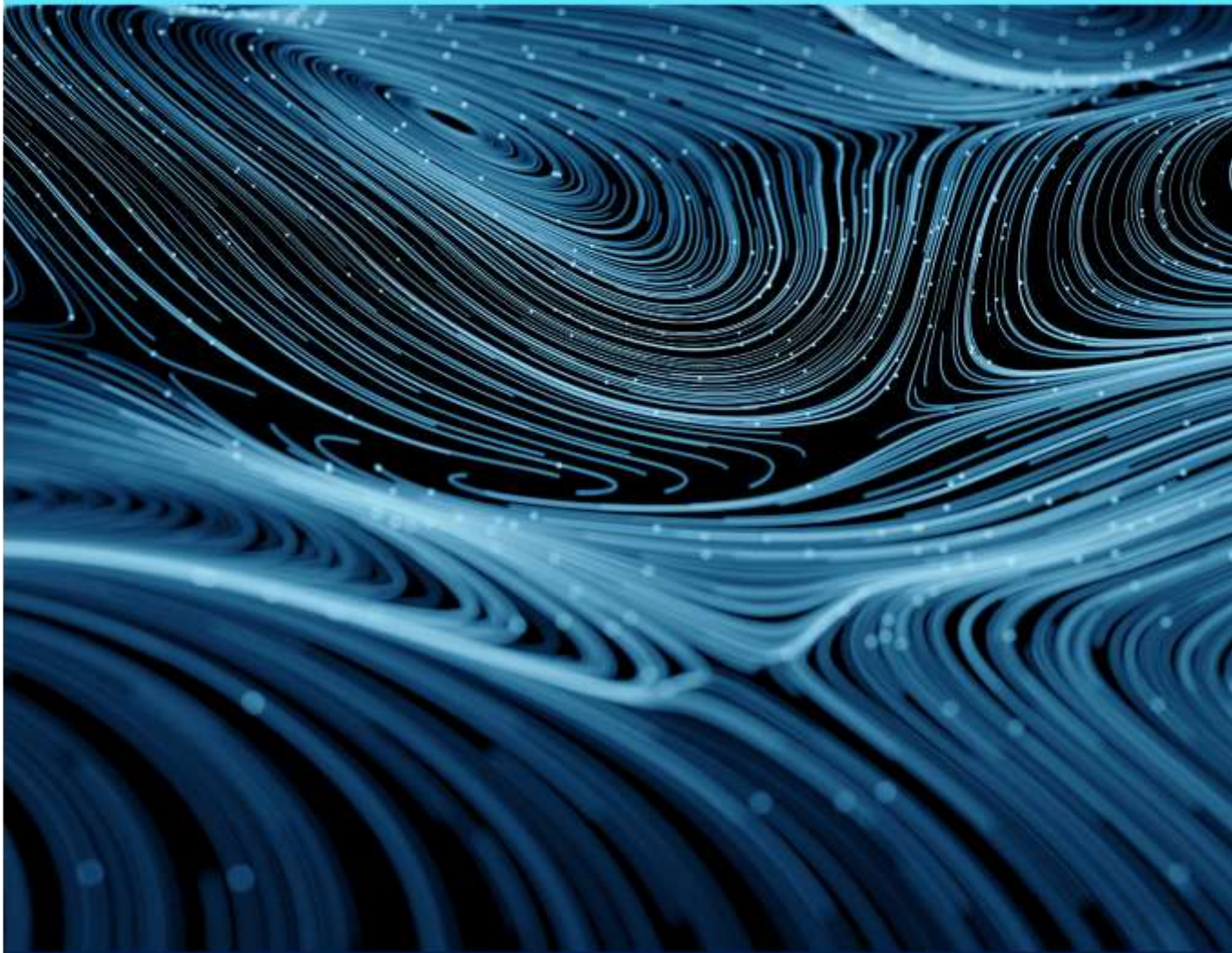




Large Gated Schemes – Hastings Water Supply Zone (WSZ)

Independent Assurance Report

Revision: 3.0
Southern Water
Commercial Assurance

Jacobs

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Reinventing tomorrow.

Large Gated Schemes – Hastings Water Supply Zone (WSZ)

Client name: Southern Water

Project no: B2430117

Project name: Commercial Assurance

Project manager: Trudy Maddock

Revision: 3.0

Date: 29 September 2025

Document history and status

Revision	Date	Description	Author	Checked	Reviewed	Approved
1.0	22/09/2025	Draft	SAW	SDB	YZ	TM
2.0	25/09/2025	Updated draft – respond to SWS comments	SDB	YZ	YZ	TM
2.1	26/09/2025	Updated draft – respond to SWS comments	SAW	YZ	YZ	TM
2.2	29/09/2025	Final Updated Draft	SAW	YZ	WPH	\
3.0	30/09/25	Final	SAW	YZ	SDB	TM

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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.

Jacobs 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 Jacobs, 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 additional scope being considered which may result in additional expenditure but this will be investigated prior to reporting at submission 2.
- The solution currently being 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. The additional scope and cost currently being considered will be investigated prior to reporting at submission 2.
- No evidence CBA has been undertaken or appraised appropriately on options presented for PR24. Further options are currently being reviewed to increase resilience of the WSZ in addition to what was proposed at FD. SRN have stated that CBA is planned for the early stages of Submission 2.
- The company has not provided evidence that the proposed costs are efficient as benchmarking has not been undertaken. Indirect costs were benchmarked as part of the PR24 submission and evidenced as being efficient at that time. It is clear how the company have developed the detailed scope build up.
- 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 for Submission 2 based on delivery partner activities and 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 have confirmed they are not submitting a Change Log at this stage.

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 17th and 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 with linked data and no hard coded values.
- Project costs have not been externally benchmarked for Submission 1. Benchmarking to be undertaken prior to Submission 2. In our opinion an additional Anomaly and exclusion report is not required.
- This project is at optioneering stage. No evidence CBA has been undertaken on pipeline route options, although options relating to replacement on and offline as well as lining were considered for the raw water main. Further options are currently being reviewed to increase resilience of the WSZ, in addition to what was proposed at FD. SRN have stated that CBA is planned for the early stages of Submission 2.
- 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. Delivery Plan figures in Table DPW4 do not align with the costs

presented for LSG Submission 1. SRN have stated that these figures Delivery Plan 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.
- 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 proposed for Submission 1. SRN confirmed they are not submitting a Change Log which is acceptable.
- A Risk Register has been provided. The risk register shows the risks but the probability, scale of the impact and mitigations are not listed and risks have not been costed at this stage. 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 presented. The spend on the main replacement aligns with the available budget allowance in 22/23 prices. Additional spend has been incurred on actions to further improve resilience in the WSZ. Cost buildup provided for Submission 2 based on delivery partner activities and includes an appropriate level of risk and overhead. This section could be improved with a specific programme for Submission 2 activities.
- Throughout our reviews, some material issues have been identified and most have been addressed by SRN. We understand SRN will investigate and address the three remaining material issues:
 - CBA has not been undertaken. Several options have been considered including lining, replacement on existing route and a new route. We consider that the costs of each option (and alternative route options) should be presented with assessments of Capex, carbon, environmental impact. SRN have stated that the benefits and costs for all interventions will be reassessed as part of Submission 2. For Submission 2 the risk register should also be fully costed.
 - The paper presented in August 24 [DDR037 - SRN Additional Resilience and Safety Investment Case-FORMATTED] presents the existing Resilience score as 0.11 but table presented in Section 4 of Submission document shows the Pre-Investment Resilience Score as 0.272. We suggest SRN explain consistency of figures presented or explain what has happened to increase score since August 24.
 - Risk Registers have been provided for the raw water main replacement and the other elements related to FEOs under this project. However, the risks have not been assessed in accordance with Southern Water's Capital Delivery Programme Management Office's Risk Management Framework [text in section 5.3 states - the key risks to achieving the project objectives have been identified, scored, and mitigation measures developed]. There is no evidence of the probability and scale of the impact of the risks, nor the proposed mitigations. We suggest SRN develop risk registers in accordance with SRN Framework. For Submission 2 the risk register should also be fully costed.

SD Brown

Steve Brown

Lead Assurer



Appendix A. Record of Evidence Reviewed

List of all documents reviewed as part of the audit:

Name	Description
Large Scheme Gated Submission 1 - Hastings 17092025 v02.docx	30 page Submission v2
A8-0144-Hastings 11km of 800mm Pipeline .xslm	Detailed cost buildup - pdf
A8-0144-Hastings 11km Pipeline.pdf	Detailed cost buildup - Excel
MGW-OP-T-EMS-0024 Design and Development Manual.pdf	Supplier Risk methodology
MGW-SW-COM-004-DRR v1.1.xslm	Supplier Risk Assessment

Commercial updates 19/09/25

Name	Description
Annex B2 A8-0144-Hastings 11km of 800mm Pipeline - 2.pdf	Detailed cost buildup - pdf
Annex B2 A8-0144-Hastings 11km of 800mm Pipeline - 2.xslm	Detailed cost buildup - Excel
Annex F1 Hastings sub 1 and sub 2 costs v01 18092025.xlsx	Submission 1 and 2 cost buildup
Large Scheme Gated Submission 1 - Hastings 18092025 v03.docx	30 page Submission v3

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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