertake commercial assurance to cover changes in cost (if any) proposed from PR24 business plan submissions and clearly identify the reasons for these changes.

Scope of Work and Approach

This assurance report provides the conclusions from the work specified in our Statement of Work, Southern Water Services - Statement of work- Large Gated Schemes v2, issued on 4 August 2025.

The assurance work was undertaken with the following limitations:

- A risk-based approach was implemented.
- A limited sample was assessed.

This limited assurance was performed in accordance with the ISAE 3000 (Revised) standard.

Lead Assurer's Curriculum Vitae (CV) is included in the Overarching Report.

Assurance Standards Applied

We conducted our limited assurance in accordance with the International Standard on Assurance Engagements (UK) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE (UK) 3000 revised"). The Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.

Duty of Care

Ofwat has introduced a new requirement in regard to duty of care where they expect the third-party assurance providers, such as [redacted] to provide an actionable duty of care to Ofwat.

To ensure compliance with Ofwat's new requirements we have issued a Letter of Reliance on 12th August 2025 which covers our assurance work on the Large Gated Schemes.

Conflict of Interest

In line with Ofwat's AMP8 requirements, we have proactively managed both real and perceived conflicts of interest in collaboration with your Risk and Assurance team. All audit team members signed a declaration before the audit programme began and have completed conflict of interest training. These declarations were recorded in our register. This year, we identified no actual or perceived conflicts.

Assurer Statement

Overall, based on our scope of work and the limited assurance undertaken up to the time of writing this report, we did not find any material misstatement.

We consider that:

- At this stage the values and figures reported by the company are consistent and correct with what was reported in the company's PR24 business plan. It is noted that there is alternative scope being considered which may result in additional expenditure but this will be investigated prior to reporting at submission 2.
- The solution proposed for Submission 1 does not appear to exceed the specified requirements and/or provide poorer value for money than that proposed at Final Determination.
- No evidence CBA has been undertaken or appraised appropriately on options presented for PR24. No evidence R&V (Risk and Value) processes have been undertaken on options. Opex costs have not been generated for this submission. Capex and Opex as well as environmental considerations for alternative options still to be assessed. SRN have stated that CBA is planned for the early stages of Submission 2.
- SRN have presented the external benchmark as evidence of efficient costing. The benchmark was completed for direct costs only (excluding indirect costs and risk) and this showed the SRN estimate to be ~8% lower than the benchmark, which is considered reasonable. The final Capex cost buildup provided is not supported with detail of the scope included. There is no list of assets included in the buildup and no yardsticks or quantities provided. It is not clear if the cost is based on cost models or quotations. Indirect costs were then added in accordance with SRN PR24 methodology. Generic risk allocation of 20% included which seems reasonable.
- The company has provided a cost breakdown of costs to Submission 1. Actual costs are included up to end August 2025 with costs for September being forecast. Costs have been converted to 22/23 prices. Cost buildup provided up to Submission 2 (May 26) which shows [redacted] of CMDP costs but there is no supporting breakdown of costs. High level buildup includes an appropriate level of risk and overhead.
- The proposed solutions have been reviewed and no additional scope, costs or risk above that identified in the PR24 plan are proposed for Submission 1. SRN confirmed they are not submitting a Change Log.

Summary of Key Findings

The assurance was undertaken through the Microsoft Teams sessions combined with offline reviews. Key findings listed below are based on our review of SRN's final documentation provided on 19th September 2025 and/or the additional information provided by 26th September 2025 - documents reviewed are listed in Appendix A:

- Cost and other commercial data has been supplied in a format that can be read in Excel. Scheme costs do not have linked data and there are some hard coded values. The final Capex cost buildup provided is not supported with detail of the scope included. There is no list of assets included in the buildup and no yardsticks or quantities provided. It is not clear if the cost is based on cost models or quotations.
- Project costs have been externally benchmarked. The costs are within acceptable tolerances and in our opinion an additional Anomaly and exclusion report is not required.
- This project is at ECI stage with delivery partner now appointed for Stage 1 delivery. No evidence R&V (Risk and Value) processes have been undertaken on Final Determination (FD) option. Opex costs have not been generated for this submission. Capex and Opex as well as environmental

considerations for alternative options still to be assessed. SRN have stated that Cost Benefit Analysis (CBA) is planned for the early stages of Submission 2. This should include the assessment of OPEX and Whole Life Cost, together with embodied carbon, operational carbon, natural and social capital value for the various options proposed.

- The values and figures reported by SRN are consistent and correct with what was reported in the company's PR24 business plan and/or the previous gate and there are no changes to be accounted for in the Change Management Log. Costing in alignment with the PR24 scope is not clearly evidenced. Delivery Plan figures in Table DPW4 do not align with the costs presented for LSG Submission 1. SRN have stated that Table DPW4 will be resubmitted as part of Submission 1.

- There are no areas where SRN is proposing to use solutions which exceed the specified requirements or provide poorer value for money. Suitable justification has been provided, and we confirm that there is no material change since FD. However, there are a number of alternative solutions being investigated; these will be considered prior to reporting at Submission 2.

- The proposed solutions have been reviewed and no additional scope, costs or risk above that identified in the PR24 plan and/or the previously agreed gate are documented in the Change Log. Reasons for 'no change' have been documented by SRN and seem reasonable

- A risk register has been provided. This shows a small number of risks but the risk owner, mitigation and costs are shown. There have been no risks transferred since previous stage to the Contractor and this seems appropriate given the stage of the project.

- The development cost (actual and forecast) to March 2026 is significantly lower than the available budget allowance in 22/23 prices. High Level cost buildup provided for Submission 2 but it is not clear how this has been developed. There is an appropriate level of risk and overhead added to the buildup. The document would benefit from a programme showing the key activities to be undertaken prior to Submission 2.

Throughout our reviews, some material issues have been identified and most have been addressed by SRN. We understand SRN will investigate and address the four remaining material issues:

  - The optioneering presented seems to have been undertaken using scoring of high, medium and low for Capex and OPEX costs in order to rank options for the intake pumping station only. This approach is appropriate for long list options but Capex and Opex should be generated for short listed options. An OPEX methodology and the likely actual operating costs should be presented to support the selection of all elements of the preferred solution.

  - A further revision of the Capex cost buildup was provided 26/09/25 to align with the scope presented in the Submission document but there is no supporting evidence for the scope included under each heading or cost models used, with costs being shown as lump sums against each heading.

  - A Risk Register has been provided in Appendix C2 but there are only 10 risks shown which seems low for a scheme of this value and complexity. SRN should produce a risk register for key project risks using RAG scores.

  - There are SWS costs shown against the various SWS reporting categories and data appears to be extracted from SRN corporate reporting systems (BAS). Buildup shows [redacted] of CMDP costs but there is no breakdown of what tasks are to be completed for these funds. Costs are presented as Design [redacted], surveys [redacted] and Staff [redacted]. A more detailed breakdown is needed to support forecast costs to Submission 2.

[redacted]

[redacted]

Lead Assurer

Appendix A. Record of Evidence Reviewed

List of all documents reviewed as part of the audit:

Name	Description
Large gated scheme [redacted] cg mp clean 15Seprev [redacted] Markup.docx	30 page Submission
Appendix B1 A8-0137-795023-[redacted] Suite of Estimates Summary R2.pdf	Summary Detailed cost buildup - pdf
Appendix B1 A8-0137-795023-[redacted] Suite of Shadow Estimates Summary R2.xlsm	Summary Detailed cost buildup - Excel
Appendix C1 and C3 July25_CM795023B2_[redacted]_Phase_2_Master_Schedule_2023_2031_J (1).pdf	Programme
Appendix C2 [redacted] risk_register.xlsx	Risk Register
Appendix G1 Costs BAS Project Manager Upload August Complete.xls	SWS costs – System download
Appendix G1 [redacted] Cost to date and Forecast to Submission 2 (2).xlsx	Submission 1 and 2 cost buildup
[redacted] 2.01 Intake Silt Mgt. Estimating Workbook v5.73 MJ R2.xlsm	Cost buildup – Element 1
[redacted] 2.02 Ceramic Memebrane Est. WB v5.74 MJ 14-11 R2.xlsm	Cost buildup – Element 2
[redacted] 2.06.1 Poly Dosing Estimating Workbook v5.73 MJ R2.xlsm	Cost buildup – Element 3
[redacted] 2.08 UV for DAF 17-11 MJ R2.xlsm	Cost buildup – Element 4
[redacted] 3.01 Decom 17-11 MJ R2.xlsm	Cost buildup - Element 5

Additional costing information 26th September 2025

Name	Description
Annex B2 A8-0149-795023-[redacted] DAF option.pdf	Summary Detailed cost buildup - pdf
Annex B2 A8-0149-795023-[redacted] DAF option.xlsm	Summary Detailed cost buildup - Excel
Annex B2 Cost Assurance Narrative - [redacted] DAF.docx	Costing Methodology

Supporting Documents

Name
20250811 Final Draft Delivery Plan Tables v2.0.xlsx
SRN-DP-001 Delivery Plan Commentary Report.pdf
SRN15 Cost and Option Methodology[1]

[1] https://www.southernwater.co.uk/media/mjyp0of4/srn15-cost-and-option-methodology_redacted.pdf

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