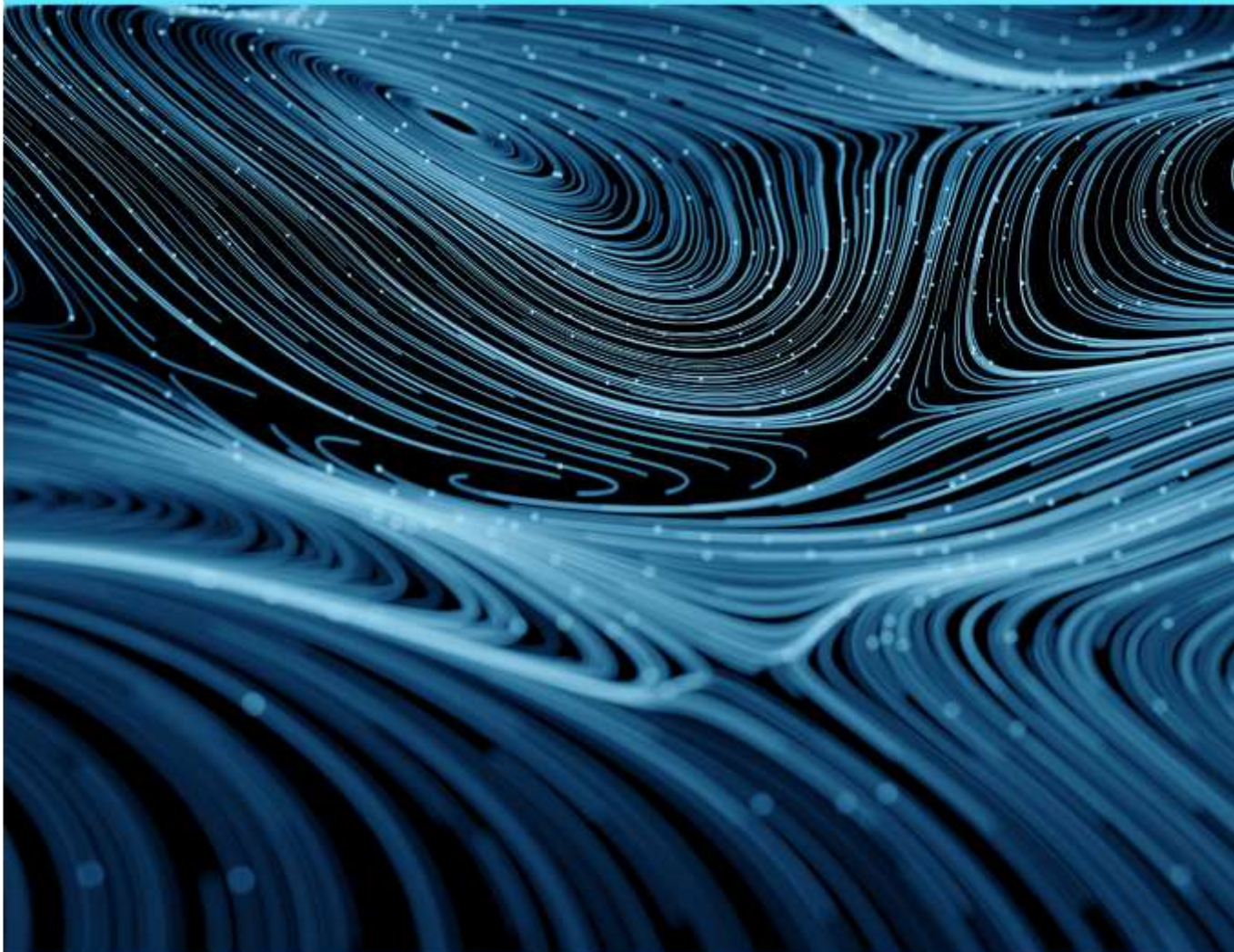




Large Gated Schemes – Isle of Sheppey Water Supply Zone (WSZ)

Independent Assurance Report

Revision: 3.0
Southern Water
Commercial Assurance

Jacobs

Challenging today.
Reinventing tomorrow.

Large Gated Schemes – Isle of Sheppey Water Supply Zone (WSZ)

Client name: Southern Water

Project no: B2430117

Project name: Commercial Assurance

Project manager: Trudy Maddock

Revision: 3.0

Date: 30 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 SRN's comments	SDB	YZ	YZ	TM
2.1	26/09/2025	Updated Draft – respond to SRN's comments	SAW	YZ	YZ	TM
2.2	29/09/2025	Final Updated Draft	SAW	YZ	WPH	\
3.0	30/09/2025	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. There is an allowance of 10% for risk for forecast costs which seems reasonable. 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 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 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. There is no evidence of costing being included in the assessment of options to link cost with increase in resilience score. Further options are currently being reviewed in addition to what was proposed at Final Determination (FD). Risk and Value (R&V) undertaken to assess current options at high level against Resilience. SRN have confirmed that Cost Benefit Analysis (CBA) is planned for the early stages of the Submission 2 programme
- 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 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. The spend on the original scope aligns with the available budget allowance in 22/23 prices. Cost buildup provided for Submission 2 based on activities and there is an appropriate level of risk and overhead added to the buildup. This section is supported by 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:

- This project is at outline design stage. It appears 9 elements were originally proposed to be completed as part of the PR24 submission although this is not clear from the submission document. Table 1 presents elements 2,3,6,7,8,9,10,11 and 12 but the costing sheet presents elements 2,3,6,7 and 8. SRN to confirm if elements 9,10,11 and 12 are included in PR24 scope, or amend Table 1 in submission 1 document so that they align.
- CBA has not been undertaken. There is no evidence of costing being included in the assessment of options to link cost with increase in resilience score. In the Submission document, SRN have proposed a revision of the scope to improve the resilience score for the WSZ. Each option gets a risk score but there is no assessment of Capex or Opex and WLC. We consider that each scheme (and any alternative sub-options e.g. route selection for pipeline replacements) should be presented with assessments of Capex, Opex, Carbon and environmental and social impact. SRN have stated that the benefits and costs for all interventions will be reassessed as part of Submission 2, with clear links to benefits to customers.
- A list of risks have been provided but appears to be for main laying elements only. The risks have not been assessed in accordance with Southern Water's Capital Delivery Programme Management Office's Risk Management Framework. There is no evidence of the probability and scale of the impact of the risks, nor the proposed mitigations. We suggest SRN to develop risk register in accordance with SRN Framework. Going forward, it would probably be beneficial to have a risk register with specific risks tagged to each of the elements as these have considerably different risks – e.g. the main through Site of Special Scientific Interest (SSSI) and Special Area of Conservation (SAC) will have a different risk list to recommissioning the existing WSW. 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
Annex F1.3 Optioneering RV3 for IoS.xlsm	Optioneering
A8-0143-811112-Isle Of Sheppy Resilience.pdf	Detailed cost buildup - pdf
A8-0143-811112-Isle Of Sheppy Resilience.xlsm	Detailed cost buildup - Excel
Large Scheme Gated Submission 1 - Isle of Sheppey 17092025 v02.docx	30 page Submission v2

Commercial updates 19/09/25

Name	Description
Annex B2 A8-0143-811112-Isle Of Sheppy Resilience1.pdf	Detailed cost buildup - pdf
Annex B2 A8-0143-811112-Isle Of Sheppy Resilience1.xlsm	Detailed cost buildup - Excel
Annex F1.1 Isle of Sheppey - Sub 1 Sub 2 costs 18092025 v01 (1).xlsx	Submission 1 and 2 cost buildup
Large Scheme Gated Submission 1 - Isle of Sheppey 19092025 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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