



South Staffs Water

incorporating



# Board assurance of our PR19 business plan

South Staffs Water  
(incorporating Cambridge Water)



## Board assurance statement

### The Board considers all the elements add up to a business plan that is high quality and deliverable

The Board of South Staffs Water owns and is fully accountable for the business plan that we are putting forward. We are able to provide to Ofwat and our customers and stakeholders comprehensive and robust assurance due in part to our scrutiny of the business plan being put forward but more importantly because we have been actively involved in its creation from the beginning and have challenged throughout its evolution. We believe that there have been some particular points where our input has been invaluable in shaping the plan we now submit:

From the outset our aim was to produce a business plan that was rooted in a genuine understanding of customer needs and also was innovative and ambitious. With this in mind we have mandated a substantial investment in a comprehensive and multi-faceted customer engagement programme. We have reviewed the outputs from this programme carefully and we have observed a number of the focus groups over the last two years. The plan reflects our customers' views and they have helped us create it.

The Board initiated an exercise to review the company's comparative performance in the industry across a number of key service measures as well as our cost efficiency. This led to the aspiration that we would put forward a plan that would place us as leaders in the industry on performance measures that matter most to customers. The package of performance commitments we are putting forward reflects customer priorities and we believe is very ambitious.

Despite there being a challenging environment we are planning to invest substantially more than we have historically and in particular to overhaul our two major treatment works, Seedy Mill and Hampton Loade, to create clear water quality and resilience benefits for customers. We have carefully considered a wide range of options and sought advice from a variety of leading experts and the resulting cost adjustment claim has the strong support of our customers.

We have also taken time to consider many different approaches to the challenges we face. We have considered new technologies, different ways of working, ideas from other parts of the world and feedback from our own team. The plan we are putting forward is innovative and we believe it will help to move the sector forward in a number of areas benefitting customers beyond our geographical monopoly areas.

We have also considered our customers who are vulnerable and made special provision for them both economically but also through a tailored support package. We know that this is not the most economically efficient approach but it is the right approach for a public service provider with a universal service obligation to take.

Finally, we have carefully considered the financeability of our plans. It is true to say that, given the scale of our ambition, the lower returns and our level of long term embedded debt, this has been a real challenge. We have debated at length the merits of seeking a company specific cost of capital adjustment and concluded on balance that we propose to adopt the Ofwat cost of capital from December 2017 and that in the round this is in our customers' interests.

We have also considered some specific areas in providing our assurance.

## Resilience

We have considered the approach taken to ensure that resilience will be managed in the interest of customers for the long term. At an early stage the Board saw an innovative approach to modelling resilience (our 'resilience lens') and this became embedded within our process for choosing the best investment options for our customers and our business.

We have also reviewed in detail our financial resilience in delivering our plan. As part of our annual reporting, we assessed the long term viability of the company based on our business plan projections. Based on the financial projections, the stress tests performed and the mitigations considered, we declared that the company is financially resilient for at least the seven years to 2025. Our assessment of the financial resilience for the business plan is consistent with this.

## Earning customers' trust

Recognising we are a public service provider, we recognise the importance of being transparent with our customers on corporate and financial structures. We need to measure that trust.

As part of our engagement with customers we proposed a performance commitment in relation to trust based on customer surveys carried out by us and by CCWater. We have also committed to being open and transparent through our website and our annual reporting. Our Annual Performance Report sets out in detail our group structure, our Board and governance arrangements and our approach to executive pay. We also recognise the importance of Ofwat's position statement on 'putting the sector back in balance' and have ensured that the specific points are appropriately covered in our plan.

## Meeting statutory and licence obligations

We have a number of statutory and regulatory obligations as a Water Undertaker. These obligations are predominantly set down in the Water Industry Act 1991 and our Instrument of Appointment (the 'Licence'). Each year the Board considers its obligations as a water undertaker and that we understand and comply with them. The Board believes that these ongoing statutory and licence obligations will still be met in the future as we deliver our business plan.

As part of the business planning process, the Board have also considered whether our plan will ensure that we will also meet new specific obligations set out in the Water Industry Strategic Environmental Requirements (WISER) document. In June 2018, the EA asked companies to provide assurance that their business plans will include actions, investments and approaches that meet these expectations and we have been able to provide this assurance.

The Board has also ensured that the plan meets the expectations of the government's Strategic Direction Statement (SDS) in particular in the areas of resilience and protecting customers.

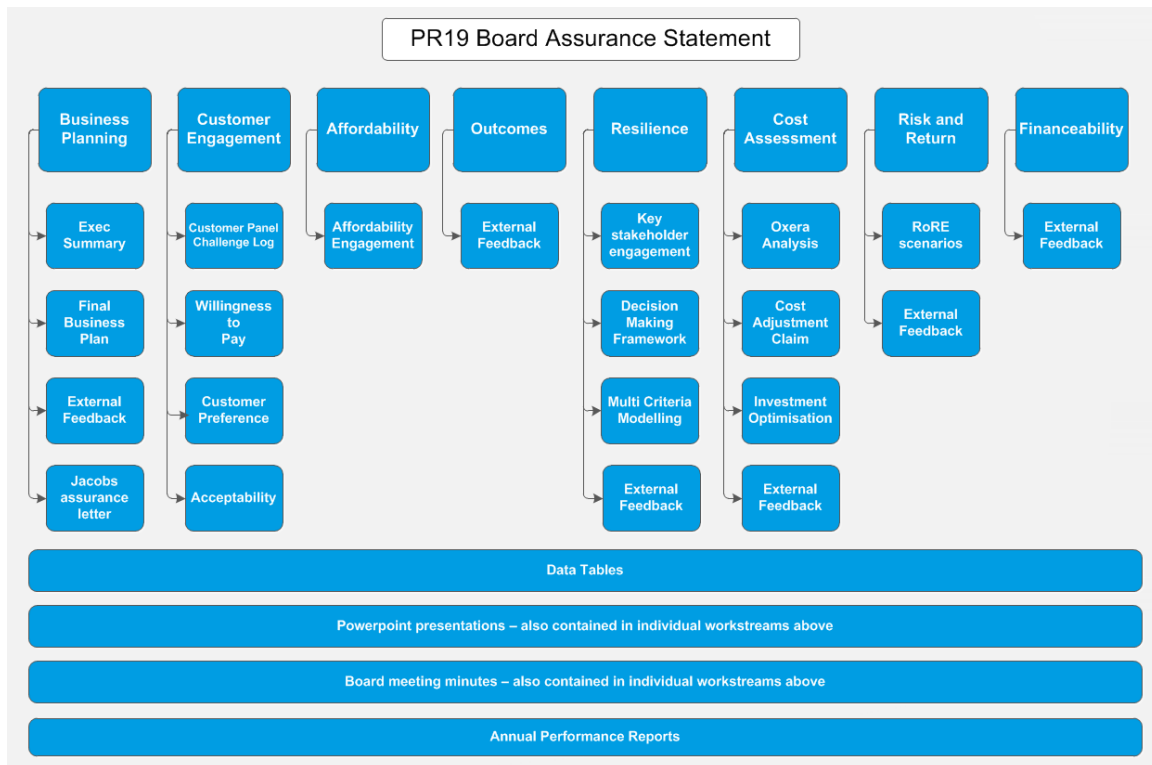
**We are therefore able to provide our assurance that this plan is the right plan for our customers and we commend it to you.**

## Evidence of Board input and challenge

The Board has been fully involved in the development of the plan and has continually challenged management.

For the past 18 months, the Board has been presented with regular updates on proposals from presentations at the monthly Board meeting where there has been direct challenge on management. There has been a wealth of information and reports made available and as we have entered the final stages of finalising the plan, the Board has had access to a secure Sharepoint site containing a library of information to enable us to make the specific assurance statements required.

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Directors (including Independent Non-Executive Directors) have attended a number of quarterly independent customer panel meetings and have heard first hand feedback on the quality of the customer engagement. Members of the Board have also attended a number of customer focus groups held as we developed our plan to help ensure that our plan is consistent with customer views.

The Board has had access to both our independent internal assurance manager and external technical auditors (Jacobs) as well as other third party reports to provide further evidence of the quality of the plan. This assurance complemented the evidence base in a number of specific areas:

- Data quality.
- Strength of our investment proposals.
- Financeability, both on an actual and notional structure.
- Cost assessment modelling to confirm our view that the plan is efficient.

The Board has also been provided with additional external assurance on the overall quality of the plan by Jacobs who carried out a ‘dry run’ of Ofwat’s Initial Assessment of Plans (IAP) test.

### Board assurance requirements

Below are the specific areas where the Board has provided assurance and the evidence it has considered to enable it to make such a statement.

### Area: Business planning

The Board has challenged and satisfied itself that:

- all the elements add up to a business plan that is high quality and deliverable;
- the overall strategy for data assurance and governance processes delivers high-quality data;
- the business plan will enable the company to meet its statutory and licence obligations, now and in the future and take account of the UK and Welsh Government's strategic policy statements;
- the plan will deliver operational, financial and corporate resilience over the next control period and the long term through the company's governance and assurance processes, taking account of its track record of performance;
- it will enable its customers' trust and confidence through high levels of transparency and engagement with customers on issues such as its corporate and financial structures; and
- it has provided ownership of the overall strategy and direction of the plan in the long term.

### Evidence

#### Meetings

- PR19 Board Strategy Day held on 8th March 2017. We shared strategic challenges and Customer Engagement Plan. (Presentation available)
- Board Meeting 4th May 2017, Minute reference 2508 - High Level Themes of Ofwat's Customer Engagement Presentation.
- Board Meeting 29th June 2017 – Presentation given on PR19 Innovation Ideas – Minute Ref:2539 – (Presentation Available)
- Board Meeting 2nd August 2017 – Managing Director's report provided an update on meeting with Cathryn Ross – Innovation Ideas (retail separation, customer segmentation/service plans, Customer Dash Board)
- Board Meeting 2nd August 2017 – Ofwat published detailed Retail Methodology, and the summary was shared with the Board.
- Board Meeting 2nd August 2017 – Price Service Trade Off research paper presented (Paper available)
- Board Meeting 2nd August 2017 – Comparative Industry Performance Industry Benchmarking Report shared – Upper Quartile Challenge made by Board (Paper Available)
- Board Meeting 28th September 2017, Minute reference 2544, Chairman met with Jonson Cox – Innovations well received but challenge to Board on ambitious plan delivery).
- Board Meeting 28th September 2017, Minute reference 2545 – confirmation of the Company's ambition to pursue exceptional FastTrack plan.
- Board Meeting 28th September 2017 – Noted in the PR19 report that the Company had submitted its response to the PR19 Draft Methodology. (Paper Available)
- Board Meeting 19th October – Comparative industry performance for 9 common ODIs shared with board – scale of ambition in ODI package discussed
- Board Meeting 18th January 2018 – PR19 Board Report noted the Outline Approach to Cost Adjustment Claim. Discussion on Claim vs. Enhancement – concluded claim was appropriate

#### Area: Business planning

- Board Meeting 18th January 2018 – PR19 Board Report noted that Ofwat published its final mythology for PR19
- Board Meeting 19th October – MD Report Jacobs contract award
- Board Meeting 22nd February 2018 – PR19 Board Report, confirmed commissioned Costain to improve robustness of costs for WTWs. Minute reference 2608
- Board Meeting 28<sup>th</sup> March 2018 – presentation on retail strategy and proposed functional separation of retail activity from wholesale

#### Documentation

- Business plan narrative, against Ofwat summary
- Delivery against assurance plans, audit reports (internal and external)
- Risk and compliance statement – we believe that we already comply and have no reason to believe that the business plan would change this
- Business plan narrative, IAP test, independent assurance reports (eg, financeability)
- APR disclosures, company dashboard, dividend policy and executive performance related pay
- Evidence in Board minutes showing time taken in Board meetings to cover PR19
- Executive summary and infographics
- Defra Strategic Direction Statement
- Company submission in response to the EA's Water Industry Strategic Environment Requirements (WISER) demonstrating that we will meet our statutory obligations.

#### Area: Customer engagement

The company's business plan has been informed by:

- customer engagement; and
- feedback from the company's CCG about the quality of its customer engagement.

#### Evidence

##### Meetings

- June 2017 – Board members inputted into Price and Service Trade off Customer Engagement workstream in response to board challenge to seek an initial view of customers' preferences to a flat or declining bill profile
- 12th June 2017 - board member observed two Focus Groups with HH and NHH customers in Cambridge region (Foundation Research on customers' priorities). Challenged that the PR19 engagement needs to demonstrate innovation in terms of approach
- Board Meeting 2nd July 2017 – Price and Service Trade off Customer Engagement Shared
- Board Meeting 28th September 2017, Board reference 2565 - Customer Panel shared their Annual report
- Board Meeting 19th October 2017 – PR19 Board Report, Approach to Willingness to Pay Engagement shared
- Board Meeting 16th November 2017 - Customer Engagement and Insight Manager presented update on PR19 engagement strategy and key findings from customer priorities

### Area: Customer engagement

research. Board challenged that the follow up WTP study should include a sample of customers seeing a lower bill profile. This challenge was confirmed as being incorporated into the follow up study

- Ofwat customer engagement meeting 24th January 2018 – attended by Managing Director
- Board Meeting 18th January 2018 update on Customer Engagement work streams provided
- Board Meeting 28th March 2018 – PR19 Board Report update on ODI Customer Engagement
- 24th April 2018 - board member observed morning session of workshop event with HH and NHH customers in Cambridge region (PC/ODI customer engagement)
- Board meeting 1st May 2018 – Customer Engagement and Insight Manager presented update on all PR19 Engagement. Board requested to see the full priority ranking of the WTP attributes tested, with a particular focus on reliability of supply options. This was circulated to the board post meeting
- Board Meeting 7th August 2018 – Proposal for a flat nominal bill presented including the overwhelming evidence of support from customers
- Board Meeting 7<sup>th</sup> August 2018 – Attendance by Chair of CCG to give feedback on the Panel’s report and their views on customer engagement
- Board Meeting 7<sup>th</sup> August 2018 – Presentation of results of customer acceptability testing

#### Documentation

- Response to customer panel strategic challenges
- Customer panel challenge log
- Cost adjustment claim – co-created with customers
- Performance commitments – co-created with customers
- Scope of work, outputs and dissemination slides for all engagement
- Academic peer review of WtP – approach and results
- Academic peer review of approach to triangulation
- Outputs of Customer Acceptability testing

### Area: Affordability

The company’s business plan is affordable for all customers, including in the long term and including appropriate assistance for those struggling, or at risk of struggling, to pay.

#### Evidence

##### Meetings

- Board Meeting 28<sup>th</sup> June 2017 – Approval of increase in Assure social tariff from £1.50 to £3.00 following customer research.
- Board Meeting 2nd July 2017 – Price and Service Trade off Customer Engagement Shared
- Board Meeting 7<sup>th</sup> August 2018 – Presentation of results of customer affordability testing

#### Documentation

- Assure social tariff



#### Area: Affordability

- Vulnerability sub-group action logs

#### Area: Outcomes

The business plan will deliver – and that the Board will monitor delivery of – its outcomes and performance commitments.

The company's proposed outcomes, performance commitments and outcome delivery incentives (ODIs) reflect customer preferences and are stretching.

The company's proposed approach to reporting on its performance commitments, ODIs and projections of outcomes is robust.

#### Evidence

##### Meetings

- Board meeting on 20th January 2017 paper provided on PR19 Outcomes Framework Consultation
- Board Meeting 4th May 2017, Minute reference 2499 – Scale and Ambition of Performance Commitments discussed
- Board Meeting 28<sup>th</sup> June – latest list of ODI's and projected targets discussed
- Board Meeting 28th September 2017 – Managing Director's report, current performance on 9 common AMP7 PC's reported
- Board Meeting 19<sup>th</sup> October 2017 – scale of ambition of ODI package discussed
- Board Meeting 18th January 2018 – Paper shared development of performance commitments for AMP7
- Board Meeting 22nd February 2018 presentation of draft ODI package shared. Minute reference 2611
- Board Meeting 7<sup>th</sup> August 2018 – final ODI targets presented with agreement to target upper quartile performance in each and review of the financial rewards and penalties and resulting RoRE range

##### Documentation

- Evidence of customer co-creation of PCs
- Feedback on customer engagement, including WTP and acceptability testing results
- Details of how PC levels have been set in relation to forecast UQ level
- Review of plans how we will report and communicate performance 2020/25
- Annual assurance plans

#### Area: Resilience

The company's business plan has been informed by:

- a robust and systematic assessment of the resilience of the company's systems and services;
- customers' views about managing resilience; and

#### Area: Resilience

- a comprehensive and objective assessment of interventions to manage resilience in customers' long-term interests.

#### Evidence

##### Meetings

- PR19 Board Strategy Day held on 8th March 2017. We shared strategic challenges including Supply Capability Challenges
- Board Meeting 29th June 2017 – Long Term Plan Progress Update shared with Board
- Board Meeting 29th June 2017 – Presentation re PR19 and Innovation shared. Board Reference 2539
- Board Meeting 28th September 2017 – Multi criteria analysis including resilience was shared with the Board
- Board Meeting 28th September 2017 – Approval of Draft WRMP
- Board Meeting 19th October 2017, Minute reference 2555 – Approach to operational resilience included in multi criteria further explored
- Board Meeting 19th October 2017 – Managing Director's report – shared positive meeting with DWI re WTW
- Board Meeting 30th November 2017 – Draft WRMP for submission

##### Documentation

- Resilience lens
- Multi criteria analysis
- Multi region support for cost adjustment claim.
- Customer engagement
- Long term plan presentations/papers

#### Area: Cost assessment

The expenditure forecasts included in the company's business plan are robust and efficient. Large investment proposals are robust and deliverable, that a proper assessment of options has taken place, and that the option proposed is the best one for customers.

#### Evidence

##### Meetings

- PR19 Board Strategy Day held on 8th March 2017. We shared strategic challenges including early outputs of Long Term Plan
- Board Meeting 29th June 2017 – Long Term Plan Progress Update shared with Board
- Board Meeting 19th October 2017, Minute reference 2555 – Least cost scenarios for long term plan and associated sensitivity analysis shared
- Board Meeting 30th November 2017 – PR19 Board Report – Approach to Base Capex Programme discussed.

#### Area: Cost assessment

- Board Meeting 22nd February 2018 – PR19 Board Report, confirmed commissioned Costain to improve robustness of costs for WTWs. Minute reference 2608
- Board Meeting 28th March 2018 – Presentation shared on Draft AMP7 Totex position
- Board Meeting 28<sup>th</sup> March 2018 – cost adjustment claim for enhancement expenditure at Hampton Loade and Seedy Mill including the positive customer support gained
- Board Meeting 1<sup>st</sup> May 2018 - cost adjustment claim for enhancement expenditure and Hampton Loade and Seedy Mill approved
- Board meeting 28<sup>th</sup> June 2018 – Presentation on latest Totex position and comparison of Botex to Oxera modelling with conclusion that upper quartile on efficiency

#### Documentation

- Oxera benchmarking reports
- Jacobs review of capex optimisation
- Productivity analysis
- Efficiency analysis (KPMG presentation)
- Cost adjustment claim and Jacobs DPC review

#### Area: Risk and return

The Board has identified the risks associated with delivering the plan.  
The risk mitigation and management plans the Board has in place are appropriate.

#### Evidence

##### Meetings

- Board Meeting 28th September 2017 – Multi criteria analysis including approach to costings was shared with the Board
- Board meeting 28<sup>th</sup> June 2018 – requirement for a cost of capital adjustment discussed and agreement not to pursue a claim
- Board meeting 7<sup>th</sup> August 2018 – RORE range discussed

#### Documentation

- Risk section of business plan narrative

#### Area: Financeability

The company's business plan is financeable on both the notional and actual capital structure and that the plan protects customer interests in both the short and the long term. The statement should clearly set out the steps taken to provide this assurance.

#### Evidence

##### Meetings

- Board Meeting 29th June 2017 – Cost of Capital Adjustment Claim in PR19 report

Area: Financeability

- Board Meeting 2nd July 2017 – PR19 report shared Oxera’s analysis of Financeability
- Board Meeting 28th September 2017, Minute reference 2538 dialogue with RBS re embedded debt
- Board Meeting 19th October 2017 – Paper shared re embedded debt
- Board Meeting 28th June 2018 – Discussion on the merits of putting forward a specific cost of capital adjustment claim
- Board Meeting 28th June 2018 – Paper presented on the Company’s long term viability statement covering the seven years to 2025
- Board Meeting 7th August 2018 – Presentation on financeability tests on both actual and notional structure. Sensitivity analysis shared on the commitment to a flat nominal bill for AMP7

Documentation

- Jacobs’ independent assessment that the plan is financeable
- Financial resilience and review of stress testing scenarios
- Consistency with long-term viability statement

The Board provides this comprehensive assurance statement that confirms our business plan submission is both of high quality, ambitious and in accordance with the requirements of Ofwat’s PR19 methodology.

Sir James Perowne  
Independent Chairman  
South Staffordshire Water Plc



Keith Harris  
Independent Non- Executive  
South Staffordshire Water Plc



Stephen Kay  
Independent Non- Executive  
South Staffordshire Water Plc



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