

Elements of the plan

# Securing Trust, Confidence & Assurance



South West  
Water



Bournemouth  
Water

## Elements of the plan



Engaging Customers



Addressing Affordability & Vulnerability



Delivering Outcomes for Customers



Securing Long-Term Resilience



Targeted Controls, Markets & Innovation



Securing Cost Efficiency



Aligning Risk & Return



Accounting for Past Delivery



Securing Trust, Confidence & Assurance

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## Introduction

A key aspect in the development of the South West Water business plan has been the approach the Board has taken to assure itself that the plan is high quality, ambitious and deliverable. It is founded on customer and stakeholder priorities and is compliant with all legislative and regulatory obligations.

The Board has led the development of the plan which includes strong assurance and has been subject to detailed review and scrutiny throughout.

We recognise that assurance needs to be delivered utilising a risk based approach, taking account of the key themes of PR19 (customer service, affordable bills, long-term resilience and innovation).

Assurance for PR19 is integrated into our ongoing, well established Assurance Framework, covering all our business activities. South West Water highlighted PR19 as a significant area for assurance within its 2017/18 Assurance Plan, which it published in October 2017. Our established, robust Integrated Assurance Framework, has been used as the basis of our assurance approach for PR19. External assurance partners were appointed early in the process to ensure assurance could be appropriately planned and was sufficient.

The application of the framework for PR19 has been designed to ensure that the Board can be satisfied that:

- All elements of the plan have been sufficiently challenged and the plan as a whole is high quality and deliverable
- The strategy of data assurance and governance processes delivers high quality data
- There is sufficient challenge to ensure the business plan enables South West Water to meet its statutory obligations now and in the future
- There has been sufficient challenge to ensure that the plan delivers operational, financial and corporate resilience over the 2020-25 period and the long term
- It has demonstrated that the Board has provided ownership of the overall strategy and direction of the plan in the long term
- It will continue to ensure customer trust and confidence through high levels of transparency and customer engagement through the embedded WaterShare governance framework on all areas of the business including corporate and financial structures.

This document sets out in detail the approach and the steps taken to enable the Board to have confidence in presenting this report to Ofwat, our customers and all our stakeholders.

It also sets out the assurance performed in respect of each of the nine Ofwat test areas and highlights any risks identified and action plans in place to mitigate these risks.

The South West Water Board sets the strategic direction of the company and has a majority of Non-Executive Directors (NEDs) on the Board.

This document also describes the overall corporate governance and strategic leadership framework, and how that was used to set up effective governance and assurance over all the key elements in building a high quality business plan. We describe how strong internal controls were complemented by comprehensive external reviews and assurance, and also reproduce the key statements relating to this external work.

## Business plan navigation

This document is part of the overall business plan providing key information about our proposals and how it answers the initial assessment of business plan tests.

### Securing Trust, Confidence & Assurance

- CA 1** To what extent has the company's full Board provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?
- CA 2** To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?
- CA 3** To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?
- CA 4** To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?
- CA 5** To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?
- CA 6** How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?





Answers to these questions are summarised in the **Summary** chapter of this document, with signposts to further detail and evidence within this document, and where appropriate, other documents forming part of the overall business plan submission – see **Document map**.

**Business plan navigation** continued











**Document map**

The primary documents within the business plan submission are illustrated below. Other supplementary information, reports and documents are also referenced within these documents and can be accessed using a link in the document, where appropriate.







**Business plan to 2025**

	<b>Business Plan</b>		<b>WaterFuture Customer Panel Report</b>		<b>Customer Summary</b>		<b>Investor Summary</b>
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**Elements of the plan**

	<b>Engaging Customers</b>		<b>Addressing Affordability &amp; Vulnerability</b>		<b>Delivering Outcomes for Customers</b>		<b>Securing Long-Term Resilience</b>		<b>Targeted Controls, Markets &amp; Innovation</b>
	<b>Securing Cost Efficiency</b>		<b>Aligning Risk &amp; Return</b>		<b>Accounting for Past Delivery</b>		<b>Securing Trust, Confidence &amp; Assurance (this document)</b>		<b>Board Assurance Statement</b>

**Revenue controls**

	<b>Appointee Summary + Tables and commentary</b>		<b>Water Resources Wholesale Revenue Control + Tables and commentary</b>		<b>Network Plus Water Wholesale Revenue Control + Tables and commentary</b>
	<b>Network Plus Wastewater Wholesale Revenue Control + Tables and commentary</b>		<b>Bioresources Wholesale Revenue Control + Tables and commentary</b>		<b>Residential Retail Revenue Control + Tables and commentary</b>

**Business plan to 2050**

	<b>2050 Vision</b>		<b>2050 Environment Plan</b>		<b>Draft Water Resources Management Plan</b>		<b>Drainage and Wastewater Management Plan</b>
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## Executive summary

Our Plan is based on empowering customers. If this is to be realised, we know that customers must be able to have trust and confidence in our company, our Board and our Plan.


Trust and confidence need a solid basis in observed delivery for customers, and high standards of business behaviour. Our Board promotes an ethos committed to being trusted, collaborative, responsible and progressive in all the company does. This is embedded in our values.




**Trusted**  
We do the right thing for our customers and stakeholders



**Collaborative**  
We forge strong relationships, working together to make a positive impact



**Responsible**  
We keep our promises to our customers, communities and each other



**Progressive**  
We are always looking for new ways to improve and make life better

We have worked hard to deliver all of our promises to customers over the last five years. We have delivered all the outputs we committed to at the last price review and have continued to lead the industry on cost efficiency and service performance:

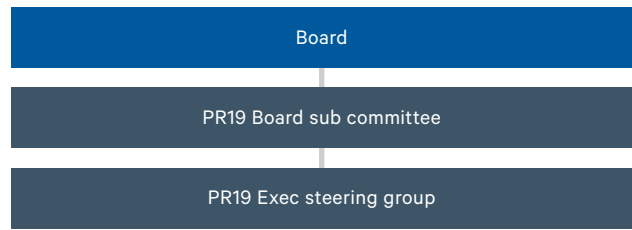
- When the unexpected hit, with the winter storms, we pulled out all the stops for customers. Our responsiveness was commended by many, including Ofwat.
- We embrace the concept of engaging customers and being challenged by them through our independent WaterFuture Customer Panel (WFCP)
- We are already sharing outperformance voluntarily with customers through our unique WaterShare framework
- We are open and transparent with customers and wider stakeholders about our Executive pay and financial structures:
  - We pay our taxes and have never put our financial resilience at risk from a high gearing strategy
- We have still managed to outperform our financing costs and are now expressing our commitment to empowerment by sharing this with customers
- We have been commended in our annual performance monitoring review, giving confidence to the robustness of our data
- We have kept bills increases below inflation and have a long track record in providing practical and effective support to help those struggling with paying their bills.



For more information, see [Accounting for Past Delivery](#)

Our Board has led this performance. Our Board, in addition to the chairman, is comprised of three executive directors and five Non-Executive Directors, bringing a wealth of experience and robust challenge to management. We adhere to the highest standards of Corporate Governance.

Strong Board leadership and governance has likewise driven the new business plan.



Throughout the development of the Plan, the Board has provided direction and challenge, from strategy setting through to review and challenge of all key approaches and evidence going into the Plan and overseeing the effective use of internal and external assurance of all data and analysis. For example:

- Executives and NEDs have directly engaged with customers and the WFCP ensuring an effective channel for customers to influence the plan – and confidence that the plan reflects customers' views and priorities
- The Board is itself directly embedded into the company's risk assessment framework and has therefore been at the heart of the recent comprehensive independent assessments of the company's resilience and our ongoing oversight and management of risk – giving confidence that the plan effectively considers all relevant risk scenarios and options for managing risk
- During the recent winter storms, the Board was fully aware of operational activity and drove a far reaching post-event review – ensuring that our resilience strategies and strategies to help the vulnerable are enriched by first hand evidence.
- The Board was fully aware of the activity to ensure we have been able to supply water to customers for a 23rd year without restrictions- despite one of the driest summers on record in our region

Executive summary continued

- The Board gave specific attention to wastewater service performance to ensure the plan was stretching and ambitious; including striving to eradicate serious pollutions.

Key challenges from the Board	Response from the Executive
<b>Ambition on pollutions performance</b>	Enhanced pollutions strategy implemented targeting the lowest number of pollutions ever seen in the industry (by some distance)
<b>Bill level in 2024/25</b>	Further stretch efficiency targets applied in between customer consultation and final business plan
<b>Bill profile to 2024/25</b>	Bill profiles smoothed further where possible to achieve stability of bills throughout 2020-25
<b>Addressing lessons learned from Storm Emma</b>	Monthly report to Board on progress against targeted community resilience improvement plans
<b>Scale of affordability support</b>	Board pledge to address water poverty for customers by 2024/25
<b>Smart metering policy</b>	Metering policy updated to reflect any new or replacement meters should be digital and all customers on the Priority Services Register (PSR) should be prioritised for digital replacement
<b>Direct procurement and markets</b>	Direct procurement scheme with Southern Water agreed post 2025 and internal water resources market being developed for 2020

Data and analytical approaches have all been subject to detailed internal and external assurance, overseen by the Board. A risk based approach to assurance is taken, targeting the degree of assurance in line with the risk to a robust Plan outcome. We are confident of the high quality of the data supporting our plan, in keeping with our exemplary reporting track record. We have conducted numerous targeted pieces of external assurance focused on all areas of the plan, including:

- A thorough review of our operational, financial and corporate resilience
- Peer review of our customer engagement and oversight scrutiny report from the WFCP, giving independent assurance that our customer engagement is high quality and extensive and has driven our plan.

In all areas of the plan, the Board has ensured that we are meeting our legal and statutory obligations, and have engaged with government to ensure a proportionate response to broader policy requirements.

Alongside these requirements, the Board has ensured that customer engagement has driven our commitments to outcomes and service targets and that operational, financial and corporate resilience will be delivered.



For more information, see [Delivering Outcomes for Customers](#)

Through extensive engagement with each of our regulators individually and also at the WFCP, the Board has discussed our approach throughout the development of the plan.

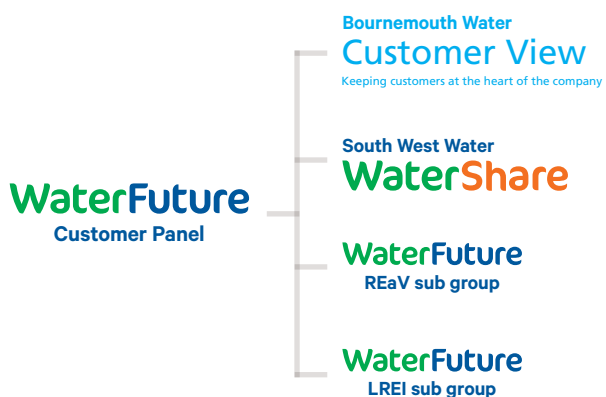


For more information, see [WaterFuture Customer Panel Report](#)

- ✓ Well evidenced
- ✓ Balanced
- ✓ Affordable
- ✓ Acceptable to customers
- ✓ In line with legislation and regulation

The Board has also reviewed and is at the heart of ongoing monitoring and governance of delivery. The process is centred around accurate, transparent and assured data reporting, and performance reporting through the independent WaterShare panel.

The WaterShare panel is one part of a wider governance framework overseen by the WFCP.



**Executive summary** continued

Alongside our ongoing risk management framework, which is embedded in Board governance and all our processes, the Board is confident that the company will be kept on track to deliver our commitments and to exceed them where this is in customers' interests. The process will be given an extra fillip from 2020 as our proposed policy of **issuing customers with their own shares** in the company will add to levels of scrutiny and accountability, including the **right to attend a customer AGM**.

For more information, see



**Business Plan**



**Aligning Risk & Return**

**Based on this level of engagement and internal and external scrutiny the Board has provided comprehensive assurance of our plan.**

For more information, see



**Board Assurance Statement**



**Company monitoring framework 2018  
 Final position paper**



## Key messages

- ✔ Strong Board leadership and governance over business plan throughout development of business plan and long term vision to 2050
- ✔ Extensive scrutiny and challenge of our plans by WFCP
- ✔ The Board is directly engaged with customers and WFCP
- ✔ The Board is confident the plan is high quality in the round (including data) and reflects the views of customers
- ✔ Management challenged on all elements of the plan by Board through PR19 Sub-Committee
- ✔ The Board fully embedded into the integrated risk management framework
- ✔ Internal and external resilience assessments evidencing the operational, corporate and financial resilience of the business over the short and long term
- ✔ WaterShare in operation since PR14 has significantly enhanced our engagement and the visibility of reported performance to customers being retained to 2025
- ✔ Open and transparent engagement with customers on corporate governance, tax strategy and long term resilience
- ✔ All Board commitments made to customers (including all statutory and licence obligations) in PR14 reported through WaterShare and monitored by Board through to successful delivery. Confident in the delivery of PR19 commitments
- ✔ Good track record of producing high quality data as evidenced from Company Monitoring Assessments since PR14
- ✔ Extensive review and assurance of all business plan data submissions

## Overview of governance and strategic leadership

South West Water remains committed to operating its business adhering to the highest standards of corporate governance. We see strong governance as central to the successful management of any company, and the framework for the effective delivery of our own strategy and sustainability objectives.

The South West Water Board has in place a well established and effective set of policies and procedures covering corporate governance, internal control and risk management.

South West Water Limited is a wholly-owned subsidiary of Pennon Group Plc, a FTSE 250 company with shares listed on the London Stock Exchange. As a listed company, Pennon Group Plc is required to comply with the UK Corporate Governance Code, following both the spirit and the letter of the code.

The Board is responsible for ensuring effective governance and oversight of its operational business. The key areas include:

- Reviewing strategies, policies, management, initiatives and performance of South West Water
- Ensuring that South West Water conducts its business in a responsible manner in relation to environmental, social and governance matters
- Reviewing systems, internal controls and risk assessment processes.

The South West Water Board comprises the Non-Executive Chairman, two Executive Directors and seven Non-Executive Directors, six of whom are considered by the Board to be independent. All of the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and character to bring independent and objective judgment to the Board's deliberations and to represent customers' interests.

The company utilises an Integrated Assurance Framework as described in its published Assurance Plan, which is applied to all assurance requirements, including those identified in the Assurance Plan as significant areas for assurance (such as the PR19 business plan submission).

In line with this framework formal procedures have been implemented covering:

- Planning
- Responsibility for the preparation of data and commentaries
- Controls and checks
- External financial assurance
- External technical assurance
- Authorisation and certifications
- Follow-up actions from assurance.

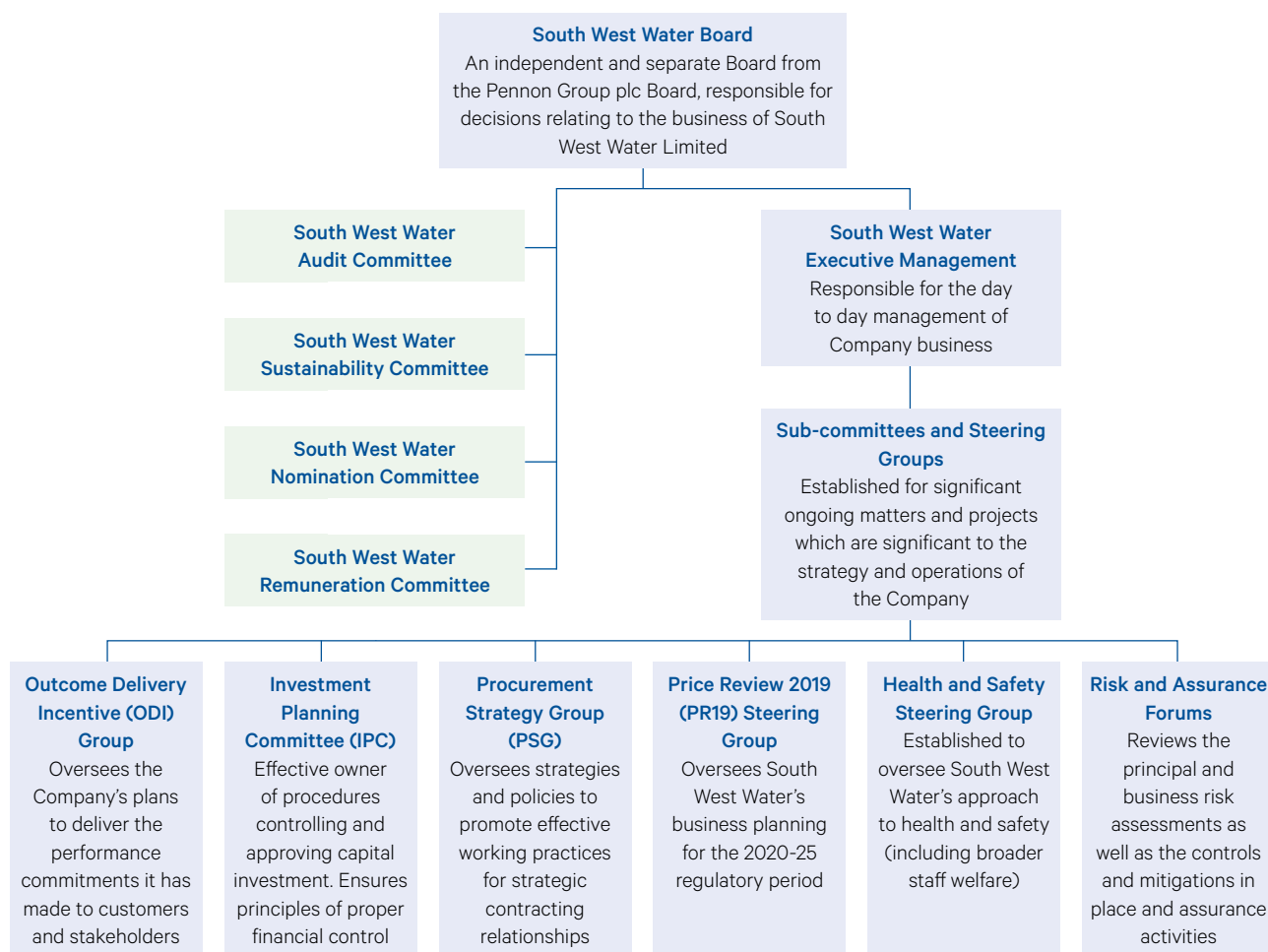
Development of our plan has been driven by a central project team, working with experts across the business and with external support where needed.

Strategic leadership through the development of the plan has been given by the Board through ongoing updates and approval of material strategic matters. A PR14 sub-committee of the Board was established to review proposals in detail and recommend action to the Board. In addition, the Executive Management formed a Steering Group to give direction, monitor and agree specific outputs during the development of the plan.

The Non-executive Directors have provided robust challenge to the Executive Directors in relation to the strategy and content of the plan, including meeting with customers and stakeholders including the WaterFuture Customer Panel (WFCP).

Throughout the development of the business plan we have undertaken a fully transparent process in compliance with its own Board leadership, transparency and governance Code as well as the UK Corporate Governance Code.

Overview of governance and strategic leadership continued



**Earning customers’ trust**

During PR14, we created WaterShare not only to share the benefits with customers in a timely manner but also to be more open and transparent with our customers with all areas of our performance and what it meant for customer bills. WaterShare reporting has been overseen by an independent WaterShare Panel since PR14 with minutes being published and publicly available and a report from the panel being sent to Ofwat every year.

For PR19, we are taking the bold step to extend customer sharing and participation further through our commitment to extend shares to customers, returning a share of outperformance on the embedded cost of debt to customers. This will also enable direct representation through shareholder forums.

As part of the annual company Monitoring Framework process, we continually seek feedback from customers on the way in which we report information to customers including our corporate and financial structure.

As part of a listed group we are bound by the UK governance code resulting in high levels of transparency in this area compared to non-listed entities. We have also engaged customers in focus groups on areas such as our tax strategy to help inform our plans.

WFCP have welcomed the levels of transparency and engagement on financial structures including dividend policy and has ratified the approach we are taking.

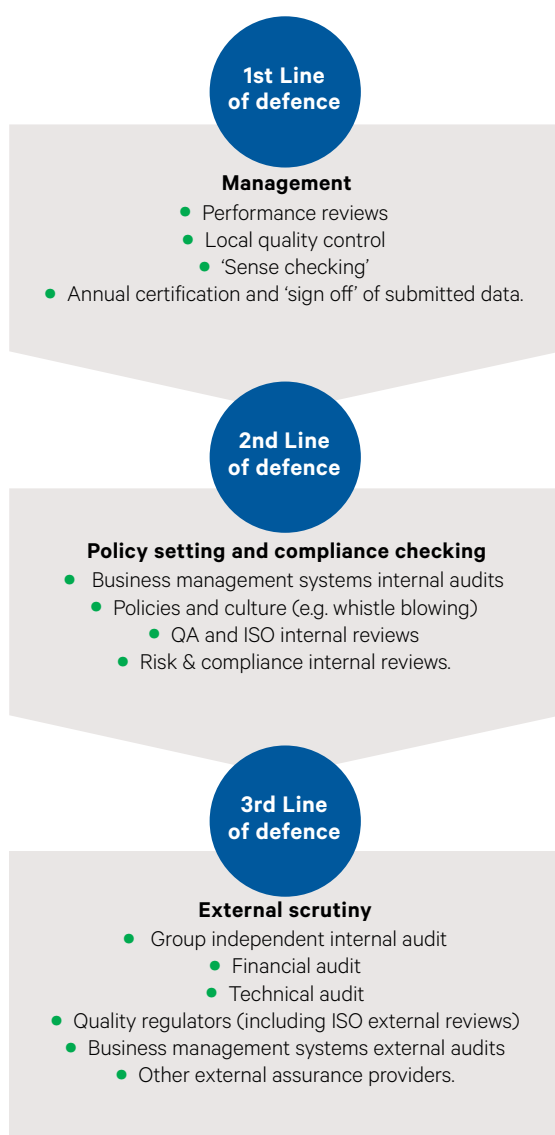
The Board is therefore confident that **our business plan will enable customers’ trust and confidence through high levels of transparency and engagement with customers, on issues that matter to customers such as the company’s corporate and financial structures and how these support our long-term resilience.**

## Overview of governance and strategic leadership continued

### South West Water's Integrated Assurance Framework

South West Water's risk and assurance processes are embedded into the management of the company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite. The methodology for identification and mitigation of risk is similar at individual business unit and corporate levels.

South West Water's integrated assurance plan ensures, utilising a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of assurance requirements. The integrated assurance approach includes:



This risk based integrated assurance framework is applied to all areas of the business, including all key projects as they arise. The mix of assurance methods used is reviewed by the South West Water Audit Committee, which is responsible for ensuring that robust and comprehensive assurance frameworks are in place to support Board assurance and compliance requirements.

In any significant area or projects where assurance is required over submitted data or information, certificates will be prepared by those responsible to confirm that the submission is robust and all material issues have been addressed.

Independent internal review is used to ensure that processes are robust and adhered to.

External review and audit processes are utilised whenever significant data is provided by South West Water externally (such as the business plan, tariffs/charges submissions and Company Annual Performance and Regulatory Reporting). The allocation of assurance work between external providers (including financial and technical auditors) is based upon the content of the data submission and multiple providers of external assurance are frequently engaged on the same project. The professional credentials of the third party assurance providers are considered in detail to ensure they have the relevant knowledge and experience.

Robust feedback processes are established to ensure that issues or queries raised during internal and external assurance processes are followed up to ensure that any changes required or follow up work is completed as appropriate.

In addition to strategic leadership provided by the Board, for significant projects a Steering Group is formed to give direction, control and monitor project delivery and issue regular updates to the Board. The Board and Audit Committee review and challenge assurance applied in each case under this framework.

For all key projects and data submissions the Board confirm in their opinion that assurance provision, governance and internal systems of control have been sufficient.

## Overview of governance and strategic leadership continued

The following diagram summarises the typical assurance approach taken in any significant project involving submission of data externally:



### Business Plan Structure and Governance

In line with the Governance Structure and Integrated Assurance Framework detailed above, the Board has in place a well established and effective set of policies and processes covering corporate governance, internal control and risk management. The company uses the following formal processes for the Annual Report and Financial Statements as well as the Annual Performance Report and Regulatory Reporting:

- Planning
- Responsibility for preparation of data and commentaries
- Controls and checks
- External financial assurance
- External technical assurance
- Authorisations and certifications
- Follow-up actions from assurance.

These principles underpin the existing business planning and reporting processes that were applied in developing and assuring the 2020-25 business plan.

Strategic leadership throughout the development of the plan was given by the Board and the Steering Group, which gave direction, monitored delivery and agreed specific outputs during the development phase. This Group met at least monthly to discuss the key issues. Regular updates were provided to the full Board.

The NEDs provided robust challenge to the Executive Directors in relation to the strategy and content of the plan. These independent Directors take particular care to ensure that the Board considers the interests of customers in all matters. They reviewed and challenged the strategy for the overall business plan with particular attention to significant areas including:

- Balancing the outcomes for customers, stakeholders and the environment
- Developing the incentives and performance sharing proposals within the plan
- Reviewing the financial strategy and impacts for customers
- Challenging sufficiency of the capital programme.

In addition, the NEDs met with the WaterFuture Customer Panel (WFCP) independent of the Executive to discuss and review key areas of the plan.

Throughout the development of the business plan we have conducted a fully transparent process which followed the key principles in the UK Corporate Governance Code of accountability, transparency and the sustainable success of the company in the long term.

## Overview of governance and strategic leadership continued

Detailed development of our plan was driven by a central project team, working with experts across the business and with external support where needed. A number of specialised sub-groups were established to work with the central project team. Led by members of the Executive Management Team they developed strategic proposals for the 30-year WaterFuture vision document and they were also responsible for producing robust and evidenced submissions into the overall business plan. The central project team organised and co-ordinated this process and, with representatives from all major areas of the company, provided a review and challenge function. This ensured scrutiny of each sub-group's output from a group of people with widespread and expert knowledge covering all the company's activities.

In addition to the engagement with the WFCP, South West Water liaised directly with the regulators and other stakeholders. Discussions and challenges were reported and debated with the South West Water Board.

### Compliance with our obligations

South West Water has a number of statutory obligations including those within the Water Industry Act, the South West Water Licence, Competition Act and the Strategic Policy Statement (SPS) issued by Defra.

We worked with our regulators and stakeholders including the Environment Agency, Drinking Water Inspectorate, Natural England and Consumer Council for Water (CCWater). We included a programme of interventions within our business plan that is compliant with the Defra Strategic Objectives and the Water Industry National Environment Programme (WINEP) in so far as:

- Full scale interventions are only made at locations where there is a clear need to invest. Investigations will be undertaken at other locations within the WINEP where we believe the need to invest in a full scale intervention is uncertain.
- Subsequently, if it is found that full scale intervention is required, the investment will be made in order to meet the requirements of the WINEP in 2020-25.
- This approach has been endorsed by the relevant regulators.
- The WFCP has attended separate meetings with our stakeholders to consider the legislative obligations and how these are satisfied within our plan.



For more information, see  
[WaterFuture Customer Panel Report](#)

## Overview of governance and strategic leadership continued

### Assuring our plan

South West Water identified PR19 as a significant area for assurance within its annual assurance plan (published November 2017) and provided an update in its Summary Assurance Report published in July 2018.

The table below summarises the specific assurance plan included in our Assurance Plan for the PR19 area:

The PR19 business planning process is an extensive programme, which uses many levels of our Integrated Assurance Framework.
A PR19 Steering Group has been established, which includes all members of South West Water's Executive Management and meets on a monthly basis, receiving status reports from those managing and delivering the PR19 project.
Following tender exercises, South West Water have appointed two separate core external assurance partners to provide levels of external assurance upon key aspects of our PR19 project.
In line with our approach to other reporting such as annual reporting, responsibilities for completing tables and associated commentaries has been delegated to relevant management within the company and thorough internal verification procedures have been performed all of which will be available to external assurance providers.
External assurance delivered has been selected on a risk based approach. Areas of the business plan and supporting data tables which have been risk assessed as higher risk as well as significant models supporting forecasts have been subjected to more extensive assurance procedures such as deep dives in certain areas, and other relevant assurance procedures developed in collaboration with our external assurance partners.
Internal and external assurance procedures have been phased as early as reasonably possible to ensure that there is maximum time for Board scrutiny and for any remediation actions to be completed prior to publication and submission.
Extensive and timely Board and Audit Committee engagement has been scheduled, in particular to allow for rigorous challenge of the plan and its assumptions as well as oversight of the programme. Prior to submission of the business plan, the Board has signed a statement of assurance in particular detailing its approach to: <ul style="list-style-type: none"> <li>• Governance and strategic leadership</li> <li>• Ensuring compliance with relevant obligations</li> <li>• The framework and approach to assurance.</li> </ul>

### Summary of Integrated Assurance Framework Elements Utilised

Integrated Assurance Framework Elements Utilised		
1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>• Rigorous project management approach</li> <li>• Monthly reporting to Board level project steering group</li> <li>• Certification by business units of all submissions</li> </ul>	<ul style="list-style-type: none"> <li>• Extensive Board scrutiny</li> <li>• Internal assurance (directorate and Risk and Compliance)</li> </ul>	<ul style="list-style-type: none"> <li>• Assurance and challenge (risk based level of detail) upon financial data by financial assurance specialists</li> <li>• Jacobs audit and challenge of technical data</li> <li>• Other specific external assurance commissioned as deemed appropriate</li> <li>• External Customer Panel oversight</li> </ul>

## Key assurance areas

This document summarises the assurance activities South West Water has undertaken to demonstrate the approach the Board has taken to assure itself that the business plan is high quality and deliverable, and that it has challenged management to ensure that this is the case. It includes strong assurance and has been subject to a robust governance process.

### Business planning

The Board has led the development of the business plan and is accountable for it. The Board has challenged and satisfied itself that:

- All the elements add up to a 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;
- The business plan will deliver operational, financial and corporate resilience over the next control period and the long term
- 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
- It has provided ownership of the overall strategy and direction of the plan in the long term.

A key aspect in the development of the South West Water business plan has been the approach the Board has taken to assure itself that the plan is high quality, founded in customer and stakeholder priorities and compliant with required obligations. High levels of transparency are central to this.

We understand the need to ensure that the business plan is of a high quality. We believe this is fundamental in ensuring legitimate and continued engagement and support from customers and stakeholders for the plan we have developed.

The principles and approach to Board assurance build on the existing South West Water business planning and performance reporting framework and integrated risk and assurance approach which ensure South West Water's risk and assurance processes are embedded into the management of the company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite.

South West Water's integrated assurance plan ensures, utilising a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of assurance requirements. For PR19 we have engaged external assurance providers who have reviewed the overall strategy for data assurance and governance processes to deliver high-quality data.

The remainder of this section provides clear links to Ofwat's Initial Assessment of business plan test areas. For each of these areas it includes specific risk assessment considerations, which form the basis of the assurance approach in line with South West Water's integrated assurance framework, as well as a summary of results of the assurance performed. Where risks and/or issues have been identified, details of South West Water's action plans to sufficiently mitigate these risks and/or issues have been included.



#### Engaging Customers



#### Addressing Affordability & Vulnerability



#### Delivering Outcomes for Customers



#### Securing Long-Term Resilience



#### Targeted Controls, Markets & Innovation



#### Securing Cost Efficiency



#### Aligning Risk & Return Financeability



#### Accounting for Past Delivery



#### Securing Trust, Confidence & Assurance



**Key assurance areas** continued

**Earning customers' trust**

To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand both the company's corporate and financial structures and how they relate to its long-term resilience)?

During PR14 we created WaterShare not only to share the benefits with customers in a timely manner but also to be more open and transparent with our customers with all areas of our performance and what it meant for customer bills. WaterShare reporting has been overseen by an independent WaterShare Panel since PR14 with minutes being published and publicly available and a report from the Panel being sent to Ofwat every year. As part of the annual company Monitoring Framework process we continually seek feedback from customers on the way in which we report information to customers including our corporate and financial structure. As part of a listed group we are bound by the UK governance code resulting in high levels of transparency in this area compared to non-listed entities. We have also engaged on areas such as our tax strategy to help inform our plans.

**Meeting statutory and licence obligations**

To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver and that the Board will monitor delivery of its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?

South West Water has a number of statutory obligations including those within the Water Industry Act, the South West Water Licence, Competition Act and the Strategic Policy Statement (SPS) issued by Defra. Furthermore, the Environment Agency and Natural England's water industry strategic environmental requirements (WISER) document set out certain statutory obligations on water companies:

<b>Enhancing the environment</b>
<ul style="list-style-type: none"> <li>Improving, managing and conserving water as a valuable resource for business, people and wildlife</li> <li>Protecting and enhancing the water environment by contributing to the achievement of water and biodiversity objectives</li> </ul>
<b>Improving resilience</b>
<ul style="list-style-type: none"> <li>Improving, the resilience of water supply, wastewater, drainage, ecosystems and catchments to risks posed by extreme weather, climate change and population growth</li> <li>Protecting communities from flooding by implementing cost-effective, co-funded solutions</li> </ul>
<b>Excellent performance</b>
<ul style="list-style-type: none"> <li>Sustaining a high level of performance and operating in a way that best protects people and the environment</li> <li>Achieving 4* status on the Environment Performance Assessment</li> </ul>

The Environment Agency and Natural England have also set out wider expectations for companies:

<b>Valuing the environment</b>
<ul style="list-style-type: none"> <li>Consider the social and economic value of the environment, using it to inform decision making and to secure wider benefits for communities and society</li> </ul>
<b>Embracing innovation</b>
<ul style="list-style-type: none"> <li>Seek opportunities to improve the environment through better industry practices, better urban design and better land management</li> </ul>
<b>Seeking partnership</b>
<ul style="list-style-type: none"> <li>Work with others to allow catchments to function more naturally and wildlife to thrive</li> </ul>

## Key assurance areas continued

We have worked with our regulators and stakeholders including the Environment Agency, Drinking Water Inspectorate, Natural England, Defra and CCWater to confirm their obligations, test with customers and validate our plans to ensure these obligations were met.

We have included a programme of interventions within our business plan that is compliant with the SPS and the Water Industry National Environment Programme (WINEP) in so far as:

- Full scale interventions are only made at locations where there is a clear need to invest. Investigations will be undertaken at other locations within the WINEP where we believe the need to invest in a full scale intervention is uncertain
- Subsequently, if it is found that full scale intervention is required, the investment will be made in order to meet the requirements of the WINEP in 2020-25
- This approach has been endorsed by the relevant regulators
- The WFCP has attended separate meetings with our stakeholders to consider the legislative obligations and how these are satisfied within our plan.

## Track record for assurance

To what extent does the company have a good track record of producing high quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?

South West Water has consistently been in the upper quartile assessment of company's assurance as assessed by Ofwat's company Monitoring Framework (CMF). In the three assessments made to date South West Water has been in the self assurance and targeted assurance categories.

South West Water provides good, high quality assurance for all of the information submitted or published irrespective of whether it is for a price review or not. We take every aspect of data provision seriously and ensure the strong governance framework we have is followed at all times.

## Quality of data submitted

How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?

An integrated assurance process has been developed which includes robust internal checks with Senior Manager and Director sign-off, quality control and review complemented by independent external assurance from KPMG and Jacobs.

External assurance has been targeted in specific areas to support the confirmations included in the Board Assurance Statement.

In addition specific external reviews have been completed on key areas of estimates such as cost models, financial modelling and key plan inputs.

All data tables and commentaries are being externally assured.

## Key assurance areas continued

### Key test areas

Here we provide a brief overview of the overall basis of Board assurance in each test area, including demonstrating areas of challenge from the Board and external parties. This section is followed by two-page summaries of the approach to, and results of, assurance for each test area, in which we summarise why we are confident as a Board that in each area we are confident the plan is high quality and deliverable, and ambitious and innovative.

#### 1. Engaging customers

Customer engagement is central to our PR19 business plan and is viewed as essential to securing trust, confidence and assurance in our plans. Our business plan has been informed by our most extensive and innovative customer research and engagement programme to date.

Our overall customer engagement strategy is closely overseen by our Board and this is no different to the engagement undertaken specifically for our PR19 business plan. Initially our Board reviewed, challenged and ultimately approved the customer engagement strategy and PR19 plan at the PR19 Sub Committee at the start of the PR19 process. Our Board has been involved throughout all of the engagement with customers to hear first hand customer views.

This has included regular attendance and involvement in

- Customer focus groups
- Stakeholder workshops
- Customer challenge group meetings (see below)
- Triangulation workshops and resultant cost benefit analysis
- Review of post event surveys from customers
- Willingness to pay surveys
- Customer co-creation workshops.

Our overall approach to customer engagement has been peer reviewed and quality assured. Each element of our customer engagement plan has been undertaken by independent experts and consultants with peer reviews for material areas such as willingness to pay surveys (Professor Ken Willis) confirming the process and results are reliable for inclusion in the plan.

Ever since the submission of our PR14 business plan the Board has been extensively involved in engaging with our independent South West Water WaterShare Panel (responsible for overseeing WaterShare governance and operation), Bournemouth Water Customer View Group (responsible for monitoring and reviewing performance) and WFCP (responsible for scrutinising the quality of engagement in our combined PR19 plan).

Over 80 meetings with the various Panels have ensured that there has been enormous scrutiny on our performance, the quality of our engagement with customers and the extent to which we have reflected this in our plans.

Each year the Chair of the WaterShare Panel and Customer View Group publish a report on the assessment of our performance and presents it at the South West Water Board meeting. A copy of these reports are also sent to Ofwat and published on our website.

The Chair of the WFCP also has an open invitation to attend the South West Water Board to provide an update on progress and any issues. South West Water independent NEDs have attended WFCP meetings every quarter to meet the Panel directly without any Executives present. This provides a backstop that ensures customers views are heard at Board. The Board has committed to a customer share ownership scheme post 2020 which will empower customers and give them greater power to openly hold us to account.

At the conclusion of the PR19 process, the Chair of the WFCP presented their overall assessment to the South West Water Board concluding that the quality of our customer engagement was high and could be relied upon and that customer views had been taken into account and were clearly reflected in the plan.



For more information, see [WaterFuture Customer Panel Report](#)

The result has been the highest ever level of customer acceptance of our plans with 88% of South West Water customers finding our proposed PR19 plan acceptable and 92% of Bournemouth Water customers.

This direct involvement in this area of the plan has enabled the Board to be confident that **our business plan has been informed by:**

- **Customer engagement**
- **Feedback from our WFCP about the quality of our customer engagement and how we have incorporated this into the plan.**

This is included in our signed Board assurance statement.



For more information, see [Board Assurance Statement](#)

## Key assurance areas continued

### 2. Addressing affordability and vulnerability

Affordability is one of the key themes of our plan and a priority for our customers. Our Board has overseen the development of a well established and effective affordability and vulnerability package for our customers who need or might be at risk of needing support.

The Board was instrumental in embedding a culture of cost and service focus to ensure bills are kept as low as possible. This has been very successful but even with lower bills now than in 2009 we know that some customers still struggle to afford their bill. The Board has overseen the development of an industry leading package of support measures starting back in 2003.

The Board also played a key part in influencing the introduction of the £50 government contribution to all household customers in 2013. The Board has ensured the development of a plan that shows from our customers with or without the £50 being retained post 2020.

Detailed analysis has been undertaken by an independent expert illustrating the impact on customer affordability of proposed bill levels with and without the £50. Different packages of support measures have been tested and challenged by Board to enable them to commit to develop an overall enhanced package of innovative affordability measures that will ensure all customers can afford their bill, addressing water poverty for our customers by 2025.

This package of measures has been tested with customers and the independent WFCP who challenged the Board and iNEDs directly on how the company was ensuring all customers could afford their bill, and in particular, if the £50 government contribution was not retained post 2020. The WFCP were very supportive of the response from our Board and the proposed package of affordability measures.

Affordability is closely linked to vulnerability and is also an important part of the plan. The Board has been directly involved in incident management, where service disruption to customers can have acute vulnerability impacts. This oversight has ensured the prioritisation of service provision and response, and the establishment of partnerships with key organisations such as the Red Cross and MIND.

We have had the highest levels of customer acceptability we have ever seen of our plan, with 88% of South West Water customers finding our proposed PR19 plan acceptable and 92% of Bournemouth Water customers finding our proposed PR19 plan acceptable. South West Water customer acceptance reduces to 80% when the bill is £50 higher (i.e. assumes the £50 is not retained post 2020).

For those customers not finding their bill affordable and are classified as being in water poverty (water bill makes up more than 5% of their disposable income) affordability support measures will be used so that the bill is considered affordable.

This direct involvement in this area of the plan has enabled the Board to be confident that **our 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.**

This is included in our signed Board assurance statement.



#### Board Assurance Statement

### 3. Delivering outcomes for customers

The Board has provided extensive oversight and scrutiny of performance against promises made to customers in our PR14 business plan. Performance is reported to Board every month through our integrated governance and assurance framework.

Our Board led customer focused culture and focus on performance has helped ensure the business delivers our stretching promises and performance commitments made to customers. This governance framework and continuous review of performance and actions to address performance to target improvements where required, will be retained post 2020 and give confidence our commitments will be delivered.

The transparent reporting of performance through the WaterShare scorecard and the independent WaterShare Panel review and scrutiny of our performance has also ensured focus on delivering for customers is reinforced. During the annual in-period licence adjustment our process and engagement with customers and the WaterShare Panel on decisions for the sharing of outperformance have enhanced the focus on delivering our outcomes.

Our WaterShare framework and mechanism is being enhanced for PR19 with the introduction of a customer share ownership scheme giving customers extra power to hold us to account and have a greater say in the business.

The most extensive customer research and engagement programme ever undertaken has resulted in over 900 data points used to validate the values customers place on our services. Independent assurance reports and peer reviews have been provided to enable our Board to place reliance on the data being used to drive the cost benefit analysis used to develop stretching performance targets post 2020 in the areas that matter most to customers.

The Board has attended ODI workshops with our WFCP where significant challenges were made about forecast performance to 2020 and targets to 2025. All challenges were effectively responded to. The Board also attended various customer focus groups during the development and testing of ODIs.

## Key assurance areas continued

Proposed ODIs have been rigorously reviewed by the Board with sector leading performance targeted in many areas. Strong incentives have been proposed to ensure focus is given to the delivery of priority areas for customers. This has included the ambitious Board commitments to:

- Reduce leakage levels by 15% by 2025 at no extra cost to customers
- Address water poverty for our customers by 2025
- Eradicate serious pollutions to the environment.

This direct involvement in this area of the plan has enabled the Board to be confident that **our business plan will deliver – and that the Board will monitor delivery of – our outcomes and performance commitments. Our outcomes, performance commitments and outcome delivery incentives are grounded in what customers have told us and reflect their preferences for stretching levels of performance. Our internal governance and assurance framework, supplemented by the independent WaterShare+ Panel provides a robust and reliable approach to accurate and transparent reporting of our performance commitments, ODIs and projections of performance.**

This is included in our signed Board assurance statement.



Board Assurance Statement

### 4. Securing long-term resilience

The Board oversees a well established fully integrated risk and assurance governance framework that has delivered a consistently reliable and resilient service for our customers. This helps us to live up to our values of 'trusted' and 'responsible' in the way we provide service to our customers. The Board led risk management approach incorporates both 'top down' and 'bottom up' processes, ensuring a common understanding of the risks and opportunities that the business is exposed to now and in the longer term. Actions and mitigations are scrutinised by the Board to understand any potential detrimental impact to the achievement of providing a reliable and resilient service to customers.

In addition to the oversight of internal assessment of risks, the Board commissioned two independent assessments of our operational, corporate and financial resilience. The results of the independent assessments were consistent with our own resilient assessment that our systems and services are resilient.

The Board regularly require the business to stress test systems and processes which have helped identify areas where resilience could be improved. These improvements were also consistent with the independent resilience assessments.

As a result, the Board has overseen the development of a resilient service improvement initiative aimed at addressing known risks where the resilience of our systems and processes could be improved further. One of the work streams included under this resilience improvement initiative is an ambitious collaboration with Exeter University to develop an innovation centre for water, waste and environmental resilience. This along with our partnership with University Technical College (UTC) and apprenticeship scheme will ensure we retain and develop a highly skilled workforce with appropriate infrastructure and systems to deliver a resilient service for the long term.

The Board has also attended customer focus groups and workshops to ascertain first hand customer views on resilience. The Board's involvement in the Freeze and Thaw incident following Storm Emma provided valuable insight into the resilience of our service under the most extreme circumstances. Board review of customer feedback from surveys with those communities most impacted by the incident has been invaluable in helping to shape and inform our plans for the future and specific community resilience improvement projects.

This direct involvement in this area of the plan has enabled the Board to be confident that **our business plan has been informed by:**

- **A robust and systematic assessment of the resilience of our system and services**
- **Customers' views about managing resilience**
- **A comprehensive and objective assessment of interventions to manage resilience in customers' long term interests.**

This is included in our signed Board assurance statement.



Board Assurance Statement

### 5. Targeted controls, markets and innovation

South West Water's plan has considered the longer term in the areas of targeted controls, markets and innovation.

The company has an established and successful model of delivering its services utilising partners, whether in wholesale and retail operations or in capital and engineering projects.

During 2015-20 we worked with overseas experts in water treatment membrane technology to develop the design, test the process and construct the Mayflower Water Treatment Works in North Plymouth. Building on this, the plan for 2020-25 includes similar partnerships for example in the development of two new treatment works in the Bournemouth Water area.

## Key assurance areas continued

Longer term plans include delivery of water trading schemes, which form part of the Board's longer term strategy and, we are putting in place the frameworks and processes necessary to operate such schemes.

This has enabled the Board to be confident that the plan is embracing markets and has an embedded culture for innovation.

This is included in our signed Board assurance statement.



### Board Assurance Statement

## 6. Securing cost efficiency

The Board customer driven culture, focused on cost and service efficiency, is central to the development of our business plan.

Following the assessment of our cost base as efficient in PR14 the Board has continued its drive on efficiency to keep bills as low as possible for customers. The Board led the merger and subsequent integration of Bournemouth Water realising significant synergies across each element of the business delivering significant benefits for our customers.

Detailed analysis from independent econometricians supports the Board assertion that the benefits derived from the merger alone creates a better comparator and reinforces our position at the forefront of the industry efficiency.



### For more information, see Securing Cost Efficiency

The cost focus embedded into our business has delivered significant totex efficiencies resulting in c. £170m of totex outperformance by the end of 2017/18. This focus will continue and all costs proposed for inclusion in the plan have been rigorously challenged by the Board. A stretch target of 1% per annum on operating costs and 5% on capital costs have been included in our plan to further push the cost efficiency benchmark for the industry.

Independent cost consultants have also been commissioned by the Board to provide assurance over costs included for capital and operating solutions considered for inclusion in the plan. Material and or / large investment and expenditure have been externally assured. These costs have then been included in the detailed cost benefit appraisal to derive the optimum package of expenditure to deliver customer preferences for services in the most efficient manner. This has also been tested with our WFCP, Drinking Water Inspectorate and the Environment Agency.

Our largest single investment, the new first of its kind ceramic membrane water treatment works in Plymouth is nearing successful completion. Regular updates have been provided to Board throughout the construction and commissioning of this investment. The successful delivery provides the Board with the confidence to propose further roll out this technology to two further new water treatment works in our PR19 business plan.

This direct involvement in this area of the plan has enabled the Board to be confident that **the expenditure forecasts included in our plan are robust and efficient. In addition the Board are confident that**

- **Large investment proposals are robust and deliverable**
- **A proper assessment of options has taken place**
- **The proposed option is the best one for customers**

This is included in our signed Board assurance statement.



### Board Assurance Statement

## 7. Aligning risk and return

In 2013 the Board pledged to transparently report performance and to fairly share the risk and return fairly between customers and investors. This remains a core value of the Board.

The Board oversees a well established fully integrated risk and assurance governance framework that has delivered a reliable and resilient service for our customers. All aspects of the risk and return package are reviewed and scrutinised by the Board as part of this framework.

The Board's oversight has enabled outperformance on all elements of the risk and return package even when unexpected events occur. The Board regularly review scenarios, assessing potential risks and mitigating impacts.

In PR14 the Board created the WaterShare mechanism and framework as an innovative way of fairly sharing the benefits of risk and reward between customers and shareholders. Alongside a Board pledge to keep bill rises below inflation this has been a huge success in providing a backstop protection for customers.

After further engagement with customers we are applying the principles of WaterShare to include Bournemouth Water customers for the first time and also an unprecedented move of developing and converting WaterShare benefits into a customer share ownership scheme. This will provide even greater alignment between customer and shareholder interests and sharing of risk and return. The Board believe that 'unearned' gains should be returned to customers in full.

## Key assurance areas continued

Customers have been engaged on all elements of the proposed risk and return package and show strong support for the proposed package. The establishment of a sharing mechanism for outperformance on the cost of embedded debt further enhances customers views and acceptance of the proposed risk and return package.



For more information, see [Aligning Risk & Return](#)

The Board has also attended customer focus groups and workshops to hear feedback first hand and customer views on the risk and return package.

Detailed analysis of financial scenarios which have been reviewed by Board confirm the operational, corporate and financial resilience of our business and PR19 plans. This assertion is reaffirmed by independent expert analysis.



For more information, see [Securing Long-Term Resilience](#)

This direct involvement in this area of the plan has enabled the Board to be confident that **the Board has identified the risks associated with delivering the plan and also the mitigating activities and management plans to reduce the risks to acceptable levels agreed with our customers.**

This is included in our signed Board assurance statement.



[Board Assurance Statement](#)

## 8. Accounting for past delivery

In July 2018, South West Water published its Annual Performance Report, which included an update on both performance against annual performance commitments and an updated forecast against 2020 targets.

These forecasts are consistent with forecast performance for 2018/19 and 2019/20 contained within the business plan.

While South West Water has met the majority of its performance commitments so far during the regulatory period, and is demonstrating clearly that it is on track to meet the majority of 2020 targets, there are a number of challenging areas, including in respect of pollutions performance.

In respect of these challenging areas, the Board has scrutinised delivery plans which have been developed to ensure delivery of its 2020 targets. External technical assurance has considered these plans.

In each case the Board is satisfied with the plan in place, and these were summarised in the Annual Performance Report.

The Annual Performance Report details plans in place where further improvements are required to meet 2020 targets.

## Financeability

Ensuring the financeability of the business is a strategic priority for the Board. The Board continually review the financial stability and viability of the business to ensure there is adequate headroom and protection for customers.

The Board has considered the key financial ratios and financeability of the overall business plan, balanced with customer affordability considerations. The Board has tested the financeability and affordability under different scenarios, identifying key risks and testing against ranges of possible outturns on cost and revenue drivers, operational performance, and the impact of regulatory incentives including outcome delivery incentives (ODIs).

The Board's approach to attracting and securing finance for the business at the minimum cost to our customers, including the balance between equity and debt, cost recovery assumptions and other factors have a significant impact on financeability constraints are described in the risk and return element of our plan.



For more information, see [Aligning Risk & Return](#)

The direct involvement in this area of the plan has enabled the Board to be confident that **the 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 Board has taken the following specific steps to assess the financeability of the plan:**

- **What are the different scenarios possible post 2020?**
- **What are the key risks?**
- **What potential cost impacts?**
- **What are the potential impacts on revenues?**
- **What are the impacts of regulatory incentives including ODIs?**
- **Is the plan affordable for customers?**

**In every potential scenario considered the plan is financeable and affordable for customers, giving adequate protection for customers in the short and long term.**

## Key assurance areas continued

This is included in our signed Board assurance statement.



### Board Assurance Statement

## 9. Securing trust, confidence and assurance

The business plan has been designed to ensure that as a whole it is high quality and consistent. A central team supported by specialists across the business and independent external consultants have co-ordinated a thorough, extensive and joined-up process.

South West Water has utilised its integrated assurance framework to design an assurance process which ensures that individuals across the business have reviewed and certified the methodology, data and commentary which form the building blocks of our business plan. These internal processes have been complemented by comprehensive external assurance.

Responsibilities for data, methodologies and commentaries have been allocated across relevant sections of the business and Senior Managers and Directors have provided internal assurance through robust reviews and individual assurance statements in respect of all data tables and other significant data relevant to the business plan.

South West Water has engaged a technical assurance partner to confirm compliance with Ofwat's methodology and reporting requirements as well as to rigorously challenge the company's submissions.

We have also employed the services of a financial assurance partner. In line with considerations in respect of the South West Water Code and the UK Corporate Governance Code, we have employed a firm separate to our statutory financial auditor. A rigorous data mapping process has been undertaken to ensure that all data within data tables and other relevant data is appropriately assured by the relevant external assurer.

The scope of the external financial and technical assurance process in respect of the business plan has been to:

- Consider our plans against the Ofwat methodology and price setting framework
- Review and challenge the appropriateness of the assumptions, estimates and projections used in our financial modelling, data tables and wider business plan
- Consider the robustness of any supporting documentation
- Assure the accuracy and consistency of data within all business plan documents.

In exercising its judgment on the production of this business plan the Board has taken into account the following main factors:

- Information, including supporting explanation and identification of potential exceptions, arising from management review of company performance
- Meetings and discussions with the external technical and financial assurance providers

Through their involvement in the plan and the collective impact of how the plan has been developed, the Board are confident that the plan promotes trust, secures confidence and embeds a strong assurance culture.

### External assurance undertaken

In line with our Integrated Assurance Framework, external assurance has been undertaken throughout the development of our business plan. This has utilised core financial and technical assurance partners as well as other specialists for individual areas.

Summary reports from our core partners have been provided as appendices to this document.

This document provides more detail concerning the lines of defence and external assurance utilised in line with each initial assessment of business plan area.

The Board concluded for each significant submission, including the submission of its business plan and supporting data tables that it had obtained sufficient assurance to enable it to sign supporting Board Assurance Statements concerning each submission.



Key assurance areas continued

# 1. Engaging Customers

South West Water’s Board has taken appropriate measures to ensure that the quality of its customer engagement, including its approach to customer participation is sufficient and that the customer engagement is reflected across its business plan.

## Gross Risk Assessment

The Board has considered the gross risk in respect of Engaging Customers prior to determining appropriate levels of assurance to be performed in respect of the area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity		●		
Level of judgment		●		
Historical performance in area (including assurance)			●	
Impact upon other test areas	●			
Impact of other test areas		●		
Scale/volume		●		
Impact upon overall business plan	●			
<b>Overall risk assessment</b>	<b>Medium</b>			

## South West Water’s Integrated Assurance Framework Elements Utilised

In line with South West Water’s Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>Executive ODI Group oversight</li> <li>Expert market research and economic regulation partners – appropriate to each customer engagement exercise (Turquoise Thinking, ICS Consulting, Eftec)</li> <li>PR19 Steering Group</li> <li>Programme Office control</li> <li>Triangulation of more than 900 data points</li> </ul>	<ul style="list-style-type: none"> <li>Internal reviews and analysis of customer research</li> <li>Peer reviews throughout the customer engagement process for example, from Professor Ken Willis,</li> <li>Robust sampling strategies agreed with the CCG (ensuring proper representation of customer base)</li> </ul>	<ul style="list-style-type: none"> <li>Oversight of customer engagement by independent CCG, including from scrutiny of the planned engagement programme through to presentation and application of results</li> <li>Jacobs technical audit of business cases / investment plans including explicit scope to consider linkage to customer engagement</li> <li>WFCP sub-group chair reports</li> </ul>

## Board scrutiny of area

Our overall customer engagement strategy is closely overseen by our Board and this is no different to the engagement undertaken specifically for our PR19 business plan. Initially our Board reviewed, challenged and ultimately approved the customer engagement strategy and PR19 plan at the PR19 Sub Committee at the start of the PR19 process.

Our Board have been involved throughout all of the engagement with customers to hear first hand customer views, including being present at engagement events.

Since the submission of our PR14 business plan the Board has been extensively involved in engaging with our independent South West Water WaterShare Panel (responsible for overseeing WaterShare governance and operation), Bournemouth Water Customer View Group (responsible for monitoring and reviewing performance) and WFCP (responsible for scrutinising the quality of engagement in our combined PR19 plan).

**Key assurance areas** continued

The Board has scrutinised both internal outputs and reports concerning customer engagement as well as reports and challenges from the Customer Challenge Groups (CCGs) in both the areas which we operate. It has also considered the technical auditors review of business cases and linkages to customer engagement activities and outputs to ensure that customer priorities identified are appropriately addressed.

A research, engagement and vulnerability subgroup, to the WFCP, was established. It was externally chaired by Steve Meakin, former chair of the Institute of Money Advisers and

included CCW representation. It received summaries of all customer engagement from valuation strategy to survey questions to research reports. A challenge log was reviewed at each meeting and this has been published on our website.

The Board ensured that the WFCP had access to all data and analysis it needed, and ensured NEDs independently met with WFCP on regular basis, so as to discuss the process of engagement and ensure all WFCP challenges were heard and addressed by Board.

**Assurance findings summary**

The South West Water Board has obtained satisfactory assurance that the business plan is based upon extensive customer engagement and participation which has shaped the plan including in areas of longer term issues such as resilience, and taken into account the needs and requirements of future customers.

	RAG
Engaging customers - ensuring topics covered in depth, including ensuring difficult concepts e.g. risk and resilience made accessible	●
Engaging customers – channels of engagement and sufficiency of engagement - make best use of existing data, new technologies and techniques to ensure wide range of evidence and customers engaged meaningfully	●
Customer participation in engagement and the business planning process – two way participation, with feedback loops, customer engagement in considering role in delivery mechanisms, e.g. through water efficiency , and participation in considering delivery options	●
Engagement in longer-term issues such as resilience – ensure new in depth conversations with customers to develop understanding of and gauge appetite for risk and views on options	●
Consideration of the needs of future customers – provide specific focus and innovative ways for gauging views of future customers	●
Inclusion of customer engagement outputs in the whole business plan – ensure robust and peer reviewed process of triangulating wider data sets and sufficient points of testing iterations of options and plans with customers	●
WFCP business plan approval – ensure management and Board address Ofwat expectations and are fully responsive to WFCP needs and challenges to provide basis for fostering a positive WFCP report	●
Customer acceptability of plan – aim for high levels of customer acceptability through ensuring customer preferences properly addressed in plan	●

**High-quality plan**

The Board's view is that its plan has taken into account at all stages evidence and challenges from our CCGs and this has been demonstrated in the CCGs' summaries of customer engagement.

Customer engagement was detailed, innovative and thorough, considering key important challenges for the future, for example detailed consideration of potential longer term resource challenges and explicit consideration of future generations views, and widening of discussion around resilience.

Customer engagement has also been tailored in both South West Water and Bournemouth Water operational areas to ensure differences in customer priorities can be considered and to ensure research conducted is sufficiently rigorous and extensive in each area.

**Ambitious and innovative**

The Board were proud of our engagement with customers at PR14, which was the bedrock of our business plan. In PR19 we have gone further utilising modern approaches to obtain more detailed and varied customer input and feedback than ever before.

Focus groups covering a broad representative section of our customers were again used, utilising a mixture of approaches in obtaining feedback – such as live in-group key pad voting.

We utilised social media to drive engagement and interest in the process and our website to provide further information and innovative tools to gain further feedback – for example, interactive videos including research questions such as choices around Water Resources.

**Risks and issues identified**

There are no notable risks or issues with regards to this area.

Key assurance areas continued

## 2. Addressing Affordability & Vulnerability

South West Water’s Board has taken appropriate measures to ensure that the business plan is affordable and represents value for money in the 2020-25 period, demonstrates that bills will be affordable and value for money beyond 2025, continues to provide assistance options for those struggling or at risk of struggling to pay and provides support to customers in vulnerable circumstances.

### Gross Risk Assessment

The Board has considered the gross risk in respect of addressing affordability and vulnerability prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity		●		
Level of judgment	●			
Historical performance in area (including assurance)			●	
Impact upon other test areas	●			
Impact of other test areas		●		
Scale/volume		●		
Impact upon overall business plan	●			
<b>Overall risk assessment</b>	<b>High</b>			

### South West Water’s Integrated Assurance Framework Elements Utilised

In line with South West Water’s Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>Executive ODI Group oversight</li> <li>PR19 Steering Group</li> <li>Programme Office control</li> </ul>	<ul style="list-style-type: none"> <li>Internal reviews and analysis of customer research</li> </ul>	<ul style="list-style-type: none"> <li>Oversight of customer engagement by independent CCG</li> <li>Jacobs technical audit of business cases/ investment plans including explicit scope to consider linkage to customer engagement</li> <li>Sub group chair reports</li> </ul>

### Board scrutiny of area

The Board has scrutinised both internal outputs and reports concerning affordability and vulnerability and the package to ensure that financial support is provided when necessary, customers are empowered and behavioural change is encouraged.

## Key assurance areas continued

### Board scrutiny of area continued

The research, engagement and vulnerability subgroup (REAV). It received extensive summaries relating to the affordability and vulnerability package provided in the plan and considered the plan against views of the WFCP in respect of affordability and vulnerability.

### Assurance findings summary

The South West Water Board has obtained satisfactory assurance that the plan is based upon extensive research including the utilisation of externally developed tools that have helped understand the profile of vulnerability across the region. It is confident that the plan will help enact a step change in reducing water poverty and partners with third-parties where necessary to address affordability issues.

	RAG
Overall bill affordability during 2020-25	●
Long term affordability beyond 2025	●
Affordability for those struggling to pay their bill	●
Affordability for those at risk of struggling to pay their bill	●
Identification of vulnerability	●
Access to South West Water service for vulnerable customer	●

### High-quality plan

The plan includes continuation of South West Water's industry leading affordability schemes, but has also considered future vulnerability challenges that may be presented.

This follows extensive customer engagement with respect to affordability and vulnerability.

### Ambitious and innovative

We are committed to continue delivering and expanding upon our sector leading affordability schemes. In PR19 we have gone further than during the 2015-20 period utilising modern approaches to obtain more detailed and varied customer input and feedback than ever before. South West Water's WaterShare scheme will continue to provide a transparent independent external framework based on customer research.

Focus groups covering a broad representative section of our customers were again used, utilising a mixture of approaches in obtaining feedback – such as live in-group key pad voting.

We used a tool developed by Oxford Consultants for Social Inclusion, that accesses 900 data sets to build a profile of vulnerability across our region. We are also drawing on our own experience, for example that from the 'Beast from the East' cold snap, and partnering with local organisations to identify customers who may be less resilient to supply incidents. Employing the charity MIND we train our staff to be more aware of mental health conditions and their potential triggers for vulnerability.

South West Water has thoroughly engaged with third parties, such as the British Red Cross to consider further improvements which could be made in light of the extreme weather conditions in March 2018 which led to the freeze/thaw conditions.

### Risks and issues identified

Customer engagement has identified that customers' views of bill affordability are linked to the continuation of the £50 Government contribution.

Key assurance areas continued

### 3. Delivering Outcomes for Customers

South West Water’s Board has taken appropriate measures to ensure that the business plan provides a focus on service performance across the 2020-25 period, which is supported by stretching and well-evidenced proposed performance commitments and service levels as well as package of outcome delivery incentives.

The outcomes proposed follow our largest programme of customer engagement to date.

#### Gross Risk Assessment

The Board has considered the gross risk in respect of delivering outcomes for customers prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity		●		
Level of judgment		●		
Historical performance in area (including assurance)			●	
Impact upon other test areas		●		
Impact of other test areas		●		
Scale/volume	●			
Impact upon overall business plan		●		
<b>Overall risk assessment</b>	<b>Medium</b>			

#### South West Water’s Integrated Assurance Framework Elements Utilised

In line with South West Water’s Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>Executive ODI Group oversight</li> <li>PR19 Steering Group</li> <li>Programme Office control</li> <li>Priorities tested at each stage of programme development</li> </ul>	<ul style="list-style-type: none"> <li>Analysis of customer engagement to identify priorities</li> <li>Review of outcomes against willingness to pay</li> <li>Peer reviews</li> </ul>	<ul style="list-style-type: none"> <li>Independent review by customer panels</li> <li>Technical auditor review of outcomes selected, considering degree of stretch</li> <li>Extensive customer group challenge (standing agenda item at WFCP and Legislative, Resilience, Environment, Investment (LREI) meetings)</li> </ul>

#### Board scrutiny of area

The Board provides extensive scrutiny regarding delivery of outcomes and this scrutiny has extended to the development of outcomes for 2020-25.

The WFCP Chair attended South West Water’s Board meetings to provide updates on progress, in particular with regards to outcomes. The Panel also had sessions with the NEDs (including the Chair), which were independent of the company’s Executive Directors and Management.

## Key assurance areas continued

### Assurance findings summary

The South West Water Board has obtained satisfactory assurance that the business plan will deliver the outcomes and performance commitments laid out within the plan and that they are sufficiently stretching, reflecting customer and other stakeholder priorities.

It has also obtained satisfactory assurance that the proposed approach to reporting upon its commitments, ODIs and projects is robust.

	RAG
Design and development of stretching outcomes and performance commitments	●
Alignment of outcomes and performance commitments to customer willingness to pay	●
Design of the business plan to ensure achievement of South West Water's outcomes and performance commitments	●
Framework for robust reporting of performance against outcomes and commitments	●

### High-quality plan

The Board believe the plan has once again set stretching performance commitments covering all areas of its business which will build upon improvements already made to deliver significant improvements across the 2020-25 period.

In addition to assurance work undertaken by our external technical assurer, Jacobs, which has considered the degree of stretch within each outcome and performance commitment, the Board has ensured that each CCG has been fully engaged in the review of the design of the outcomes and commitments we have laid out and the levels at which these have been set (considering customer engagement and willingness to pay).

The Board also believe that the package of ODIs to incentivise delivery and the overall risk and return package ensure that the company will be committed to achievement against all of its outcomes and performance commitments.

### Ambitious and innovative

South West Water's performance commitments demonstrate a continued focus across a range of innovative expansive all-encompassing set of performance commitments.

Reporting proposed on our outcomes and commitments for the 2020-25 period builds upon the annual reporting performed in the 2015-20 period, which was reviewed annually and updated to reflect customer and other stakeholder feedback and will provide enhanced web-based reporting. Specific focus was given to set an ambitious plan for wastewater.

### Risks and issues identified

The number and scale of the commitments selected, inevitably will challenge South West Water to ensure that all of its commitments are delivered in the forthcoming five-year period.

During the current regulatory period, South West Water has already demonstrated its focus and commitment in prioritising achievement of its committed performance levels, with the company's Executive ODI Group implementing action plans, and where necessary additional investments, to ensure that where a performance commitment is at risk, this is addressed.

Key assurance areas continued

## 4. Securing Long-Term Resilience

The South West Water Board has presided over a robust and systematic assessment of the resilience of the company's systems and services.

A number of performance commitments have been introduced into the 2020-25 business plan with the aim of maintaining and enhancing the resilience of the company.

### Gross Risk Assessment

The Board has considered the gross risk in respect of resilience (across all areas of resilience) prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity		●		
Level of judgment		●		
Historical performance in area (including assurance)			●	
Impact upon other test areas	●			
Impact of other test areas		●		
Scale/volume		●		
Impact upon overall business plan	●			
<b>Overall risk assessment</b>	<b>Medium</b>			

### South West Water's Integrated Assurance Framework Elements Utilised

In line with South West Water's Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>● Risk and Assurance Forum review</li> <li>● PR19 Steering Group</li> <li>● Programme Office control</li> <li>● Robust and systematic internal assessment of systems and services</li> </ul>	<ul style="list-style-type: none"> <li>● Legislative, Resilience and Environment Sub Group (internal and external) scrutiny</li> </ul>	<ul style="list-style-type: none"> <li>● Independent resilience assessment performed by PA Consulting</li> <li>● Financial resilience review performed by KPMG</li> </ul>

### Board scrutiny of area

The Board has presided over a robust and systematic assessment of the company's systems and services.

The Board reviewed the independent resilience assessment prepared by PA Consulting, with several of the Board having participated within the 'one page strategy' process undertaken during the assessment.

### Assurance findings summary

The South West Water Board has obtained satisfactory assurance that the business plan will deliver continued resilient services for customers over the 2020-25 period and will enhance the resilience of South West Water in the long term for future customers.

## Key assurance areas continued

	RAG
Customer engagement	●
Risk/resilience management systems	●
Financial resilience	●
Viability statement	●
Operational resilience	●
Stress testing	●

### High-quality plan

The Board believe that the business plan will maintain South West Water's position as a trusted and reliable provider of water and wastewater services to its customers now and in the future. As set out in the 2014 Price Review and confirmed in 'WaterFuture Our Vision 2020-2050', resilience remains one of the four guiding principles of our strategy.

The best available evidence has been used to identify the most effective options to mitigate identified risks.

KPMG were engaged to perform a thorough review of the financial resilience of South West Water considering a number of scenarios in line with the business plan. The Board are satisfied that South West Water is confident that it will remain financial resilient over the period and into the foreseeable future.

### Ambitious and innovative

South West Water's approach of continuous improvement has been demonstrated extensively over the last three decades, as demonstrated by the company's £2bn Clean Sweep programme removing coastal crude sewage and the pioneering catchment management programme Upstream Thinking.

In preparing our business plan for the 2020-25 period we have refreshed our approach to ensure that we continue to deliver a resilient service, by challenging ourselves to improve our risk management process, our systems and learn from our own experience and that of others in the industry. We are confident that our business plan robustly addresses this area.

Following the independent external assessment performed, South West Water has already commenced a change project 'Resilient Service Improvement' (RSI) which is focused on operational response and recovery through more effective use of data, business systems, processes, people skills and working arrangements. This programme is supported by and grounded in the outputs of the independent resilience assessment performed by external consultants, PA Consulting.

### Risks and issues identified

The independent assessment highlighted the need to develop further our risk management approach, more effectively coordinate a number of our strategic planning activities, and develop our plans for people skills and succession.

The transformational change programme RSI is already underway to address the areas highlighted.



Key assurance areas continued

## 5. Targeted Controls, Markets & Innovation

The South West Water Board has overseen the development of a plan which aims to make as efficient and effective use of ecoservice markets as possible and has thoroughly considered options for direct procurement.

The Board has overseen the use of innovative technologies and approaches used within the plan, building on South West Water’s track record for innovation.

### Gross Risk Assessment

The Board has considered the gross risk in respect of targeted controls, markets and innovation prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity		●		
Level of judgment		●		
Historical performance in area (including assurance)			●	
Impact upon other test areas		●		
Impact of other test areas			●	
Scale/volume		●		
Impact upon overall business plan		●		
<b>Overall risk assessment</b>	<b>Medium</b>			

### South West Water’s Integrated Assurance Framework Elements Utilised

In line with South West Water’s Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>● PR19 Steering Group</li> <li>● Programme Office control</li> <li>● Internal crowd sourcing of innovations (HYPE)</li> </ul>	<ul style="list-style-type: none"> <li>● Internal audit and monitoring of compliance with non-household market requirements</li> </ul>	<ul style="list-style-type: none"> <li>● Independent reports produced by KPMG in respect of water resources and bioresources market frameworks</li> <li>● Independent technical (Jacobs) and financial assurance (EY/KPMG) of RCV allocation submissions</li> </ul>

### Board scrutiny of area

The Board has presided over a thorough assessment of all significant elements of the business plan and considered innovative solutions for each area of the plan, such as the utilisation of the modern treatment techniques used within the North Plymouth Water Treatment Works, in the plan for the new treatment works in Bournemouth and Christchurch.

Submissions relating to water resources and bioresources markets have undergone challenge and review by the Board.

### Assurance findings summary

The South West Water Board has obtained satisfactory assurance that the business plan will deliver efficient and effective utilisation of markets and that the plan utilises innovative approaches to deliver high quality services as efficiently as possible.

## Key assurance areas continued

	RAG
Culture of innovation	●
Use of and engagement with markets	●
Integration of the Water Resources Management Plan into business planning	●
Long-term strategy for delivering bioresources services and wastewater planning	●
RCV allocations between water resources and water network plus as well as bioresources and wastewater network plus	●
Bid assessment framework for water resources, demand management and leakage services	●
Direct procurement assessments	●

### High-quality plan

The Board has demonstrated during 2015-20 and previously that the company embeds innovation into all aspects of its operations, such as the Mayflower Treatment Works or within its Upstream Thinking programme. The plan for 2020-25 builds upon the company's innovative approaches.

RCV allocations have been developed following extensive analysis as well as a high degree of external assurance and Board challenge.

### Ambitious and innovative

Our plan has a holistic approach to drive an innovation culture, through all aspects of our work. Our strong track record of innovation includes being one of the first companies to undertake catchment management and the recent use of ceramic membrane technology for water treatment.

The Board has also supported the development of a future water transfer to Southern Water, and direct procurement assessments.

South West Water's pre-established innovation hub process underpins the business activities and will continue to find new ways of solving problems and improving services to customers.

The Board has reviewed South West Water's approach to markets to ensure that the plan is sufficiently ambitious, establishes frameworks for the utilisation of markets and that options for utilisation of markets have been rigorously assessed.

The Board has reviewed South West Water's retail approach to ensure it is innovative and stretching for service provision.

### Risks and issues identified

Given the geographical position of South West Water, opportunities in respect of the bioresources market may be more limited than in other areas. Nonetheless, South West Water has fully engaged in the process of establishing processes and procedures to ensure the maximum possible opportunities exist, including exploring options with other companies.

A third party Direct Procurement for Customers (DPC) review concluded that whilst both the Alderney and Knapp Mill Water Treatment Work upgrades meets some traits needed for DPC it was not recommended overall due to either value for money or overriding risk issues.

Key assurance areas continued

## 6. Securing Cost Efficiency

The South West Water Board has ensured that forecasts across all revenue controls have been established following a rigorous cost assessment process, are stretching to the company and have been subject to sufficiently challenging external assurance processes.

Cost adjustment claims have only been submitted in a limited number of areas following extensive analysis and are grounded in strong evidence.

### Gross Risk Assessment

The Board has considered the gross risk in respect of securing cost efficiency prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity	●			
Level of judgment		●		
Historical performance in area (including assurance)			●	
Impact upon other test areas	●			
Impact of other test areas	●			
Scale/volume	●			
Impact upon overall business plan	●			
<b>Overall risk assessment</b>	<b>High</b>			

### South West Water's Integrated Assurance Framework Elements Utilised

In line with South West Water's Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>PR19 Steering Group</li> <li>Programme Office control</li> <li>Internal review and sign-off of all data tables</li> <li>Extensive data assurance of cost efficiency report</li> </ul>	<ul style="list-style-type: none"> <li>Internal independent verification</li> <li>Use of externally developed engineering estimate system (EES) cost database</li> </ul>	<ul style="list-style-type: none"> <li>Independent cost efficiency analysis provided by Oxera</li> <li>Assurance over submitted cost assessment data by external financial assurance specialists</li> </ul>

### Board scrutiny of area

The Board has challenged the overall efficiency of the plan and forecasts contained within the plan.

It has received regular reports in respect of Finance, Cost Assessment and Assurance including those prepared by independent consultants, Oxera.

It has also reviewed the results of extensive internal and external assurance processes undertaken.

## Key assurance areas continued

### Assurance findings summary

The South West Water Board has obtained satisfactory assurance that the business plan demonstrates efficiency across all revenue controls and that the plan is designed in such a way as to continually improve the efficiency of the business.

	RAG
Wholesale water expenditure forecasts	●
Wholesale wastewater expenditure forecasts	●
Residential retail expenditure forecasts	●
Cost assessment claims	●
Utilisation of innovation and markets to drive cost efficiency	●

### High-quality plan

The plan submitted demonstrates strong evidence of efficient and challenging cost forecasts for each revenue control and aims to build on South West Water's industry leading totex outperformance. It also builds on an efficient debt structure, with steps having been taken in the past to remove more expensive debt instruments and improve performance in respect of embedded debt.

These have been subject to extensive independent analysis as well as thorough internal and external assurance processes.

### Ambitious and innovative

Ambition in cost efficiency is embedded throughout the programme, from the major capital investment proposed with the Knapp Mill and Alderney Water treatment works which will provide the lowest cost to serve in the long term, to the continued focus in reducing doubtful debt charges which have already brought South West Water to having a charge (as a proportion of revenue) below the industry average. The Board has reviewed and challenged work performed by external consultants and considered the scale of ambition within the plan in respect of cost efficiency.

The RSI project reflects our ongoing effort to innovate and drive continuous improvement in the delivery of our services and builds upon a long track record of delivery from previous business change projects. The RSI projects and each of the previous projects are grounded in ensuring significant savings are delivered alongside service improvements ensuring an efficient cost base.

The potential water transfer to Southern Water can also deliver multi-million benefit to the South East through delivering a lower cost alternative.

### Risks and issues identified

The size and scale of the plan and dependence on forecasts poses inherent risks that cost efficiency may be challenged by unforeseen circumstances and factors outside our control. However, South West Water's historic performance, as well as the extensive research undertaken in building the plan, mitigate this risk.

Key assurance areas continued

## 7. Aligning Risk & Return

The South West Water Board has satisfied itself that the plan is financeable on both an actual and notional basis following a robust assessment of the costs within the plan and the cost of capital and retail margins.

South West Water’s assessment of its potential risks in its RoRE assessment has been thorough and appropriate risk management measures are in place for each revenue control.

### Gross Risk Assessment

The Board has considered the gross risk in respect aligning risk and return prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity	●			
Level of judgment		●		
Historical performance in area (including assurance)			●	
Impact upon other test areas			●	
Impact of other test areas		●		
Scale/volume		●		
Impact upon overall business plan		●		
<b>Overall risk assessment</b>	<b>Medium</b>			

### South West Water’s Integrated Assurance Framework Elements Utilised

In line with South West Water’s Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>● PR19 Steering Group</li> <li>● Programme Office control</li> <li>● Internal review and sign-off of all data tables</li> </ul>	<ul style="list-style-type: none"> <li>● Extensive scenarios considered in respect of financeability</li> </ul>	<ul style="list-style-type: none"> <li>● Assurance over financeability of plan including sensitivity analysis by external financial assurance specialists</li> </ul>

### Board scrutiny of area

The Board has reviewed and scrutinised South West Water’s plan and assumptions underlying the assessment that it is financeable and has considered the financeability in a range of scenarios as well as reverse engineering of scenarios which may challenge the financeability of the plan.

## Key assurance areas continued

### Assurance findings summary

The South West Water Board has obtained satisfactory assurance that the plan is financeable on both the notional and actual basis and that the cost recovery rates are well justified.

	RAG
Financeability on the actual basis	●
Financeability on the notional basis	●
Scenarios considered	●
Cost recovery rate justification	●
Risks in South West Water's RoRE assessment	●
PAYG and RCV run off rates	●
Correlation and line of sight with customer expectations	●

### High-quality plan

The plan submitted demonstrates strong evidence of efficient and challenging cost forecasts for each revenue control. It builds upon South West Water's history of maintaining gearing with notional ranges set out within Ofwat's guidance levels.

These have been subject to extensive independent analysis as well as thorough internal and external assurance processes.

### Ambitious and innovative

South West Water has secured new facilities as part of the Green Finance Deal. These new facilities incorporate environmental and social values into its wider banking facilities as part of a recently-launched sustainable financing framework.

The plan also commits to continue the WaterShare scheme and an innovative customer share ownership plan to ensure risk and reward is shared with customers and also seeks further innovations grounded in customer engagement. The scheme will also include customers in the Bournemouth Water area for the first time. During 2015-20 South West Water was the only company to voluntarily share financing outperformance with customers. For 2020-25 we are expanding this to share a proportion of embedded debt.

### Risks and issues identified

No significant risks and issues to note.

Key assurance areas continued

## 8. Accounting for Past Delivery

South West Water is delivering against its 2015-20 targets, having met the majority of its annual performance commitments and put in place targeted strategies which have demonstrated significant performance improvement when improvements are needed to ensure we remain on-track to meet our 2020 targets.

Reconciliation adjustments are in line with the PR14 reconciliation rulebook and targets for 2020-25 reflect our experience of what is achievable and what is stretching in line with customer expectations.

### Gross Risk Assessment

The Board has considered the gross risk in accounting for past delivery prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity			●	
Level of judgment		●		
Historical performance in area (including assurance)			●	
Impact upon other test areas		●		
Impact of other test areas			●	
Scale/volume		●		
Impact upon overall business plan			●	
<b>Overall risk assessment</b>	<b>Low</b>			

### South West Water's Integrated Assurance Framework Elements Utilised

In line with South West Water's Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>● PR19 Steering Group</li> <li>● Programme Office control</li> </ul>	<ul style="list-style-type: none"> <li>● Monthly monitoring of ODI performance by South West Water's ODI subgroup and Board</li> </ul>	<ul style="list-style-type: none"> <li>● External assurance (Jacobs/EY) of all annual performance commitment data</li> <li>● CCG review</li> <li>● WaterShare panel review</li> </ul>

### Board scrutiny of area

The Board has received regular reporting throughout the 2015-20 period to date covering performance against all ODI performance commitments (whether financial or reputational) and remains committed to achieving all 2020 targets as confirmed in the 2017/18 Annual Performance Reports. Detailed performance information and commentary has been published following Board review within the South West Water Annual Performance Report (and summarised in customer performance summaries) and PR14 reconciliation adjustments. It has also scrutinised 2020-25 targets in the light of its experience of 2015-20 performance against targets to ensure they are both stretching and achievable.

## Key assurance areas continued

### Assurance findings summary

The South West Water Board has obtained assurance that the company is delivering on 2015-20 targets and targets for 2020-25 have been set utilising past experience. Reconciliation adjustments have been made in line with the PR14 reconciliation rulebook.

	RAG
PR14 reconciliation submissions	●
Annual ODI target performance during 2015-20	●
2020 forecast performance	●
Stretching 2020-25 targets and planning based on 2015-20 performance	●

### High-quality plan

South West Water has demonstrated that it has met the majority of its annual targets over the 2015-20 period and where an annual target is missed there is an appropriate plan implemented to ensure that performance is improved. Targets set for 2020-25 reflect on the experience during 2015-20 to date and are designed to be stretching but also achievable in line with the business plan.

South West Water's reconciliation adjustments have been delivered in line with the PR14 reconciliation rulebook and this has been subject to external financial specialist assurance.

### Ambitious and innovative

South West Water's innovative WaterShare scheme has operated successfully since its inception in 2015/16. South West Water has continued to develop its approach to its reporting of past delivery including through its customer summary versions of the Annual Performance Report. These have been tested with customer panels and refined.

Our level of ambition is demonstrated through our proposals to implement further customer schemes including the customer AGM, voting on the appointment of members of the WFCP and quarterly public meetings across the region. The commitment of implementing a customer share ownership scheme will be supported by detailed analysis of the process and approach to enable the scheme to be fully implemented by 2020.

### Risks and issues identified

South West Water has delivered on the majority of its annual targets within the 2015-20 business plan and is on track to achieve its targets by 2020. Where annual targets have not been achieved South West Water has implemented plans to bring performance back on track. For example South West Water is working with the Environment Agency with regards to pollutions, including in respect of ensuring future targets remain ambitious. As a result, performance is improving as remedy actions are implemented.

Annual targets are sometimes impacted by one-offs or abnormal circumstances and there will continue to be a risk that stretching targets may sometimes not be achieved, however South West Water's monthly ODI Group will continue to implement strategies to ensure performance is brought in line with target when necessary.



Key assurance areas continued

## 9. Securing Trust, Confidence & Assurance

The Board is providing comprehensive assurance over its business plan and accompanying data, having taken account of the assurance it has sought from both internal and external sources.

### Gross Risk Assessment

The Board has considered the gross risk in securing confidence and assurance prior to determining appropriate levels of assurance to be performed in respect of this area.

	Risk Assessment			
	High	Med	Low	N/A
Complexity		●		
Level of judgment		●		
Historical performance in area (including assurance)		●		
Impact upon other test areas	●			
Impact of other test areas	●			
Scale/volume		●		
Impact upon overall business plan	●			
<b>Overall risk assessment</b>	<b>High</b>			

### South West Water's Integrated Assurance Framework Elements Utilised

In line with South West Water's Integrated Assurance Framework and the level of risk assessed, the Board has deemed assurance from the following sources as appropriate:

1st Line	2nd Line	3rd Line
<ul style="list-style-type: none"> <li>● PR19 Steering Group</li> <li>● Programme Office control</li> </ul>	<ul style="list-style-type: none"> <li>● Board assurance statement</li> </ul>	<ul style="list-style-type: none"> <li>● External assurance provided by technical and financial assurers</li> <li>● WFCP independent report</li> <li>● Customer View Group (CVG) report (Bournemouth Water area)</li> <li>● WaterShare report</li> </ul>

### Board scrutiny of area

The Board has received regular reporting from the programme team concerning assurance work undertaken. It has also received reports from the external assurance providers, who have attended Board meetings to discuss and be challenged upon assurance work performed and reports provided.

## Key assurance areas continued

### Assurance findings summary

The South West Water Board has obtained satisfactory assurance that the comprehensive assurance statement it has made concerning its business plan and accompanying data is based upon thorough Board scrutiny of the plan, and extensive specialist assurance work commissioned.

The results of the assurance work performed and the Board scrutiny and challenge have been reviewed and where necessary the plan has been updated to reflect the results of these processes.

	RAG
Assurance that the plan is high quality, deliverable	●
Assurance over the resilience of the plan	●
Assurance concerning the transparency and degree of engagement with customers	●
Assurance that the plan will deliver the outcomes proposed	●
Track record of provision of high-quality data	●
Consistency of the PR19 business plan tables, assurance and commentary provided	●

### High-quality plan

The Board has led the strategy and direction of the business plan and has taken collective ownership of assuring the plan. The Board Assurance Statement provides an expansive statement considering statutory and licence obligations as well as how the plan delivers resilience.

South West Water has demonstrated a high level of transparency and engagement with its customers during 2015-20 and this will be further enhanced (including with enhancements to website performance reporting) through the 2020-25 business plan.

### Ambitious and innovative

South West Water has completed an extensive programme of internal and external assurance across its business plan and supporting data tables. It has been tailored to each area of the plan and this tailoring has been summarised by Initial Assessment of Plan area within this report.

Whilst there has been a minimum level of assurance against all data tables submitted with the business plan, including external agreed upon procedures and review and recommend work, internal and external assurance has gone further where specific risks have been identified. This includes extensive bespoke procedures in respect of customer engagement, operational resilience, financial resilience and financial modelling. We have utilised the most appropriate assurer for each engagement (not necessarily our core assurance partners).

### Risks and issues identified

Although absolute assurance can never be provided, South West Water's Board is satisfied that the processes in place and assurance work performed has sufficiently mitigated the risks in respect of the Board Assurance Statement it has made.

## Summary – Initial assessment of plan questions

There are six challenges included within the Initial Assessment of Plans for ‘Securing Trust, Confidence & Assurance’. These are set out below together with a summary of how we have responded to the challenges and how we demonstrate how we have met these requirements.

The full South West Water Board is providing comprehensive assurance of its business plan and its accompanying data and has responded to the Initial Assessment of business plan Test Questions laid out by Ofwat as follows:

**CA 1 To what extent has the company’s full Board provided comprehensive assurance to demonstrate that all the elements add up to a business plan that is high quality and deliverable, and that it has challenged management to ensure this is the case?**

Strategic leadership throughout the development of the plan was given by the Board and the Steering Group, which gave direction, monitored delivery and agreed specific outputs during the development phase. This Group met at least monthly to discuss the key issues. Regular updates were provided to the full Board.

The NEDs provided robust challenge to the Executive Directors in relation to the strategy and content of the plan. These independent Directors take particular care to ensure that the Board considers the interests of customers in all matters. They reviewed and challenged the strategy for the overall business plan with particular attention to significant areas including:

- Balancing the outcomes for customers, stakeholders and the environment
- Developing the incentives and performance sharing proposals within the plan
- Reviewing the financial strategy and impacts for customers
- Challenging sufficiency of the capital programme.

In addition, the NEDs met with the WaterFuture Customer Panel (WFCP) independently to discuss and review key areas of the plan.

Throughout the development of the business plan we conducted a fully transparent process which followed the key principles in the UK Corporate Governance Code of accountability, transparency and the sustainable success of the company in the long term.

### Business planning

The Board has led the development of the business plan and is accountable for it. The Board has challenged and satisfied itself that:

- All the elements add up to a 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;
- The business plan will deliver operational, financial and corporate resilience over the next control period and the long term
- 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
- It has provided ownership of the overall strategy and direction of the plan in the long term.

A key aspect in the development of the South West Water business plan has been the approach the Board has taken to assure itself that the plan is high quality, founded in customer and stakeholder priorities and compliant with required obligations.

We understand the need to ensure that the business plan is of a high quality. We believe this is fundamental in ensuring legitimate and continued engagement and support from customers and stakeholders for the plan we have developed.

The principles and approach to Board assurance build on the existing South West Water business planning and performance reporting framework and integrated risk and assurance approach which ensure South West Water’s risk and assurance processes are embedded into the management of the company and are designed to ensure risks are promptly identified, updated on a regular basis and appropriate mitigation is in place to suit the risk appetite.

South West Water’s integrated assurance plan ensures, utilising a risk based approach, that an appropriate balance of varied providers of assurance are deployed dependent on the assessed risk and complexity of assurance requirements. For PR19 we have engaged external assurance providers who have reviewed the overall strategy for data assurance and governance processes to deliver high-quality data.

The Board is confident that the process followed gives a business plan that is high quality and deliverable.

## Summary – Initial assessment of plan questions continued

### CA 2 To what extent has the company's full Board been able to demonstrate that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term?

The Board oversees a well established fully integrated risk and assurance governance framework that has delivered a consistently reliable and resilient service for our customers. This helps us to live up to our values of 'trusted' and 'responsible' in the way we provide service to our customers.

Our approach to resilience for PR19 plan is developed within this framework. This Board led risk management approach incorporates both 'top down' and 'bottom up' processes, ensuring a common understanding of the risks and opportunities that the business is exposed to now and in the longer term. Actions and mitigations are scrutinised by the Board to understand any potential detrimental impact to the achievement of providing a reliable and resilient service to customers.

In addition to the oversight of internal assessment of risks, the Board commissioned two independent assessments of our operational, corporate and financial resilience. The results of the independent assessments were consistent with our own resilient assessment that our systems and services are resilient.

The Board regularly require the business to stress test systems and processes which have helped identify areas where resilience could be improved. These improvements were also consistent with the independent resilience assessments.

As a result the Board has overseen the development of a resilient service improvement initiative aimed at addressing known risks where the resilience of our systems and processes could be improved further. One of the work streams included under this resilience improvement initiative is an ambitious collaboration with Exeter University to develop an innovation centre for water, waste and environmental resilience. This along with our partnership with University Technical College (UTC) and apprenticeship scheme will ensure we retain and develop a highly skilled workforce with appropriate infrastructure and systems to deliver a resilient service for the long term.

South West Water's plan reflects a number of measures designed to mitigate the most significant risks to long-term resilience in respect of all aspects of the Company's business. These measures reflect options assessed via our risk assessment framework and developed through the Investment Manager process to be the best value for money over the long term. They reflect customer engagement throughout the process, including with the CCG and interactive and interactive online videos encouraging customers to think about how long term resilience of the water supply could be achieved and paid for.

The WFCP has scrutinised our proposals for developing our outcomes, including that of resilience, to ensure they reflect customer priorities as understood from engagement. A 'Legislative, Resilience and Environment Sub Group' of the WFCP was established including representation from South West Water and key partner agencies (such as the Environment Agency and Natural England) to consider and scrutinise plans to in respect of both legislative and regulatory compliance as well as in respect of long term resilience and stretching performance commitment levels.

Board members themselves attended customer focus groups and workshops to ascertain first hand customer views on resilience. In addition, the Board's involvement in the Freeze and Thaw incident following Storm Emma provided valuable insight into the resilience of our service under the most extreme circumstances. Board review of customer feedback from surveys with those communities most impacted by the incident has been invaluable in helping to shape and inform our plans for the future and specific community resilience improvement projects.

This direct involvement in this area of the plan has enabled the Board to be confident that **our business plan has been informed by:**

- **A robust and systematic assessment of the resilience of our system and services**
- **Customers' views about managing resilience**
- **A comprehensive and objective assessment of interventions to manage resilience in customers' long term interests.**

## Summary – Initial assessment of plan questions continued

### CA 3 To what extent has the company's full Board provided assurance that the company's business plan will enable customers' trust and confidence through high levels of transparency and engagement with customers, on issues that matter to customers (which extends to their ability to understand the company's corporate and financial structures and how they relate to its long-term resilience)?

The South West Water Board has in place a well established and effective set of policies and procedures covering corporate governance, internal control and risk management.

The company utilises an Integrated Assurance Framework as described in its published Assurance Plan, which is applied to all assurance requirements, including those identified in the Assurance Plan as significant areas for assurance (such as the PR19 business plan submission).

In line with this framework formal procedures have been implemented covering:

- Planning
- Responsibility for the preparation of data and commentaries
- Controls and checks
- External financial assurance
- External technical assurance
- Authorisation and certifications
- Follow-up actions from assurance.

Development of our plan has been driven by a central project team, working with experts across the business and with external support where needed.

Strategic leadership through the development of the plan has been given by the Board through ongoing updates and approval of material strategic matters. In addition the Executive Management formed a Steering Group to give direction, monitor and agree specific outputs during the development of the plan.

The Non-executive Directors have provided robust challenge to the Executive Directors in relation to the strategy and content of the plan, including meeting with the WaterFuture Customer Panel.

Specific attention was given to wastewater performance to ensure an ambitious and stretching plan.

Throughout the development of the business plan we have undertaken a fully transparent process in compliance with its own Board leadership, transparency and governance Code as well as the UK Corporate Governance Code.

### Earning customers' trust

During PR14 we created WaterShare not only to share the benefits with customers in a timely manner but also to be more open and transparent with our customers with all areas of our performance and what it meant for customer bills. WaterShare reporting has been overseen by an independent WaterShare Panel since PR14 with minutes being published and publicly available and a report from the Panel being sent to Ofwat every year.

For PR19 we are taking the bold step to extend customer sharing and participation further through our commitment to extend shares to customers, returning a share of outperformance on the embedded cost of debt to customers. This will also enable direct representation through shareholder forums.

As part of the annual Company Monitoring Framework process we continually seek feedback from customers on the way in which we report information to customers including our corporate and financial structure.

As part of a listed group we are bound by the UK governance code resulting in high levels of transparency in this area compared to non-listed entities. We have also engaged customers in focus groups on areas such as our tax strategy to help inform our plans.

WFCP have welcomed the levels of transparency and engagement on financial structures including dividend policy.

The Board is therefore confident that **our business plan will enable customers' trust and confidence through high levels of transparency and engagement with customers, on issues that matter to customers such as the company's corporate and financial structures and how these support our long-term resilience.**

We are responsible for providing our customers with good quality water and wastewater services and high standards of customer service at a good price.

We have kept the needs of our customers and stakeholders at the core of our business planning process.

Our research and engagement plan aligns with guidance from Ofwat and the Consumer Council for Water (CCW).

We have committed to an extensive programme of customer engagement, widening the range of evidence, adopting new techniques and reinforcing established methods. We have ensured a robust process of triangulation of evidence from 900 data points.

Working closely with our independently chaired WaterFuture Customer Challenge Panel, and responding to their challenges, we have ensured that through our range of engagement and evidence we have taken on board the diverse priorities and needs of all our customers, across both our operating areas, including covering current and future customers, and those with affordability difficulties or in vulnerable situations.

## Summary – Initial assessment of plan questions continued

As well as oversight from the Board and challenge from the WFCP, our engagement with customers has been quality assured through using experts in the fields of market research and regulatory and behavioural economics, and reviewed in detail through independent expert peer review.

The process of engagement and challenge has been transparent and documented through challenge logs and publication on the SWW and WFCP websites.

The WFCP presented us their overall assessment concluding that the quality of our customer engagement was high and could be relied upon and that customer views had been taken into account and were clearly reflected in the plan.

The result has been the highest ever level of customer acceptance of our plans with 88% of South West Water customers finding our proposed PR19 plan acceptable and 92% of Bournemouth Water customers.

**This direct involvement in this area of the plan has enabled the Board to be confident that our business plan has been informed by and reflects the results of**

- **High quality customer engagement**
- **Feedback from our WFCP about the quality of our customer engagement and how we have incorporated this into the plan.**

We have designed our plan to be accessible to customers and stakeholders while ensuring that our approach is consistent with the methodology for setting price controls and provides sufficient support and commentary to Ofwat for our plans. Reflecting these needs we have produced a clear and concise business plan document which gives an overview of our plan, supplemented by a suite of more detailed plans and supporting data.

### **CA 4 To what extent has the company's full Board provided comprehensive assurance to demonstrate that the business plan will deliver – and that the Board will monitor delivery of – its outcomes (which should meet relevant statutory and licence obligations and take account of the UK and Welsh Governments' strategic policy statements)?**

Through extensive customer and stakeholder engagement, and involving oversight and challenge from our WaterFuture Customer Panel, we have developed outcomes and commitments which reflect customers' preferences and willingness to pay (WTP) whilst being consistent with relevant environmental and quality regulators obligations and statutory requirements.

We have considered the measures of success, performance commitments and ODIs to meet these outcomes and confirmed that these can be recorded and measured consistently, and we have established this process within our existing governance and assurance process to ensure that data and analysis are robust.

- The most extensive customer research and engagement programme ever undertaken has resulted in over 900 data points used to validate the values customers place on our services. Independent assurance reports and peer reviews have been provided to enable our Board to place reliance on the data being used to drive the cost benefit analysis used to develop stretching performance targets post 2020 in the areas that matter most to customers
- The Board has attended ODI workshops with our WaterFuture Customer Panel where significant challenges were made about forecast performance to 2020 and targets to 2025. All challenges were effectively responded to. The Board also attended various customer focus groups during the development and testing of ODIs
- Proposed ODIs have been rigorously reviewed by the Board with sector leading performance targeted in many areas. Strong incentives have been proposed to ensure focus is given to the delivery of priority areas for customers. This has included the ambitious Board commitments to
  - Reduce leakage levels by 15% by 2025 at no extra cost to customers
  - Address water poverty for our customers by 2025
  - Eradicate serious pollutions to the environment.
- We are confident our targets are stretching, by comparison with our past performance, and sector benchmarks, and will demand continuing innovation and focus to ensure delivery.

We have received independent supporting statements from specific regulators for our outcomes and commitments and endorsement from the WaterFuture Customer Panel that our outcomes, PCs and ODIs are based on and reflect our high quality engagement with customers.

## Summary – Initial assessment of plan questions continued

We have paid attention not only to developing stretching future commitments and incentives, but also to maintaining a robust framework for ensuring continued success in delivery and sharing the benefits with customers.

The Board has provided extensive oversight and scrutiny of performance against promises made to customers in our PR14 business plan. Performance is reported to Board every month through our integrated governance and assurance framework.

Our Board led customer focused culture and focus on performance has helped ensure the business delivers our stretching promises and performance commitments made to customers. This governance framework and continuous review of performance and actions to address performance to target improvements where required, will be retained post 2020 and give confidence our commitments will be delivered.

The transparent reporting of performance through the WaterShare scorecard and the independent WaterShare Panel review and scrutiny of our performance has also ensured focus on delivering for customers is reinforced. During the annual in-period licence adjustment our engagement with customers and the WaterShare Panel on decisions for the sharing of outperformance enhanced the focus on delivering our outcomes.

Our WaterShare framework and mechanism is being enhanced for PR19 with the introduction of a customer share ownership scheme giving customers extra power to hold us to account and have a greater say in the business.

Our direct involvement in this area of the plan, the extensive and robust customer engagement, independent challenge and technical assurance received, and careful comparison against our past performance and external benchmarks, has enabled the Board to be confident that **our business plan will deliver – and that the Board will monitor delivery of – our outcomes and performance commitments. Our outcomes, performance commitments and outcome delivery incentives are grounded in what customers have told us and reflect their preferences for stretching levels of performance. Our internal governance and assurance framework, supplemented by independent WaterShare+ Panel provides a robust and reliable approach to accurate and transparent reporting of our performance commitments, ODIs and projections of performance.**

**CA 5 To what extent does the company have a good track record of producing high-quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework?**

### Track record for assurance

South West Water has consistently been toward the top assessment of company's assurance as assessed by Ofwat's Company Monitoring Framework (CMF). In the three assessments made to date South West Water has been in the self assurance and targeted assurance categories.

South West Water provides good, high quality assurance for all of the information it submits or publishes irrespective of whether it is for a price review, other regulatory requirements or internal business operations and planning. We take every aspect of data provision seriously and ensure the strong governance framework we have is followed at all times.

In addition, the WFCP were complimentary on the extent and quality of the data provided to them throughout the business planning process for PR19.

**The Board believes we have a good track record of producing high quality data, taking into account the company's data submission, assurance process and statement of high quality, and our 2018 assessment of the company under the company monitoring framework.**

## Summary – Initial assessment of plan questions continued

### CA 6 How consistent, accurate and assured are the company's PR19 business plan tables, including the allocation of costs between business units, information on corporation tax, and the assurance and commentary provided?

South West Water's PR19 programme has been overseen by a central team ensuring that all activity has been performed in a co-ordinated manner. Where relevant, PR19 processes have been integrated with other ongoing or annual processes – such as in the use of the same cost allocation modelling for annual reporting and PR19 business planning.

Annual non-financial audits of Annual Performance and other technical data was simultaneously reviewed alongside PR19 data where the nature of the data was common and results of all financial assurance processes have also been considered in the production of financial modelling and cost allocation.

South West Water's information on corporation tax is consistent with the published tax strategy.

Assurance has been considered at all stages and it has specifically covered the overall consistency of the business plan data tables, business plan publications and overall strategy of the company.

Business planning tables, including the allocation of costs between business units, information on corporation tax are used as the source data for the business plan. This has been internally and externally assured throughout the development of the business plan.

### High quality, ambitious and innovative plan

In addition to the summary responses to each of the initial assessment of plan questions noted above, in the following section we have provided further information evidencing the high quality, ambitious and innovative nature of our plan.

All of the information is included in the documents directly from the document map or indirectly from links embedded in documents within the document map.

- Click on these documents to access them through the document map.
- These documents can be found in the reference folder on the sharepoint site.



## Summary – High quality, ambitious and innovative plan

High quality plan features	Evidence & activities	Evidence location within plan
<p><b>The company’s full Board will own the overall strategy and direction of the plan in the long term and take collective responsibility for assuring its business plan</b></p>	<p>This is embedded throughout the plan. The following locations provide specific information</p> <p>Strategy and Commitment Business Plan 2020-2025, Empowering customers, New Deal: Board Pledges</p> <p>Ownership and Board process Securing Trust, Confidence and Assurance Executive Summary Overview of governance and strategic leadership CA1 response</p> <p>Ensuring resilience Securing Long term resilience</p> <p>Board ownership of the WRMP is covered in the Draft WRMP - Appendix 9</p> <p>Overall Board Assurance Statement</p>	<ul style="list-style-type: none"> <li>● <b>Board assurance statement</b></li> <li>● <b>Business Plan 2020-25</b></li> <li>● <b>Securing trust, confidence and assurance</b></li> <li>● <b>Draft Water Resources Management Plan</b></li> </ul>
<p><b>The Board will provide us with a statement of why it considers all the elements (including supporting data) add up to a business plan that is high quality and deliverable, providing strong evidence of where and how it has challenged company management</b></p>	<p>Our Board Assurance statement sets out how the board tested the plan to ensure it delivers a high quality, deliverable plan with strong challenge on management.</p> <p>The following locations also provide specific information in relation to this question:</p> <p>Statements of assurance Board assurance on the quality, deliverability and challenge is included in all IAP areas</p> <p>Deep dive assurance Securing Trust, Confidence and Assurance</p> <p>Individual statements are given on the quality of the plan in each key assurance area. This also includes what the risks are.</p> <p>Delivering cost efficiency Securing Cost Efficiency</p> <p>Board challenge for further efficiency despite our low cost base to recognise our wider responsibilities.</p>	<ul style="list-style-type: none"> <li>● <b>Board assurance statement</b></li> <li>● <b>Engaging customers</b></li> <li>● <b>Addressing affordability and vulnerability</b></li> <li>● <b>Delivering outcomes for customers</b></li> <li>● <b>Securing long-term resilience</b></li> <li>● <b>Targeted controls, markets and innovations</b></li> <li>● <b>Aligning risk and return</b></li> <li>● <b>Securing trust, confidence and Assurance</b></li> <li>● <b>Accounting for past delivery</b></li> <li>● <b>Securing Cost Efficiency</b></li> </ul>

Summary – High quality, ambitious and innovative plan continued

High quality plan features	Evidence & activities	Evidence location within plan
<p><b>The Board assurance statement will include assurance that the business plan will, over the next control period and in the long term, enable the company to meet its statutory and licence obligations, take account of the UK and Welsh Government’s strategic policy statements and deliver operational, financial and corporate resilience</b></p>	<p>Our Board Assurance statement sets out how the Board tested the plan to ensure it delivers statutory, regulatory and policy requirements.</p> <p>In building the Plan the Board also ensured it looks to deliver the Government’s 25 Year Environment Strategy.</p> <p>The following locations also provide specific information in relation to this question:</p> <p>Board process Securing Trust, Confidence and Assurance</p> <ul style="list-style-type: none"> <li>- Executive Summary</li> <li>- Overview of governance and strategic leadership</li> <li>- CA2 response</li> <li>- CA4 response</li> </ul> <p>Delivering strategic policy Securing Trust, Confidence and Assurance - Defra’s strategic objectives</p> <p>25 Year Environment Plan Environment Plan 2050</p> <p>Meeting licence obligations Securing Trust, Confidence and Assurance - licence obligations</p> <p>Delivering statutory obligations WISER report to the EA</p> <p>Delivering targets Delivering Outcomes for Customers - Board assurance</p> <p>Ensuring resilience Securing Long term resilience - Board assurance</p> <p>Board ownership of the WRMP is covered in the Draft WRMP - appendix 9</p>	<ul style="list-style-type: none"> <li>● <b>Board assurance statement</b></li> <li>● <b>Environment Plan 2050</b></li> <li>● <b>Securing trust, confidence and assurance</b></li> <li>● <b>Delivering outcomes for customers</b></li> <li>● <b>Securing long-term resilience</b></li> <li>● <b>Draft Water Resources Management Plan</b></li> <li>○ <b>WISER Report to the EA</b></li> </ul>

Summary – High quality, ambitious and innovative plan continued

High quality plan features	Evidence & activities	Evidence location within plan
<p><b>The Board will also provide assurance that it will enable its customers’ trust and confidence through high levels of transparency and engagement with customers</b></p>	<p>The plan has been built to give customers trust in the provision of their service and transparency on how we operate and perform.</p> <p>Strategy and commitment Business Plan 2020-2025, Empowering customers, New Deal: Board pledges</p> <p>Overall approach Securing Trust, Confidence and Assurance - CA3</p> <p>Comprehensive customer engagement Engaging customers</p> <p>Addressing affordability and Vulnerability</p> <p>Delivering Outcomes for Customers</p>	<ul style="list-style-type: none"> <li>● <b>Business Plan 2020-25</b></li> <li>● <b>Engaging customers</b></li> <li>● <b>Addressing affordability and vulnerability</b></li> <li>● <b>Delivering outcomes for customers</b></li> </ul>

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## Customer research and engagement

Customer engagement is central to our PR19 business plan and is viewed as essential to securing trust, confidence and assurance in our plans. Our business plan has been informed by our most extensive and innovative customer research and engagement programme ever.

Our overall customer engagement strategy is closely overseen by our Board and this is no different to the engagement undertaken specifically for our PR19 business plan. Initially our Board reviewed, challenged and ultimately approved the customer engagement strategy and plan for PR19 at the PR19 Steering Group and PR19 Sub Committee at the start of the PR19 process. Our Board has been involved throughout all of the engagement with customers to hear first hand customer views.

This has included regular attendance and involvement in

- Customer focus groups
- Stakeholder workshops
- Customer challenge groups meetings (see below)
- Triangulation workshops and resultant cost benefit analysis
- Review of post event surveys from customers
- Willingness to pay surveys
- Customer co-creation workshops.

The overall approach to customer engagement has been peer reviewed and quality assured. Each element of the customer engagement plan has been undertaken by independent experts and consultants with peer reviews for material areas such as willingness to pay surveys (Professor Ken Willis) confirming the process and results are reliable for inclusion in the plan.

Ever since the submission of the PR14 business plan the Board has also been extensively involved in engaging with our independent South West Water WaterShare Panel (responsible for overseeing WaterShare governance and operation), Bournemouth Water Customer View Group (responsible for monitoring and reviewing performance) and WaterFuture Customer Panel (responsible for combined PR19 plan).

Over 80 meetings with the various Panels have ensured that there has been enormous scrutiny on our performance, the quality of our engagement with customers and how we have reflected this in our plans.

Each year the Chair of the WSP and CVG publishes a report on the assessment of our performance and presents it at the South West Water Board meeting. A copy of this report is also sent to Ofwat and published on our website.

The Chair of the WFCP also has an open invitation to attend South West Water Board to provide an update on progress and any issues. South West Water iNEDs have attended the WFCP meetings every quarter to meet the Panel directly without any Executive present.

At the conclusion of the PR19 process, the Chair of the WFCP presented their overall assessment to the South West Water Board concluding that the quality of our customer engagement was high and could be relied upon. Customer views had been taken into account and were included in the plan.



For more information, see [WaterFuture Customer Panel Report](#)

The result has been the highest ever level of customer acceptance of our plans with 88% of South West Water customers finding our proposed PR19 plan acceptable and 92% of Bournemouth Water customers.

This has enabled the Board to be confident that our business plan has been informed by

- Customer engagement
- Feedback from our WFCP about the quality of our customer engagement and how we have incorporated this into the plan

This is included in our signed Board assurance statement.



For more information, see [Board Assurance Statement](#)

# WaterFuture Customer Panel 2020-25 executive summary

## WaterFuture

The WaterFuture Customer Panel (WFCP) is made up of representatives from customer, business, stakeholder and regulatory organisations and its role is to provide the independent challenge to companies and independent assurance to Ofwat on:

- The quality of a company's customer engagement; and
- The extent to which the results of this engagement are driving decision making and are reflected in the company's plan.

The Panel also set up two sub-groups to work more closely with the company on research, engagement and vulnerability activities; the Research, Engagement and Vulnerability (REaV) sub group, and on legislative and statutory obligations; the Legislative, Resilience and Environmental Investment (LREI sub group) with both chaired by a member of the WFCP.

Minutes of each meeting were captured and published on the SWW website, once approved by the WFCP and ultimately the WFCP Chair, along with all challenges logged and responded to by the company. As a standard agenda item, all challenges were reviewed and discussed at the outset of each meeting.

To ensure their independence from the company, at the start of each meeting the WFCP met independently of the Panel. The Panel also sought to appoint an independent report writer as to ensure that their report to Ofwat would be accurate, clear and unbiased. Following a formal tender process, Deloitte were appointed and subsequently attended the independent WFCP sessions to capture minutes on behalf of the WFCP, in line with their terms of reference.

Alongside this, in demonstrating the level of engagement from the Board, the WFCP were invited to meet independently of the SWW Executive, with SWW Non-Executive Directors (NEDs), including the SWW Chairman. This provided the opportunity for the Panel to raise with the NEDs any areas of concern or risk and to question or discuss any areas in specific where they wanted additional information or clarity. The Panel reported that these meetings often discussed the corporate and financial structure of both SWW and Pennon, along with the £50 government contribution. The NEDs were able to provide the Panel with confidence in the transparency of SWW's taxation strategy, sharing an overview of the customer engagement carried out in this area, which the WFCP were satisfied with.

Discussions relating to financial resilience were covered during the main WFCP meetings, where the WFCP were provided with further confirmation from the SWW Executive that the company's financial structures were transparent, as published in the annual performance report. We were also able to provide confidence to the WFCP in the resilience of our finances, as published in the independent assessments undertaken by Ofwat and CCWater. The £50 government

contribution was also a frequent discussion topic during the WFCP meetings, with the WFCP challenging us to confirm how customers would be protected should the contribution be removed. We were able to provide a detailed response to the WFCP confirming that, based on our research whilst the removal of the contribution would pull around 7% of customers into water poverty, our package of affordability measures would ensure that targeted support would be provided to these customers, ensuring that our bills would be affordable for all, and supporting our commitment to address water poverty for all customers by 2025.

There was also an open invitation for the Chair of the WFCP to attend the SWW Board to provide a progress update along with raising any risks directly to the Board, which he attended on two occasions.

Representation on the WFCP and sub groups included regulators, charities, business and environmental bodies along with academic institutions to ensure a broad range of experience and ultimately challenge across the WFCP and both sub groups. Numerous challenges were raised by the WFCP and the LREI and REaV sub groups, which we responded to and discussed at each meeting as part of a standard agenda item.

We also shared our investment proposals with the WFCP and the LREI sub group from the outset, providing confirmation that our proposals would deliver 100% compliance with statutory and legislative quality obligations. We worked collaboratively with the LREI sub group in particular to refine the development of our environmental investment programme in line with the guidance set by the Environment Agency and Natural England, along with our quality programme for drinking water.

In sharing our proposals we provided a breakdown of where we intended to focus investments, based on customer support along with legislative and statutory obligations. The WFCP were supportive of this approach, commenting on how displaying our investment proposals in this way enabled them to easily challenge the areas where they felt investment perhaps wasn't robust enough. The WFCP were also provided with a draft copy for review and challenge of our report to the Environment Agency for challenge and feedback confirming how we would meet the objectives set within the Water Industry Strategic Environment Requirements (WISER).

With regards to our engagement with the Drinking Water Inspectorate (DWI), the WFCP understood that we had been in frequent dialogue with the DWI regarding the development of our quality programme. The DWI also accepted an invitation from the WFCP Chair to attend a WFCP meeting to present their view on our plans in March 2018. Following on from this, the DWI also submitted a separate report to the Chair of the WFCP confirming their support for SWW's proposed quality schemes.

The Chair of the WFCP provided a summary report to the WFCP confirming that in addition to the review and challenges made by the WFCP throughout the PR19 process, the Chair received further validation on the company's progress relative to other companies from meetings with other CCG Chairs. This report advised the WFCP that the Chair considers that in producing its PR19 business plan, the company has listened to the views of its customers and incorporated these into its plans.

The Chairs of the LREI and REAV sub group also provided a joint report to the WFCP at their meeting in July 2018 on the work undertaken by both groups since February 2017. The objective of this work was to give the WFCP assurance over the specific aspects delegated to each group so that the Panel are able to place reliance on them in providing their final report to Ofwat.

The Chairs confirmed that during the 22 meetings of the LREI and REAV sub groups they have been satisfied that SWW has completed an extensive programme of customer research and engagement that both sub groups have been involved in from the outset, providing independent challenge and scrutiny to the company. The Chairs also confirmed that the information provided in these meetings was demonstrably aligned to all of the relevant requirements of the CCG aide memoire, indicating the meeting dates at which each aspect of the aide memoire has been addressed. The report provided assurance that these activities have been reviewed, scrutinised and challenged, and on this basis the customer research and engagement can be relied upon, and has been incorporated into the PR19 business plan to deliver customer priorities and statutory obligations.

The WFCP challenged us on the assurance of our entire plan, which we confirmed had been independently assured at different stages and through different means. Using customer engagement as an example, we confirmed how we had arranged for peer reviews from the outset of the programme, which was one of the key changes from our PR14 engagement. With regards to the actual business plan document we confirmed that we had appointed KPMG to independently assure our plan, and that alongside this the 100+ tables required to support the plan had been assured by our technical and financial auditors. Furthermore, we confirmed that our Board had provided assurance on the whole plan.

The WFCP were impressed with the level of transparency we displayed in proactively providing information, which also included draft consultation responses for review and challenge. As an example, when challenged on how our triangulation process worked, we put in place two dedicated workshops for the WFCP and sub groups to share the detail behind this process. Similarly, we ran two workshops for the Panel and the WFCP specifically relating to outcomes and ODIs, and the mechanics around ODIs.

With regards to our performance reporting the WFCP were satisfied that the current WaterShare Panel, who reviewed and scrutinised our actual and forecast performance on a quarterly basis in line with the WaterShare mechanism was clear and transparent, and designed to protect customers. The WFCP comprehensively endorsed the development of WaterShare+, which added to the existing WaterShare mechanism, empowering customers by offering them a stake in our business and a greater say. Coupled with this, the WFCP were satisfied with the clear, customer focused reporting through the annual WaterShare report, our annual performance report and the online animation created to make our performance against our current targets engaging and easily understandable for all customers enabling us to build their trust.



For more information, see [WaterFuture Customer Panel Report](#)



**“South West Water has been open and transparent, listened and fully responded to the challenges put forward.”**

Nick Buckland  
Chair, WaterFuture Customer Panel

**“This is a reasonable balance between asset health and service based improvements.”**

Richard Lacey  
Chair, BW Customer View Group

**“This is a super package that the company should be proud of. I would be very surprised if this affordability and vulnerability package was not industry leading.”**

Steve Meakin  
Chair, Research and engagement sub-group

# Jacobs Finance Assurance Report

South West Water Limited (SWW) commissioned Jacobs to provide third-line independent technical assurance on its 2019 Business Plan submission to Ofwat.

The objective of the assurance activity was to provide the Company's Board with an independent opinion on the robustness of a number of PR19 information sets. The assurance covered the following 6 elements of SWW's plan:

- Vision to 2050
- Bioresources RCV
- Water Resources RCV
- Engineering Estimating System / Cost Models
- Investment Manager & Business Cases
- PR19 Data Tables (non-financial).

In total these were then broken down into 13 sub areas for reporting purposes to the Board.

The PR19 data tables contain historic data, the majority of which is drawn from South West Water's (SWW) Company Annual Performance Reports (CAPR). As part of the 2018 CAPR assurance work, where possible Jacobs also assured the historic information for PR19.

The PR19 data tables also contain forecast data for 2018/19 and 2019/20, the foundations of which are in models of future performance to achieve the Performance Commitments (PCs) in SWW's and BW's 2014 Financial Determinations.

The PR19 data tables were assured by verifying consistency with previously audited CAPR and other data, and by reviewing the appropriateness and application of the forecast methodologies where applicable.

The technical assurance team comprised technical and operational specialists led by the Assurance Director. Jacobs used risk-based samples to trace data to source. Audits were documented in Summary Audit Reports with BRAG with status reported as below:

- Green = no concerns
- Amber = minor concerns
- Red = major concerns
- Blue = non-material observation/recommendation
- Purple = example of best practice.

Of the 13 reporting areas assessed, 11 were classified as green, and 2 as purple. The purple areas of best practice were on governance on PR19 Data Tables and on asset reliability and assessment of cost synergies. No amber or red status' were found.



# KPMG Finance Assurance Report

KPMG were engaged by SWW to review and audit SWW financial data table submissions and perform a 'review and comment' procedure on the financial resilience of the Business Plan.

The scope of the financial data table review included the following:

- Completion of a set of Agreed Upon Procedures tests to check the accuracy of the data tables and checking agreement with past data submissions
- Completion of a review and comment tests on the data tables with regard to their compliance with regulatory guidelines, the sources of data used, the reasonableness of the data and any concerns the company may have on the data sources, regulatory guidance or any estimations required
- Completion of a set of Agreed Upon Procedure tests on the table commentaries including their completeness, accuracy and clarity and ease of data explanation.

The assessment of financial resilience included:

- An assessment of the financeability of SWW
- Review relevant chapters of the Business Plan against criteria specified by Ofwat.

KPMG discussed and reporting on their findings to the SWW Board and management team.

Full details of the tests undertaken by KPMG are given below.

## Financial Data Table Review

### a) Data Table Scope of Work

#### Agreed upon procedures

- Does the table accurately cast without rounding differences?
- Do sub-totals and totals conform to Ofwat table presentation required?
- Have correct decimal places been used (no formatting or rounding)?
- Have correct units been used (e.g. £m or 000's)?
- Have any rough workings/comments been removed for the submission version?
- Does historical data agree to previously published data in APR tables?
- Does historical data agree to previously published data in Cost Assessment tables?
- Has the Ofwat table been completed accurately when compared to source data provided by South West Water?

#### Review and comment

- Does data comply with table line definitions?
- Does data comply with RAGs?
- Does data comply with Ofwat methodology guidance?

- Has Ofwat issued any additional guidance?
- Has additional guidance been complied with?
- Have all changes in guidance (e.g. from prior year) been identified?
- Does data look reasonable and comparable year on year?
- Is the data comparable with reference to linked tables or specific published data as agreed with South West Water?
- Has the table owner raised any queries on table completion with Ofwat?
- Has the table owner any concerns about guidance and interpretation of guidance?
- Has the table owner any concerns about data sources?
- Has the table owner any concerns about data or had to use any estimates?
- Is methodology supporting the data table clearly written and easy to follow?
- Does the methodology comply with Ofwat methodology and guidance?
- Are the sources of data clearly referenced and labelled within the methodology?
- Have any assumptions been listed and documented in the methodology with reasons?
- Have any estimates and calculations been explained in the methodology?

### b) Data Table Commentary Scope of Work

#### Agreed upon procedures

- Do table references in commentary match correct positions in data tables?
- Do figures in commentary match figures in data tables?
- Does commentary cover all lines of data tables?
- Do comments about trends match trends in data tables?

#### Review and comment

- Does it cover all lines of data?
- Is it clear and easy to follow?
- Does it cover/explain trends in data and atypical variations?

### Assessment of financial resilience

#### Assessment of financeability

KPMG to conduct an assessment of the financeability of SWW in order to validate/independently assess SWW's own overall view of financial resilience as set out in the financial resilience plan.

#### Review and comment

The relevant chapters of the Plan to be compared against certain criteria specified by Ofwat in its Final Methodology and other subsequent documentation.

# EY Finance Assurance Report

## Work performed by EY in respect of PR19

EY, who are knowledgeable of the company through their role as statutory auditors, were engaged by the company to perform certain agreed upon procedures ('AUPs') in connection with the company's business plan submission to OFWAT in respect of setting price controls for the period from 2020 to 2025. EY were also engaged to review the IAP documents included in the business plan submission.

The scope of their work was determined by management. EY have discussed and reported their findings to the Board and management.

EY's work included the following list below.

### Agreed upon procedures

- Business plan model inputs agreed to be within scope:
  - Walked through the process of completion of the model with management
  - Checked data inputs agreed to be within scope to source documentation
- Business plan tables (or parts of tables), PR14 Reconciliation Tables (or parts of Tables) and feeder models agreed to be within scope:
  - Walked through process of completion of the in-scope Tables with management
  - Read internal methodology and check that this describes the method of completion of input cells within the in-scope Tables
  - Checked data entered into input cells of the in-scope Tables to underlying records
  - Checked that any adjustments made to the data within the in-scope Tables are in accordance with Ofwat guidance (where applicable)

### Review

- EY has read the IAP documents and provided feedback on areas of inconsistency with:
  - Information obtained during the above agreed upon procedures
  - With their knowledge for South West Water
  - The guidance and requirements set out by Ofwat
- Read and critically review the IAP documents, providing feedback on whether they have answered all of the questions posed by the Regulator in such a way that is strategically appropriate to the business, or, feedback if any areas are considered to be ambiguous
- Feedback on the compliance of the narrative with the relevant guidance issued by the Regulator
- Benchmarking draft documentation against sector peer publications
- Reading the complete final draft of the documents for internal consistencies, and consistency of narrative descriptions
- EY also provided feedback on the drafting of the document as to whether it was fair, balanced and understandable.

The findings from this work have been reported to management and have been considered in the IAP Submission.

# WaterShare Panel report 2015/16

## WaterFuture

### Customer View

Keeping customers at the heart of the company

SEPTEMBER 2016

2015/16 YEAR END REPORT

REPORT OF THE CHAIR OF THE WATERSHARE PANEL

#### Purpose

The purpose of this report is to provide assurance and opinion to the South West Water (SWW) Board on the work of the SWW WaterShare Panel (WSP) in connection with its review and challenge of SWW's operation of the WaterShare mechanism.

#### Background

The WaterShare Panel was established immediately after the cessation of the PR14 WaterFuture Customer Panel (WFCP) in December 2015 and first met in January 2015.

The main purpose of the WaterShare Panel is to protect the interest of customers by providing independent review of the operation of the performance sharing mechanism 'WaterShare' to ensure that its application and scope is consistent with the approach set out in South West Water's 'WaterShare Guide'. The Panel will review the company's approach to sharing customer benefit and the timing of sharing any net gain.

See Appendix 1 for the terms of reference.

Membership of the independent panel includes regulatory bodies and other members who serve to represent the interests of different customer groups, including local business and vulnerable customers.

#### The WaterShare scorecard

The WaterShare scorecard was designed to report on the company's performance against its regulatory contract. This regulatory contract is essentially the costs SWW were allowed in the Final Determination (capital and operating costs referred to as totex) and the matching service levels (referred to as outcome delivery incentives). Whilst totex performance is reported on the scorecard, this is a memo item only as any variance to the Final Determination (regulatory contract) is adhered with the existing regulatory mechanisms in 2020 through the next price review (PR19).

#### The WaterShare sharing mechanism

The WaterShare sharing mechanism concerns a subset of performance:

- Other factors
  - Items excluded from totex at the time of writing the business plan due to either their level of uncertainty or materiality to the company
  - Cost of new debt
  - Taxation
  - Cost of new legislation
- Outcome delivery incentive (ODI) performance.

It is this sub set of performance that the WaterShare Panel must consider.

#### Year end performance – net position

A summary of the year end performance<sup>1</sup> is illustrated in the table below.

WaterShare	Shareholder (£m)	Customer (£m)
Net Totex savings <sup>1</sup>	25.5	21.0
ODIs	1.8	1.8
Other items <sup>2</sup>	-	3.1
<b>Total Value Benefit</b>	<b>27.3</b>	<b>25.9</b>

#### Net position – options

There were three options (not mutually exclusive) for the treatment of the £3.1m benefits available for sharing with customers:

- **Option A:** Do nothing and accrue the £3.1m benefit for future years
- **Option B:** Pass back the £3.1m benefit immediately to customers by asking Ofwat to reduce customer bills by c. £4 in 2017/18
- **Option C:** Reinvest the £3.1m into improving services for customers.

#### Decision of the WaterShare panel

The merits of each option were considered by the WaterShare panel:

##### Option A

In isolation, given the uncertainty over future costs, changes in legislation etc doing nothing and accruing the £3.1m benefit for future years to offset any future cost shocks was an option but was rejected.

##### Option B

On balance it was felt that given it is the first year of five in the regulatory cycle it is too early to consider passing back benefits to customers. If benefits were passed back immediately it would likely result in customer bill volatility

<sup>1</sup> +£1.8m ODI reward comprises +1.9m reward accrued to end of period and -£0.1m in-period penalty

that we know customers do not want from customer research undertaken during the last price review (PR14).

### Option C

With a decision to reinvest the net gain in improvements for customers was approved.

### Investment in services for customers

A summary of the different options for re-investment in services for customers was examined and is provided in Appendix 2.

### SIM improvement plan

SWW set itself stretching performance aspirations for SIM but recognised that further improvements were necessary.

Activities for improving SIM further through re-investment were:

- Running an incentive for Customer Care Representatives, offering a £250 incentive for staff responsible for securing a survey score of 5/5
- More time made available for the delivery of coaching and training for Customer Care Representatives, focused on delivering a first class customer experience, a key differentiator when measuring customer satisfaction. Key to this, will be ensuring a clear understanding of customers' needs, specifically those in vulnerable situations, to ensure we offer an inclusive, tailored service

- Working with delivery partners, Clearflow and MetroRod, to deliver faster response and resolution times for customers experiencing External Floodings, with a contractor call back promised within 1 hour to confirm the attendance time, within 3 hours
- Optimising the website to improve customer usability, and marketing these services to attract more interaction using this service
- Working with Drinking Water Services to embed the Network Service Delivery (NSD) process, reducing response times from five to three days for non-urgent activities
- Delivering industry leading performance for visible leaks reported by customers, with attendance guaranteed by the end of the next day, and a repair within 2 working days.

The plan is to re-invest in the appointment of 22 individuals to address call waiting time – a key differentiator between companies at the upper quartile of performance on SIM and others.

This results in the need for additional expenditure as highlighted below.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
<b>Re-investment required</b>	500	500	500	500	2,000

### Increased social housing activities

Additional funds to support the affordability strategy over the next four years will enhance South West Water's ability to continue to provide sector leading support for our customers in vulnerable circumstances.

This would include an increase in the level of engagement with social housing providers throughout Devon and Cornwall. Currently we are undertaking targeted work with three of our local social housing providers who own and manage c. 10,500 properties in SWW's service area. Approximately

10% of those customers are currently supported with one or more of our affordability measures. Additional funding will allow us to further raise awareness and to provide assistance to more customers through an increase in targeted work, and may enable us to develop relationships with additional social housing providers in our area.

Targeted work with social housing providers has proven to be effective not only in supporting our customers in vulnerable circumstances but also assisting SWW in meeting business plan targets relating to metering and affordability.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
<b>Re-investment required</b>	100	100	100	100	400

### Targeted meter switching activities

Targeted activities to increase number of meter switchers to ensure meter penetration levels increase and customer bills decrease. In addition to the activities already undertaken by SWW a proposal to increase the number of in year meter installations in 2016/17 by reducing length of time for installation – re-negotiate contract with Kier and bring forward activity into 2016/17.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
<b>Re-investment required</b>	100	100	100	100	400

### Beach management / community investment

Investment concerning innovative approaches to improving bathing water quality and changing customer behaviours e.g. love your loo campaign (flushables)

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
<b>Re-investment required</b>	100	0	0	0	100

### Monitoring of re-investment activities

The WaterShare Panel were explicit that any re-investment needed to be separately tracked in terms of costs and benefit to ensure legitimacy with customers and stakeholders – this also included whether the investment was already a statutory commitment for the company i.e. included in the Final Determination.

The status of each of the re-investments will be reported at each WaterShare Panel meeting.

### Overall conclusion of the WaterShare panel

The WaterShare Panel is satisfied that SWW has undertaken a balanced and measured approach to the operation of the WaterShare mechanism in the first year of the regulatory period. It has listened and responded to the challenges put forward by the WaterShare Panel.

The WaterShare Panel is satisfied that SWW's operation of the WaterShare mechanism is appropriate.

Finally, the WaterShare Panel is satisfied with the process which it has followed to reach the conclusion set out in this report. SWW has been open and transparent throughout and has responded fully to challenges, providing explanations, presentations, documentation and / or evidence as requested.

## Appendix – WaterShare panel Terms of Reference

The Terms of Reference (TOR) sets out the overall purpose and responsibilities of the WaterShare Panel.

### Background

Transparency and openness about delivery performance are fundamental requirements for all providers of essential public services, including those in the water industry. Well established processes are already in place for this and are important to customers, investors and stakeholders.

WaterShare is South West Water's new performance sharing and reporting framework that represents an evolutionary step to greater transparency and openness. Developed in conjunction with our customers and stakeholders, it is a transparent approach for sharing of excellent performance and potential gains in a timely manner with customers. It also allows risks to be articulated when they manifest themselves and describes how the company intends to manage them. This will include, for example, when new obligations (legislative requirements) result in additional costs for customers using the mechanism to ensure that opportunities such as outperformance elsewhere is used to absorb them in the short term. The WaterShare mechanism is a net gain share mechanism for customers.

The WaterShare framework will include a calculation of benefits and costs and apportionment between customer and shareholder of:

- Outperformance of cost base efficiency
- Performance against outcome commitments
- Other areas of risk and opportunity

as set out in the 'WaterShare Guide'.

### Overall Purpose of the WaterShare Panel

The overall purpose of the WaterShare Panel is to protect the interest of customers by providing independent review of the operation of the performance sharing mechanism 'WaterShare' to ensure that its application and scope is consistent with the approach set out in South West Water's 'WaterShare Guide'. The Panel will review the company's approach to sharing customer benefit and the timing of sharing any net gain.

### What will the panel do?

The monitoring and reporting of performance against outcomes and associated sharing of reward or application of penalty under the incentive process will be presented to the Panel through the WaterShare framework.

Reporting will be summarised in a scorecard. An annual performance report will contain assured information on each measure of success, cost efficiency performance and delivery against outcomes.

Plans for sharing of any net benefits with customers will be approved by the SWW Board and presented to the WaterShare panel.

The panel will review and challenge areas within the scope of the 'WaterShare Guide', including:

- Performance delivery
- Financial impact calculations
- Approach to and scale of customer benefit
- Timing of the sharing of new obligations with customers.

The Panel will advise the Board of the company on the conclusions from their review. The panel will assure the process using appropriate resources as agreed with the company.

### What will the main outputs of the Panel be?

In addition to reviewing and providing challenge to the WaterShare performance, the panel will provide a written conclusion of their review.

### Membership

Appointment to the panel will be made by South West Water in consultation with the Independent Chairman. No substitutes or seconds will be admitted unless by prior agreement by the company and the Chairman.

The Chairman will be appointed first through a transparent process and will be a recognised figure in the South West with a proven track record in championing customer issues.

A Vice Chairman will be appointed to support the Chairman and as a full member of the panel. The panel will encompass:

- Water Industry Regulators
- Business Representatives
- Community Representatives.

Additionally it may be beneficial to include Local Authority and shareholder representation.

Membership will be reviewed on an annual basis at the discretion of the company and the Chairman.

### Governance

The panel have a series of meetings to complete an annual review of WaterShare performance and understand the implications for customers and shareholders.

The timing of meetings will be based around the half yearly and annual reporting periods. Documentation including assurance reports will be provided ahead of meetings.

Agendas will be agreed in partnership with the Chairman and minutes of meetings may be posted on our website after they have been verified and signed by the Chairman. Commercial confidential information will not be included.

The Chairman will receive an honorarium payment and South West Water will make available a standard daily allowance per meeting for out of pocket expenses to be called upon when required and when appropriate.

Members will be asked to sign a confidentiality agreement in relation to commercially sensitive data.

The Terms of Reference of the panel will be reviewed by the South West Water Board on an annual basis.

# WaterShare Panel report 2016/17

## WaterFuture

### Customer View

Keeping customers at the heart of the company

AUGUST 2017

2016/17 YEAR END REPORT

REPORT OF THE CHAIR OF THE WATERSHARE PANEL

#### Purpose

The purpose of this report is to provide assurance and opinion to the South West Water (SWW) Board on the work of the SWW WaterShare Panel (WSP) in connection with its review and challenge of SWW's operation of the WaterShare mechanism..

#### Background

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The terms of reference are included in the appendix.

Membership of the independent panel includes regulatory bodies and other members who serve to represent the interests of different customer groups, including local business and vulnerable customers..

#### The WaterShare scorecard

The WaterShare scorecard was designed to report on the company's performance against its regulatory contract. This regulatory contract is essentially the costs SWW were allowed in the Final Determination (capital and operating costs referred to as totex) and the matching service levels (referred to as outcome delivery incentives). Whilst totex performance is reported on the scorecard, this is a memo item only as any variance to the Final Determination (regulatory contract) is adhered to with the existing regulatory mechanisms in 2020 through the next price review (PR19).

#### The WaterShare sharing mechanism

The WaterShare sharing mechanism concerns a subset of performance:

- Other factors

- Items excluded from totex at the time of writing the business plan due to either their level of uncertainty or materiality to the company
- Cost of new debt
- Taxation
- Cost of new legislation
- Outcome delivery incentive (ODI) performance.

It is this sub set of performance that the WaterShare Panel must consider.

#### 2016/17 WaterShare panel activities

Further to the decision to re-invest £3.1m net gain from the 2015/16 WaterShare mechanism the WSP have monitored the expenditure against the agreed activities and the effectiveness of the investment during 2016/17. Expenditure will continue to be reviewed and monitored as it is incurred over the remainder of the regulatory period to 2020.

The WSP has also

- Reviewed the overall performance of the company using the 2016/17 scorecard (see below)
- Scrutinised 2016/17 ODI performance against the 2014 Final Determination
- Reviewed service performance against other companies performance using the Discover Water website
- Received feedback from the Environment Agency on the company's performance as assessed by the Environmental Performance Assessment
- Reviewed the ODI process and lessons learned from 2015/16 Ofwat in period licence process
- Discussed options and scrutinised company recommendation for the net gain sharing with customers (see below)
- Reviewed the results of the customer research to help inform the discussion on the appropriateness of the company recommendation.

#### WaterShare scorecard

	Shareholder (£m)		Customer (£m)	
	2016/17	2015/16	2016/17	2015/16
Net Totex savings	31.3	25.5	20.8	21.0
ODIs	3.6	1.9	3.6	1.9
	Shareholder Value		Investment in enhancing services	
Other factors	-	-	4.0	3.1
<b>Total Value Benefit</b>	<b>34.9</b>	<b>27.4</b>	<b>28.4</b>	<b>26.0</b>

### Net totex savings

Actual totex continues to be lower than the 2014 Final Determination as a result of a continued focus on cost efficiency. In 2016/17 totex outperformance was £52.1m compared to £46.5m in 2015/16. Cumulative totex outperformance of £98.6m will be shared with customers on 1 April 2020 as part of the PR19 regulatory mechanisms.

### ODIs

Overall service performance has been good in 2016/17 with many service levels improving from 2015/16. The overall impact has been a net reward of £3.6m (2015/16 £1.8m net reward) indicating better service levels than those set out in the 2014 Final Determination. An end of period reward of £3.9m (2015/16 £3.6m) is partially offset by an in period penalty of £0.3m (2015/16 £1.8m).

### Other items

The difference on actual expenditure on other items continues to be lower than what was set out in the 2014 Final

Determination - the main driver for the difference is the cost of new debt. In 2016/17 the difference is £4.0m compared to £3.1m in 2015/16.

### Net position – options

In 2015/16 £3.1m of outperformance from other items was reinvested in improvements to customer services. No re-investment or customer bill changes were made as a result of ODI performance resulting in a brought forward position of £1.8m net reward (£3.6m end of period reward partially offset by £1.8m in period penalty).

In 2016/17 there is a net gain of £4.0m in respect of other factors and £3.6m net reward (£3.9m end of period reward and £0.3m in period penalty) in respect of ODIs. This gives an overall cumulative total of £6.1m available to share as summarised below with a further £7.5m reward earned from end of period ODIs and available in 2020.

	B/fwd £m	In period ODIs £m	Other factors £m	Available to share £m	Shared £m	C/fwd £m	End of period ODIs £m
2015/16	0.0	-1.8	-3.1	-4.9	3.1	-1.8	3.6
2016/17	-1.8	-0.3	-4.0	-6.1	2.1	-4.0	3.9

SWW have presented five options for the treatment of the £6.1m benefits available for sharing with customers:

- **Option A:** Do nothing and defer the £6.1m benefit for future years
- **Option B:** Pass back £6.1m immediately to customers by asking Ofwat to reduce customer bills by c. £8 in 2018/19
- **Option C:** Reinvest the £6.1m into improving services for customers
- **Option D:** Pass back £2.1m immediately to customers by asking Ofwat to reduce customer bills by c. £3 in 2018/19 and reinvest / defer £4.0m
- **Option E:** Pass back £3.5m immediately to customers by asking Ofwat to reduce customer bills by c. £5 in 2018/19 and reinvest / defer £2.6m.

### Customer research

SWW instructed ICS Consulting to carry out customer research understanding customer preferences for each of these options – copies of this research were reviewed by the WSP. The results of this research revealed that the majority of customers' preferences preferred either deferring the benefit to future periods to offset future bill increases (Option A) or bill reduction (Option B). Reinvestment of benefits into improving customer services was the least favoured option for customers. Some mix of immediate bill reduction and deferral for the future more aligned with household views.

### SWW recommendation and proposal to WSP

Based on the findings of the customer research where the majority of customers supported either a bill reduction or deferral SWW Board recommended £2.1m is passed back to customers via a c. £3 bill reduction for 2018/19 with the remaining £4.0m net gain carried forward to future years as summarised in the table below.

	B/fwd £m	In period ODIs £m	Other factors £m	Available to share £m	Shared £m	C/fwd £m	End of period ODIs £m
2015/16	0.0	-1.8	-3.1	-4.9	3.1	(1.8)	3.6
2016/17	-1.8	-0.3	-4.0	-6.1	2.1	(4.0)	3.9



The Board also noted the possibility of allowing customers to own shares in the company as an alternative to the bill reduction – this would allow customers to participate in and share in the success of the company. The Board acknowledged that if it was too difficult to implement in the time available this year it should be developed for the forthcoming year and tested with customers.

### Considerations of the WaterShare panel

The merits of each option were initially discussed by the WaterShare Panel in a meeting followed up by a further two conference calls. Key points made were

- Difficult to argue against what customers have said unless there is good reason to – therefore seems sensible to support the company recommendation and customer preferences
- There are areas of performance which still require improvement and the company need to address these as business as usual if WaterShare money is not used
- Re-investment options were not considered because of the results of the customer research – re-investment options should continue to be explored for future years
- The concept of share ownership as an alternative to bill reduction was positively supported but felt it needed more time to be developed and tested with customers before any decision and should therefore be developed for next year
- Further time needs to be scheduled next year to allow more time for discussion.

### Conclusion

Customer research indicated the majority of customers supported options A and B the WSP endorsed SWW's decision to proceed with a combination of these options.

### Overall conclusion of the WaterShare panel

The WaterShare Panel is satisfied that SWW has undertaken a balanced and measured approach to the operation of the WaterShare mechanism in the first two years of the regulatory period. It has listened and responded to the challenges put forward by the WaterShare Panel.

The WaterShare Panel is satisfied that SWW's operation of the WaterShare mechanism is appropriate.

Finally, the WaterShare Panel is satisfied with the process which it has followed to reach the conclusion set out in this report. SWW has been open and transparent throughout and has responded fully to challenges, providing explanations, presentations, documentation and / or evidence as requested.

### Tim Jones

Acting Chair, WaterShare Panel

### Appendix – WaterShare panel Terms of Reference

The Terms of Reference (TOR) sets out the overall purpose and responsibilities of the WaterShare Panel.

#### Background

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WaterShare is South West Water's new performance sharing and reporting framework that represents an evolutionary step to greater transparency and openness. Developed in conjunction with our customers and stakeholders, it is a transparent approach for sharing of excellent performance and potential gains in a timely manner with customers. It also allows risks to be articulated when they manifest themselves and describes how the company intends to manage them. This will include, for example, when new obligations (legislative requirements) result in additional costs for customers using the mechanism to ensure that opportunities such as outperformance elsewhere is used to absorb them in the short term. The WaterShare mechanism is a net gain share mechanism for customers.

The WaterShare framework will include a calculation of benefits and costs and apportionment between customer and shareholder of:

- Outperformance of cost base efficiency
- Performance against outcome commitments
- Other areas of risk and opportunity

as set out in the 'WaterShare Guide'.

#### Overall purpose of the WaterShare panel

The overall purpose of the WaterShare Panel is to protect the interest of customers by providing independent review of the operation of the performance sharing mechanism 'WaterShare' to ensure that its application and scope is consistent with the approach set out in South West Water's 'WaterShare Guide'. The Panel will review the company's approach to sharing customer benefit and the timing of sharing any net gain.

### What will the panel do?

The monitoring and reporting of performance against outcomes and associated sharing of reward or application of penalty under the incentive process will be presented to the Panel through the WaterShare framework.

Reporting will be summarised in a scorecard. An annual performance report will contain assured information on each measure of success, cost efficiency performance and delivery against outcomes.

Plans for sharing of any net benefits with customers will be approved by the SWW Board and presented to the WaterShare panel.

The panel will review and challenge areas within the scope of the 'WaterShare Guide', including:

- Performance delivery
- Financial impact calculations
- Approach to and scale of customer benefit
- Timing of the sharing of new obligations with customers

The Panel will advise the Board of the company on the conclusions from their review. The panel will assure the process using appropriate resources as agreed with the company.

### What will the main outputs of the panel be?

In addition to reviewing and providing challenge to the WaterShare performance, the panel will provide a written conclusion of their review.

### Membership

Appointment to the panel will be made by South West Water in consultation with the Independent Chairman. No substitutes or seconds will be admitted unless by prior agreement by the company and the Chairman.

The Chairman will be appointed first through a transparent process and will be a recognised figure in the South West with a proven track record in championing customer issues.

A Vice Chairman will be appointed to support the Chairman and as a full member of the panel. The panel will encompass:

- Water Industry Regulators
- Business Representatives
- Community Representatives

*Additionally it may be beneficial to include Local Authority and shareholder representation.*

Membership will be reviewed on an annual basis at the discretion of the company and the Chairman.

### Governance

The panel has a series of meetings to complete an annual review of WaterShare performance and understand the implications for customers and shareholders.

The timing of meetings will be based around the half yearly and annual reporting periods. Documentation including assurance reports will be provided ahead of meetings.

Agendas will be agreed in partnership with the Chairman and minutes of meetings may be posted on our website after they have been verified and signed by the Chairman. Commercial confidential information will not be included.

The Chairman will receive an honorarium payment and South West Water will make available a standard daily allowance per meeting for out of pocket expenses to be called upon when required and when appropriate.

Members will be asked to sign a confidentiality agreement in relation to commercially sensitive data.

The Terms of Reference of the panel will be reviewed by the South West Water Board on an annual basis.

## WaterShare Panel report 2017/18

# WaterFuture

## Customer View

Keeping customers at the heart of the company

### WaterShare Panel/WaterFuture Customer Panel 2017/18

The WaterShare Panel was created in 2013 to provide independent review and challenge on all areas of South West Water's performance which impacts on the Company's innovative WaterShare scorecard.

The main purpose of the WaterShare Panel is to protect the interest of customers by providing independent review of the operation of the performance sharing mechanism 'WaterShare' to ensure that its application and scope is consistent with the approach set out in South West Water's 'WaterShare Guide'. The Panel reviews the Company's approach to sharing customer benefit and the timing of sharing any net gain.

The Panel has overseen the successful operation of WaterShare for the first three years of the current regulatory cycle with accrued benefits to customers totalling £79m.

Customer	WaterShare	Shareholder
Cumulative to 2017/18 £m		Cumulative to 2017/18 £m
58	Net totex savings	74
8	ODIs	8
13	Other Items <sup>(1)</sup>	-
79	Total Value Benefit	82

The WaterShare Panel is satisfied that South West Water has been open and transparent, listened and fully responded to the challenges put forward by the WaterShare Panel and that the operation of the WaterShare mechanism has been appropriate. Performance has been transparently reported with benefits being passed back to customers in accordance with customer wishes as evidenced through customer research.

Benefits to date have been passed back to customers through a mix of bill reductions, reinvestment in improvements in services and deferring some benefits for future pass back.

In addition to the scrutiny the Panel undertakes on behalf of customers for WaterShare performance, the Panel also provides independent challenge and assurance to Ofwat on how well South West Water has engaged with its customers and how it has used customer views to drive decision making which is reflected in the company's plan for future services.

Minutes of all of our meetings are recorded and published for customers to see. For more information see [www.southwestwater.co.uk/waterfuture](http://www.southwestwater.co.uk/waterfuture). We are constantly seeking feedback from customers to ensure the challenges we are making align with their interests and would welcome any comments on the company's performance of plan for the future.



**Nick Buckland OBE**

Chair of the WaterShare Panel  
and WaterFuture Customer Panel



# Customer View Group reports

July 2016

## Customer View

Keeping customers at the heart of the company

### Executive Summary

This report gives a comprehensive overview of Year 1 (2015/16) of the PR14 reporting period, covering the creation and recruitment of members of Customer View (CV), and its work to date.

The Company (BW) has been totally open, transparent and honest in its dealings with CV, to the extent of making the monthly Directors' operational report available to CV members. BW has fully embraced the ethos of customer engagement going forward, and has always provided good information in a detailed and timely manner.

The chief role of CV is to monitor and if necessary challenge the Company in its delivery of its PR14 performance targets as set by Ofwat. And until the creation of the new PR19 Customer Challenge Group (CCG), the Chair and Vice Chair will continue to be involved in maintaining progress, chiefly with Ofwat, in looking forward to PR19. This will ensure a smooth handover to the new CCG. As part of the merger of BW into South West Water (SWW), the CMA stipulated that the two companies would report separately until 2020, and SWW has assured CV that it will remain in place until that date.

The merger of BW into SWW has inevitably raised issues regarding the integration of the two businesses, all of which have been addressed. It is a testament to both SWW and BW staff that despite many feeling uncertain about their future roles, it has been "business as usual" – well done!

CV will ensure that the interests of BW customers will be safeguarded as the integration (following the merger which took effect on 1 April 2016) evolves, and this will include any benefits of the merger to be shared.

CV is pleased to note progress related to consideration, by SWW, of the introduction of a Social Tariff for BW, as BW is one of only two companies in the sector without one.

As Chair, I am pleased CV has stronger customer representation than its predecessor the Customer Engagement Planning Forum (CEPF); I think it strengthens and demonstrates BW's commitment to customer engagement.

CV has its own area on the BW website and has posted its Membership, Terms of Reference (ToR) and Minutes so they are in the public domain. (The ToR is in Appendix 1.)

A Challenge Diary has been created (Appendix 2) and while not all challenges have yet been fully addressed, I am satisfied that the Company has taken them on board and are progressing them.

Finally, it would be remiss of me not to thank my Vice Chair and fellow CV members, many of whom are lay members with a "day job". They have given their time generously at early evening meetings. It would also be remiss not to thank BW and SWW staff for their input and help, and while perhaps it is unfair to single any one person out, I fear the lion's share has fallen to Tracey Legg – thank you.

### Independent Chair's Statement

**As Independent Chair, I am satisfied that BW is fully committed to customer representation and consultation within the PR14 period and beyond. The analysis of performance for Year 1 of the PR14 period has been robustly audited and certified by the independent technical auditor who attended the meeting on 28 April 2016 and responded to members' questions.**



**Richard D J Lacey**

Independent Chair BW CV

July 2016

### Recruitment and Membership of BW CV

BW recruited an Independent Chair following interview by an Independent Non-Executive Director and Executive Directors, including the Managing Director. The appointment commenced 1 February 2015. An independent Vice Chair was recruited shortly afterwards, followed by members with a broad range of skills and backgrounds. These appointments were made by the Chair, supported by the Company as requested.

A feature of CV is strong customer representation, which was not the case for its predecessor, the Customer Engagement Planning Forum (CEPF). Membership currently comprises:

- Independent Chair with lifetime experience in the water industry both in the UK and overseas
- Independent Vice Chair with extensive experience of customer advocacy
- Officer from the Environment Agency (changed since merger to an officer covering both SWW and BW)
- Officer from Natural England
- Two members from the Consumer Council for Water (CCW):
  - Local Consumer Advocate
  - Regional Policy Manager
- Two Officers from local councils: (regretfully both have subsequently withdrawn due to local government funding cuts)
  - New Forest District Council
  - Bournemouth Borough Council
- Two Business customers:
  - Chairman of the Bournemouth Accommodation and Hotel Association (whose members as a whole are significant customers of BW)
  - Senior lecturer from Bournemouth University (the student population are notorious for “moving on” leaving unpaid water bills behind!)
- Two local Citizens Advice Bureau (CAB) managers from Bournemouth and Christchurch (fitting very well with Ofwat’s ongoing themes of vulnerable customers, affordability and Social Tariffs – at this point BW does not have the latter)
- Three Domestic/Household customers

Regular attendees from BW are:

- Managing Director
- Finance Director
- Customer Services and Billing Manager
- Regulation Manager

The Chair and Vice Chair are paid a retention honorarium, while members also receive a modest honorarium that could be regarded as a meeting attendance allowance. The Company pays reasonable receipted expenses.

Because of the merger, this representation may change to align with the new corporate structure. CV has access to the main Board of Directors, via a senior Executive Director. CV “lost” its link via an Independent NED when the BW Board was dissolved on 31 March 2016, on the merger of BW into SWW. The Chair of CV will attend the relevant SWW Board at least once a year if requested.

### Governance of BW CV

CV has its own Terms of Reference which are published on the Company’s website (Appendix 1).

The corporate structure and governance arrangements closely align with current Ofwat thinking, especially with respect to independence, customer representation and debt advisory members (CAB). SWW will shortly be recruiting and establishing a new PR19 CCG. The chair of CV has requested that SWW consider links between the CCG and CV and emphasised the need for BW customers to be represented on the CCG. The two companies will only continue to report separately for the PR14 reporting period, as per the CMA merger ruling.

Whilst CV’s main brief is to hold the Company to account in delivering its performance commitments under PR14, and to advise on any gain/share, it is also involved in the early preparatory work for PR19 until the new CCG is established. The PR14 targets were set after comprehensive customer engagement as part of the PR14 process, and as such fall outside the remit of CV to amend.

At the first meeting of CV, the group confirmed its independence from the Company and a vote will be held annually by members to assure Ofwat that a strong, independent link has been established and maintained.

Additionally, CV has access to both the independent technical auditor and financial auditor, if necessary. CV has already called on the technical auditor to provide audit assurance on the risk register and management process for non-financial data. The technical auditor has attended several meetings of CV (see section 4). CV has noted that the external technical audit contract is up for re-tender and will monitor the situation so that if a change occurs, there is an effective handover and any areas of concern are adequately covered.

CV meeting minutes, ToR and membership are all posted on the BW website and hence are in the public domain.

### Participation

All members contribute fully to discussions, but because of the wide variation in skill sets there has inevitably been a “learning curve” and to this end CV receives presentations from members with respect to their own organisations and members are encouraged to take “ownership” of topics, e.g. one CAB manager attended, with the Chair, the recent Ofwat conference on affordability and vulnerability. She will now take this issue forward particularly with respect to any Social Tariff creation.

The Company presents papers in a timely manner on topics requested by CV, and answers questions arising from members.

A Challenge Diary has been created and is regularly updated at meetings (Appendix 2).

### Challenges Verification and Assurance

CV has met four times to date; 4 June 2015, 15 October 2015, 28 January 2016 and 28 April 2016. The next scheduled meeting is 7 July 2016. The minutes of each meeting are published on the Company’s website. The Company provides a secretarial service to CV.

The Company has been very open with CV providing copies of the monthly Directors’ operational report for information. However, because of the merger into SWW and the dissolution of the BW Board, this practice has ceased. Discussions are underway to agree a new monthly report which would be included with the Chairman’s monthly newsletter.

There has been much discussion with and a number of challenges to BW in relation to its PR14, Year 1 performance against its Ofwat-set targets. The key challenges are detailed in the Challenge Diary (Appendix 2).

- CV felt customer communications could be updated by using social media, and the website could be refreshed. The Company was not showing itself to best advantage as regards environmental performance and community engagement. Members of CV were internally surveyed and although they are customers, most knew very little about this aspect of the Company’s work or performance. CV felt this would probably also be true for customers in general. BW’s Head of Communications attended a CV meeting to outline proposals for improvement captured in a paper on the subject. CV approved these ideas. The company is currently working to integrate its IT systems to support BW’s proposals and CV awaits implementation.

- The Company was challenged as to how far back in time its data should be audited as part of its review of Risks, Strengths and Weaknesses (RSW). A sub group was set up chaired by the Vice Chair of CV, who met with the Company and the external technical auditor, and received assurance from the latter that the “baseline” data was robust and hence any detail going forward had a sound base.
- The same sub group met with the external technical auditor to ask that the RSW be reappraised with respect to the merger, to ensure no detriment to BW customers. The RSW report that went to the SWW Board reflects this, and has been issued to CV.
- CV challenged how it could be assured regarding the robustness of out-turn ODI performance. The external technical auditor’s report will be made available to CV at its July meeting. The external technical auditor confirmed that the audit had highlighted some discrepancies, all of which had been addressed by the Company:
  - Repairing visible leaks had moved from 73% to 79% because of incomplete closing of data on the job management system
  - Leakage increased slightly but still remained within target
  - A detailed audit of calls received, both wanted and unwanted, showed that some data had been recorded incorrectly
- Minor anomalies in the coding of data in Gentrack were found, none of which materially affects ODI performance
- Written complaints show a marked increase, which was identified and linked to the introduction of the new BW billing system in 2015/6. There is an internal audit in progress and modifications are being made especially with respect to direct debits. CV has queried whether SWW and BW will continue with separate billing systems in the future. This matter will be considered by CV at its July meeting. The Company has agreed to issue a monthly report on complaints. It should be emphasised that historically, BW has a good reputation in this area, which needs to be maintained.
- The reputational ODI with respect to environmentally sustainable operations, “Help Support a Healthy Natural Water Environment” has now been audited by Natural England and the Environment Agency. Both felt performance was on target but Natural England commented that the Company was not in the position (at this time) that they felt they should be in. CV will receive a detailed presentation on this subject by Natural England and the Environment Agency at its July meeting.
- There was a “blip” in August 2015 with regard to repairing visible leaks. Performance has since returned to align with targets. It is acknowledged that due to seasonal variation such blips are to be expected.

- A sub group was also set up, which included CCW, to consider any changes the Company wanted to make as part of its annual price review. Since the changes were minor and in line with the business plan, this matter was concluded.
- BW is one of only two companies without a Social Tariff, as it failed to get “substantial customer support” (only 54% at PR14). CV would like to see this changed mid-term, especially given that SWW has a Social Tariff. Discussions between the Chair and SWW reveal SWW is keen to implement a Social Tariff and customer consultation is in progress, with hopefully a view to early implementation. CV attended the Social Tariff focus groups. There are two CAB managers on CV; one accompanied the Chair to the Ofwat vulnerability and affordability conference and will now take a lead role for CV in the creation of a Social Tariff. This member will also lead CV on examining the definition of “vulnerable customer”, a key topic for Ofwat now and for PR19 going forward.
- The aspect of gain/share has been discussed at CV and although BW does not have provision for gain/share mid-term, SWW does and will therefore gain/share mid-term. While respecting the “rules”, CV would like to see this decision reversed for BW customers as to wait until PR19 is not aligned to CV thinking.
- In a not dissimilar vein, the benefit of the merger to BW customers should be shared as soon as practicable.
- CV is monitoring the implication for customers of the opening of the non-household retail market in 2017, not least in respect of “Pennon Water Services” the new, unregulated company formed to explore opportunities in this new market. CV will need to be assured that customer service is at least maintained.
- CV has considered the Ofwat directive on “Resilience” and will monitor its development.
- The merger of BW into SWW (effective 1 April 2016) inevitably means there will be changes. CV will monitor this closely to ensure no detriment to BW Customers, and that their interests are safeguarded.
- Related to the above point, CV has been given an assurance by SWW that it (and its equivalent, Water Share at SWW) will continue to run separately for the PR14 reporting period (to 2020) and that the creation of the new PR19 CCG will have “proportional representation” for both SWW and BW customers.
- CV is awaiting information on the PR16 (tariff review) for non-household customers, and has a sub group ready formed (comprising Business customer members) to discuss and feed back to SWW.
- While there is significantly greater detail in the respective meeting minutes which are posted on the BW website, it is not appropriate to list such detail in an annual overview report.

- CV is closely monitoring the potential opening of the domestic retail market, and will attend the Ofwat presentation in London shortly (July 2016).

### ODI Performance: PR14, Year 1

At the most recent meeting on 28 April 2016, CV looked at the Company’s performance to date (Year 1 of PR14) against the relevant ODIs, all of which were on track or being exceeded at that time. Challenges were issued to the Company to provide evidence of the assessment especially with respect to environmental targets. This has since been audited by both Natural England and the Environment Agency and CV will receive a report on 7 July 2016.

BW ODIs fall into two categories: those with direct financial impacts, and those with reputational impacts.

#### a. ODIs with direct financial impacts

- Safe, wholesome water
  - Water quality contacts from customers – target exceeded
  - Compliance with DWI regulations as measured by mean zonal compliance – target exceeded
- Reliable water supply
  - Reduce leakage – target exceeded
  - Minimise risk of large-scale interruptions to at least 12,000 properties – on target for 2020 with capex planned. CV has asked for evidence that project timescales are being met.
  - Supply interruptions > 3 hours – target exceeded
  - Maintain serviceable assets – on target, stable
  - Metering programme – target exceeded
- Providing an excellent customer experience
  - Service Incentive Mechanism (SIM) – maintain position of more than one standard deviation above the industry standard – target met
  - Percentage of visible leaks repaired within 7 days – target exceeded
  - New CRM and billing system – target exceeded

#### b. ODIs with reputational impacts

- Environmentally sustainable operations
  - Reduce energy used delivering water – target exceeded
  - Reduce per capita consumption – target exceeded
  - Help support a natural water environment – under review, presentation to July CV meeting
- Engage well with our community and customers
  - Increase educational visits to schools and volunteer work days for charity work – target significantly exceeded
- A financially sustainable business
  - Efficient debt management – target exceeded

CV noted that in some areas BW's performance exceeds that of SWW, and is keen to ensure that BW customer service does not decline as a result of the merger.

CV will also receive a report on Year 1 financial performance at the July meeting. This could not be issued in April due to listing of the parent company and stock exchange rules.

### Interface with Ofwat

Until the new PR19 CCG is set up, the Chair and Vice Chair of CV will attend all Ofwat meetings with respect to both PR14 performance monitoring and looking forward to PR19, thus hopefully ensuring a smooth transition to the CCG.

CV has responded to Ofwat on:

- 2020, especially with respect to questions 48-50
- Consultation on the modification of licences regarding the termination of the BW licence upon the merger into SWW

CV is keeping a watching brief on the potential opening of the domestic retail market.

CV also responded to the CMA at the onset of merger talks, and supported the merger with the proviso that bill differentials between SWW (higher than average) and BW (one of the lowest in the industry) should be maintained.

### Appendix 1: BW CV Terms of Reference

#### Introduction

Customer View is an independent review body created to provide active challenge and dialogue regarding Bournemouth Water's (the company) performance and delivery of commitments and outcomes, its proposals for future activities, and its communications with customers and other stakeholders.

These activities build on the work of the Customer Engagement Planning Forum (CEPF), which represented customers' interests during the regulatory price review to determine the company's revenues over the period 2015-2020. During this process, the CEPF communicated its views on the company's business plan to Ofwat, the economic regulator of the water industry. Having completed its objectives, the CEPF was disbanded in early 2015.

Customer View comprises a core group and, to address specific issues, a sub-group convened by the core group.

#### Purpose

Through its activities, Customer View holds the company to account, providing assurance to stakeholders that the company is 'doing the right thing' for its customers.

Customer View takes forward and builds on the customer and stakeholder engagement achieved through the work of the CEPF.

Its objectives are to:

- Review, and where appropriate, challenge the company's financial performance against the expectations laid down in Ofwat's 2014 Final Determination of Prices
- Review, and where appropriate, challenge the company's operational performance against its performance commitments set out in Ofwat's 2014 Final Determination of Prices
- Assist the company to understand and validate its interpretation of customers' views
- Advise on and challenge the company's proposals for certain activities and its longer-term strategy
- Review and challenge the company's proposals for gain sharing with customers any financial windfalls that may arise.

### Roles and responsibilities

The core group will hold the company to account and will:

- Review actual performance against PR14 expectations in respect of financial performance
- Review actual operational performance against PR14 targets in respect of outcomes and performance commitments
- Recommend to the company's Board what gain, if any, should be shared with customers, as well as when and how
- Provide input into future trends in customer bills
- Review other significant performance commitments, including other material internal performance measures
- Form and oversee a customer forum sub-group to address specific issues.

The customer forum sub-group will:

- Represent customers as a whole
- Complete specific projects as a Task and Finish group – topics might include, for example, the implementation of social tariffs or metering
- Provide feedback on, for example, a new bill design, the effectiveness of a particular communication channel or campaign, or on proposals for customer service activities.

The company will:

- Ensure that performance data and information is presented in a transparent and timely manner
- Ensure access to relevant independent auditors and technical specialists (Reporters) to provide feedback on performance
- Perform the secretarial function for Customer View.

<sup>1</sup> Known as PR14, this process commenced in 2012 and ended in December 2014 when Ofwat published its Final Determination of Prices for 2015-2020.



### Constitution

Customer View is an independent body, comprising members with a wide range of expertise who represent the views and interests of customers and other stakeholders.

The Chair (and Deputy Chair) will be required to speak authoritatively to regulators and other stakeholders on behalf of the group.

Customer View has a direct line of communication to an independent, non-executive director on the company's Board.

#### The core group will comprise the following:

- Independent Chair
- Independent Deputy Chair
- Members with a statutory remit and key interest in the water sector:
  - CCWater
  - Environment Agency
  - Natural England
- Independent customer representatives from each of the following groups:
  - Local Authorities
  - Local vulnerable customer groups
  - Local businesses
  - Household customers.

This constitution is flexible to allow the Chair to recruit new members if, for example, an existing member is unable to continue to serve on the group.

In addition, the group may wish to involve experts to advise and inform on matters about which the core group does not have expertise. In this case the group may invite a temporary member to participate.

The Drinking Water Inspectorate will be invited to attend at least one meeting per year.

### Length of service

Unless otherwise agreed with the Chair, members of the group will serve for three years after which they may put themselves forward to serve another term.

The decision to renew their membership will be made by the Chair.

In the case of the Chair, the appointment is for a term of three years after which the Chair, together with the company, will review the chairmanship prior to a decision being made whether to renew the appointment.

All decisions will partially be based on the need to refresh membership to maintain independent thinking.

### Governance

The Chair and Deputy Chair will receive a modest honorarium and expenses to recognise the level of required commitment to Customer View. Both will act independently and objectively.

Members, other than the Chair and Deputy Chair, will receive reimbursement of their expenses where agreed by the Chair or Deputy Chair.

For transparency, all payments, to include honorarium and expenses paid, will be placed on record in the public domain.

Once they have been agreed with the Customer View group, minutes of meetings will be made publicly available on the company's website.

### Recruitment process

#### Chair

If a new Chair is required he or she will be recruited by the company via a transparent recruitment process.

Other members of the group

The Chair and the company will work together to recruit new members of Customer View. Both parties must agree to the engagement of any new member.

### Principles

The core group will operate under the following principles:

Involve a range of customers and stakeholders

- Oversee customer forum sub-groups where specific issues are to be addressed with a mixture of ongoing and new members with specific skills and interests appropriate to the topic
- Have a direct line of communication to an independent, non-executive director on the company's Board
- Understand customers' evolving priorities – to work towards a 'no surprises' philosophy for future revenue control periods
- Any gain share proposals will relate to unexpected, one-off 'windfalls' that are unrelated to regulatory totex and outcome delivery incentive reward and penalty mechanisms
- Any recommendations for action by the company will be mindful of Ofwat's 'PR14 rulebook'<sup>2</sup> and not expose the company to the risk of double jeopardy by way of penalties imposed by the regulatory incentive mechanism and the cost of actions required by Customer View.

<sup>2</sup> The PR14 reconciliation rulebook will explain how Ofwat will take performance over 2015-20 into account at the 2019 price review (PR19) and how it will make consequential revenue and Regulatory Capital Value adjustments. The regulator will publish the rulebook in July 2015.

### **Independence of Customer View**

To provide assurance to other stakeholders that Customer View is independent, the group will, once a year, confirm and record that it has continued to operate independently of the company and its management.

It will also provide this confirmation upon request from other stakeholders.

The Terms of Reference will be reviewed annually by Customer View and the Company and confirmed or modified.

### **Frequency of meetings**

Following an initial introductory meeting, the core group will meet at least twice a year to review interim and final annual performance results. In addition, extraordinary meetings may be required during the year.

Dates and locations will be agreed in advance.

The frequency of meetings of the customer forum sub-groups will depend on the nature and timescale of the various projects. Core group members may choose to attend customer forum sub-groups and, subject to the facilitator's agreement, customer research sessions.

### **Presence of a quorum**

The expectation is that all members will endeavour to attend the initial introductory meeting, as well as the two key meetings to review interim and final annual performance.

In the event that an extraordinary meeting is called, a sufficient and representative number of members must be present to ensure that the business of the day can be carried out effectively. This will depend on the agenda on the day.

For the avoidance of any doubt, at any meeting of Customer View, the members in attendance will record their satisfaction (or otherwise) that sufficient members are present to effectively conduct the business of the day.

### **Reporting**

The company will keep the group up to date by distributing their internal monthly directors' report by post or e-mail as preferred. In addition the company will periodically distribute other updates specific to the objectives outlined under 'Purpose'.

After every meeting of the core group, a summary report will be produced and passed to the company's Board via the independent, non-executive director assigned to liaise with Customer View. The design and structure of such report will be developed in consultation with the members once further guidance has been issued by Ofwat.

On an annual basis the group will review that the level of reporting is appropriate.

### **Customer forum sub-groups**

Customer forum sub-groups will be convened to address specific issues. The frequency of meetings will be dictated by the issue or issues under discussion.

Membership will be broader and variable, determined by specific skills and interests appropriate to the topic to be addressed. Sub-groups will include representatives of both household and non-household customers from across all customer types and demographics, as well as a member of the core group to ensure continuity.

New members will be recruited by the company in discussion with core group members. Length of service will be dependent upon the issue under discussion and service will normally terminate on completion of the specific project.

A member or members of the core group may be required to attend a customer forum sub-group meeting to either contribute their specific knowledge and/or provide feedback to the core group, depending on the topic being addressed.

Appendix 2: Challenge Diary

CV CHALLENGE DIARY						
Nbr	Raised by	Challenge Description	BW response and comments	Follow up	Status	Date closed
1	CV Sub Group	BW, along with the external auditor, should consider how far back in time company data should be audited, as part of its review of risks, strengths and weaknesses.	BW provided members with a detailed update on risks strengths and weaknesses at the meeting on 28 January 2016. This subject remains work in progress and may well require further challenges later on, which will be separately recorded.	To be flagged as a regular agenda requirement at future meetings. New challenge opened as Challenge 5.	Closed	28.1.2016
2	RSW communications survey CV result	BW should make their environmental work and their community engagement more high profile in their communications; at present BW only state they have satisfied legal obligations.	BW provided an update on their communication strategy on 28 January 2016 which appears to have addressed the concerns raised. This however remains work in progress.	BW should provide quarterly updates for each CV meeting. Added as a regular agenda item.	Closed	21.1.2016
3	CV meeting	BW were challenged on the poor performance on repairing visible leaks.	BW acknowledged that August was not a good month due to resource issues in this area. With added focus in September and performance has recovered but the BW will maintain focus on the issue.	Visible leaks performance noted as being back on track in December 2016	Closed	14.10.2015
4	CV meeting	BW were challenged to explain their intentions with regards to any gain shares from performance during 2015-20	BW responded by explaining the process and that any gains would not be by way of a cash handout to customers but would be built into the next price review.	See Challenge 8.	Closed	14.10.2015
5	CV meeting	The Chairman challenged when BW would start using social media to communicate.	BW acknowledged the option as a communication tool but needed to put it in to context regarding the number of people reached.	To be kept under review and reported to members under the quarterly communications update.	Open	
6	CV meeting	Continuation of Challenge 1 where the outcome was considered to require further work. Review at CV meeting 28.4.2016	Reviewed with the BW Independent technical auditor on 28.4.2016	Reviewed on 28.4.2016. Independent technical auditor reported that he is satisfied that BW has maintained control of its data during the reporting year. Final report to be discussed by CV on 7 July	Open	
7	CV meeting	Update requested on where BW is on implementing a social tariff	BW is now looking at a social tariff using the SWW model modified to include 'working debtors' and will be undertaking additional research to further investigate customer levels of support.	BW to report to CV once the research results are available.	Open	
8	CV meeting	The company's explanation on gain sharing requires further explanation. (See Challenge 4)	When referring to gainshare it must be clear that this is not the same policy as the SWW gainshare. As laid out in the company's business plan and in the CVG ToR, any gainshare proposals will relate to unexpected, one-off 'windfalls' that are unrelated to regulatory tolex and outcome delivery incentive reward and penalty mechanisms. BW agreed that it will form an annual agenda item.	Agreed to be reviewed each January to assess whether the potential for a gainshare, as defined in the BW business plan and the CVG ToR, for the reporting year is known.	Open	
9	CV meeting	A member challenged what audit procedures are in place to give the group assurance that all of the performance commitment and ODI performance is green.	BW replied that the assurance would be available but that the audit process was still in progress.	BW to provide all copies of the audit assurance to the group. Also on the agenda for the 7 July 2016 meeting.	Open	
10	CV meeting	A member challenged how merger benefits will be returned to customers for example via bills or other means.	BW replied that the CMA allowed an unconditional merger with one commitment to return the small company premium to customers, which had been done in 2016/17. BW replied there is already a challenging programme of efficiencies in addition to those already in the company's business plan. This will ultimately feed through in to bill reductions.		Closed	28.4.2016
11	CV meeting	In relation to the risk register update a member challenged how the new technical audit firm for both BW and SWW (when appointed) would satisfy itself on the approach to assurance to date and that continuity would be maintained.			Open	

## **Bournemouth Water Customer View Group Annual report (PR14 year 2)**

### **Executive summary**

This report gives a comprehensive overview of year 2 PR14 (2016/17), reporting period. The chief role of CVG is to monitor, and if necessary challenge the Company (BW) on the delivery of its PR14 performance targets as set by Ofwat at the PR14 review. To this end CVG has received assurance from the Independent External Technical Auditor CH2M. Graham Hindley, CH2M Independent Technical Assurance Director, the external reporter attended a CVG meeting.

The merger of BW into South West Water (SWW) has settled and is broadly complete, but as recommended by the Competition and Mergers Authority, the companies (BW and SWW) are reporting separately for the PR14 reporting period until March 2020. This view has been encompassed by Ofwat, and a commitment given to CVG by way of a meeting minute. It is of course an Ofwat requirement that a PR14 delivery group (CVG) was set up.

It is a compliment to both companies and staff that the merger has gone smoothly with no discernible detriment to customer service. Well done.

Inevitably there has been a realignment of staff from BW into SWW, chiefly back office functions, the only target that has suffered is a reputational target, with respect to 'Days served in the Community'. It might be right to reset that target but BW, to its credit, do not wish to do that. CVG accept that. This means that a local charity of choice of CVG will benefit to the extent of £100 per day for any shortfall in meeting the target.

The targeted reduction in energy consumption for water delivery has not been met, though new pumps have been installed at Alderney. The company is addressing this. All other ODI targets have been met, or exceeded.

The company has been open and transparent in giving CVG any information or data that it required.

The Chair of CVG now sits on the SWW Water Future Customer Panel (considering the PR19 Business plan) to ensure customers of BW, as the 'minnow' of the merger, are not disadvantaged going forward.

The Vice Chair of CVG also sits on the Research, Engagement and Vulnerability sub group for customer consultation on PR19 matters.

The Local Customer Advocate of CCWater sits on the Legislative, Resilience and Environmental Investment sub group for customer consultation on PR19 matters

A highlight mention in the year 1 review was that SWW were working on introducing a Social

Tariff in the BW area. This has now been implemented. BW was one of only two companies in the country not to have a Social Tariff. This is good news.

A Challenge Diary has been created (appendix 2), most challenges have been resolved by the Company and the rest are being progressed.

Again I thank my Vice Chair for his help and support during the year, and all members of CVG, both 'regulatory' and 'customer' who give of their time freely for evening meets. I also thank the staff of both BW and SWW for their courtesy.

### **Independent Chair's Statement**

**As Independent Chair, I am satisfied that BW (SWW) are fully committed to the customer representation and consultation within the PR14 period and going forwards. The analysis of performance for year 2 of the PR14 period has been robustly audited and certified by the Independent Technical Auditor who attended the July 19 2017 meeting of CVG and responded to members' questions. CVG have discussed and agreed this report.**

**Richard D J Lacey**

August 2017

## 1.0 MEMBERSHIP OF CVG

Whilst the core membership has remained, and the balance of 'regulatory' members and 'customer' members remain, inevitably there have been some changes to membership of CVG.

- Due to local government restructuring the members representing both Bournemouth Borough Council and New Forest District Council have withdrawn
- One customer representative resigned for personal reasons
- One of the 2 Citizens Advice representatives withdrew due to work pressures

CVG still retains a good balance

- A domestic customer member
- 2 business customer members
- Bournemouth University customer member
- Citizens Advice customer member

CVG also retains representatives from

- Environment Agency
- Natural England
- Consumer Council for Water (2 members)
- There is continuity in both the Chair and Vice Chair

As the merger of SWW and BW consolidates further and the move to 'one company' reporting occurs (April 2020) it is inevitable that SWW want to rationalise its committee reporting structure. They currently have 5 committees looking at PR19 (3) and PR14 (2). Discussions are in hand to rationalise all meetings to one day, but this would mean customer members having to travel c 160 miles and have daytime meetings, which most cannot accommodate with their 'day jobs'.

Agreement has been reached that the 'regulatory' members (most of whom are common to both PR19 and PR14 Committees, will meet on the same day in Exeter. Additionally a meeting of 'customer' members will take place, as currently, in Bournemouth in the early evenings. Members of CVG were keen to retain the customer representation element. A resolution was passed at CVG to emphasise this.

CVG retain the Executive Director link at both meetings, but as reported last year CVG lost its non-executive link when the BW board was disbanded shortly after the merger. This has not proved an issue, due to the professionalism of the Executive Director.

## 2.0 GOVERNANCE OF CVG

The ToR of CVG is attached at Appendix 1, and remains active.

As explained in section 1.0 there have been changes to membership, but as Independent Chair I am satisfied this has not materially affected the make up or balance of CVG, providing the key customer lay member link is retained.

I have reviewed the ToR and decided that, in an evolving merger situation, that that no great purpose would be served in pedantic updating. The key issue is delivery of PR14 targets and customer service, which I am satisfied as Independent Chair has not been compromised.

CVG still retains access to the External Independent Auditor (used) and External Financial Auditor (not used). The chair of CVG could access the main board of SWW should it be necessary.

## 3.0 PARTICIPATION

CVG met 4 times during the year 2 (of PR14) reporting period

- April 28, 2016
- July 7, 2016
- October 5, 2016
- January 18, 2017

Additionally either the Chair or Vice Chair (of CVG) have attended some meetings with Ofwat and CCWater but these have largely dropped away now as the emphasis turns to PR19 and the Chair of SWW Water Future Customer Panel attends such meetings.

Both the Chair and Vice Chair (of CVG) have observed some customer research meetings for PR19, run by external consultants.

All members have contributed to discussion and debate, CVG receives presentations from Company representatives on a regular basis, updating performance, and can call for papers as necessary.

We have received presentation input also from CCWater, and the Environment Agency.

Responses and replies to questions by CVG to SWW staff have been prompt. Staff attending CVG include

- Operations Director of Drinking Water Services (formerly MD of BW)
- Regulation Director
- Head of Regulation and Customer Relations
- Customer Service Director
- Senior Regulation Manager (formerly Regulation Manager BW)

#### 4.0 CHALLENGE VERIFICATION AND ASSURANCES

All meetings are minuted and the minutes are posted on the Company website. The Company provides a secretariat service to CVG.

The Challenge Diary is attached at Appendix 2 (click here), the contents of which are self explanatory.

Key topics discussed at CVG include

- The Company has met all of its ODI targets, or is on schedule to do so by the end of the reporting period. Clearly Company performance is high on CVG priorities.
- SIM targets are back on track targeting a score of 86.5 for 2017/18
- Two reputational targets have not been met:
  - Energy used per Ml water delivered - new pumps installed have not performed as anticipated. The Company are addressing this and on 19 July 2017 the independent technical auditors CH2M confirmed that they have assessed BW as still on target to reach the 2020 target.
  - Days Service in the Community – this is largely due to the effects of the merger and reduction in staff in the BW head office. It is perhaps right to recast this, as the targets were set premerger.
- Work on BW’s environmental activities related to its Support a Healthy Natural Water Environment performance commitment is ongoing, with the detailed biodiversity plan nearing completion and the annual report process underway.
- On 18 January 2017 CCWater gave a presentation on its 2015/16 publication ‘Comparing Company Performance’ and BW fared well in the comparisons laid out in the document:
  - High satisfaction with the company by customers.
  - Introduction of Social Tariff by SWW in BW area, an early win for BW vulnerable customers.

As more correspondence with customers is by e mail, which in turn generates more contacts, written complaints (including Billing) have become a vexed issue in all companies. However there has been a marked improvement between 2015/16 and 2016/17 and the table below shows the reduction in overall household complaints to the company

Household customers	2015/16	2016/17	Variance
Total complaints	592	407	-31.3%

- BW experienced a large increase in complaints in 2015/16. This is now reducing and de-minimus BW complaints are now the third lowest in the water only sector.

- BW have worked hard to ensure that the root causes of billing and charging complaints have been addressed, and these fell by 26% from 371 to 273 between 2015/16 and 2016/17. A new billing system just about at the time of the merger has been by far the biggest driver of these complaints.
- CCWater have a separate initiative running with BW (SWW) re Billing complaints and report ‘an excellent complaint resolution procedure has been put in place’
- In addition, unwanted telephone contacts have reduced by 19%.
- BW has the second lowest leakage of any water only company. Pressure management is reaping rewards.
- BW has almost 100% compliance with Drinking Water Quality.
- Visible leak responses and repairs are on target and improving.
- A benefit of the merger is that SWW have expanded their customer tracking surveys to include BW, which is a first for BW. Customer Tracking Surveys over several quarters show a consistent very high level of customer satisfaction:
  - Above industry average in customer satisfaction.
  - Above industry average in Value for Money.
  - Charges are affordable, as agreed by customers, which is 7 percentage points above industry average.
  - Trust in BW is around industry average.
  - 90% customers feel they get about the right amount of information from the company, but prefer by papers in the bill, not on website! However given how little time most customers spend reading their bills, this information does not necessarily suggest that this is the way to better communications.

CVG has considered the BW Draft Assurance plan, together with the Risks, Strengths and Weaknesses statement and approved both.

CVG continues to monitor the opening of the Non Household market, and whilst the market opening on April 1 2017, falls outside this reporting period, early indications (by CCWater) suggest a smooth transition.

Section 5.0 provides detailed performance figures. It is worth remembering that benefit savings for customers can only be taken at the end of reporting period (not in term as with SWW).

5.0 ODI PERFORMANCE YEAR 2 PR14 (2016/17)

Measure	Forecast GAR	2015/16 actual	Final Perf	16/17 Target	2020 Target	Comments
% of visible leaks repaired within 7 days		79.2	80.0	80.0	85.0	
<b>Retail</b>						
Service Incentive Mechanism (SIM)		86.2	86.3	86.5	89	
New Customer Relationship Management system (£m)		0.336	0.347	0.472	1.18 total	Measures the delivery and depreciation rate of the new system. The delivery target of 31 January 2015 was met. Track to achieve 2020 performance.

Measure	Forecast GAR	2015/16 actual	Final Perf	16/17 Target	2020 Target	Comments
% of visible leaks repaired within 7 days		79.2	80.0	80.0	85.0	
<b>Retail</b>						
Service Incentive Mechanism (SIM)		86.2	86.3	86.5	89	

Measure	Forecast GAR	2015/16 actual	Final Perf	16/17 Target	2020 Target	Comments
Reduce per capita consumption to 140 litres/head/day by March 2020		133	144	141	140	Movement due to changes in classification due to market opening and some methodology alignment
Reduce energy used in water delivery (in kWh/Ml water)		509	650	575	530	Impacted by correction to reporting criteria and new pumps not performing as anticipated
Help support a healthy natural water environment		Annual report	Met	Annual report	Annual report	Final report on the environment shared with Natural England. Management plan to be presented to NE by end of April 2017
Contribute to our community (days)		202	00	121	175	Educational visits to schools and working days for volunteer and charity work
<b>Retail</b>						
Fair customer bills		4	3	4	4	Efficient debt management: % of average bill

6.0 INTERFACE WITH OFWAT

Whilst both the Chair and Vice Chair attended several early meetings within the PR14 reporting period with both Ofwat and CCWater, this has dropped away as the emphasis moves to the PR19 review and any meetings are normally attended by the Chair of the Water Future Customer Panel

**Richard D J Lacey**  
Independent Chair BW CVG

August 2017

## Customer View Group 2017/18

The Bournemouth Water Customer View Group is an independently chaired body created to provide active challenge and dialogue regarding the company's delivery of the performance targets set for the period 2020-2025. As Chair of the Customer View Group I ensure that the group meets four times each year and, comprising local customer and business representatives, along with industry regulators, deliver on the key objectives outlined within our terms of reference.

The merger of Bournemouth Water operations into South West Water has now been fully embedded, within the Customer View Group noting that Bournemouth Water and South West Water customers are benefiting from the merger through sharing of best practice and increased efficiency cost savings as a result. Indeed, both Bournemouth Water and South West Water have achieved their best ever customer service performance over this period, and are forecast to hit each of their targets for 2020.

As the independent Chair, I am pleased to report my satisfaction with the level of openness and transparency from the Company in providing any information or data required. Alongside this, I would like to note the responsiveness of the Company in responding to the challenges raised by the Group.

We have published our terms of reference and the minutes of our meetings online for our customers to see. For more information visit:

<http://www.bournemouthwater.co.uk/company-information/economic-regulation/business-plan-and-performance-commitment/2015-2020home/holding-us-to-account.aspx>



**Richard Lacey**

Chair of the Customer View Group





# WaterFuture 2050 Vision report

## WaterFuture customer panel statement

### Purpose

The purpose of this statement is to provide a situation report in accordance with the terms of reference, that acknowledges:

- Consideration of potential longer term obligations has taken place
- An investment programme has been outlined against the potential obligations
- Consideration has been given to the timing and phasing of delivery against the potential required obligation

SWW has undertaken appropriate customer research and engagement to identify customer priorities that are suitable for inclusion in the vision to 2050.

Consideration of the link the company has made between the obligations / priorities / investments to outcomes and measures of success.

The statement is not an opinion on the 2050 vision document, nor is it an opinion on the granular level of detail of the investment programme or scale and value of the indicative values. It is an acknowledgement that at a strategic level at this stage in the PR19 process:

- The potential long term obligations identified are reasonable and complete
- The solutions identified by the company to deliver the obligations are broadly in line with the expectations of regulators i.e. there is nothing missing and there is nothing included that shouldn't be.

### Recommendation

On that basis the WFCP is content to acknowledge that the vision to 2050:

- Reflects an understanding and reasonable balance of customer views at this stage of the PR19 process, which will form the basis of further work
- The phasing, scope and scale of activities articulated in the plans as required to deliver stated outcomes is socially, economically and environmentally sustainable.



Nick Buckland, Chair WFCP

## WaterFuture customer panel situation report

### Purpose

1. The purpose of this report is to confirm the involvement that the WaterFuture Customer Panel (WFCP) has had in supporting the development of the vision to 2050 publication. This will include the information and evidence that has been supplied by South West Water (SWW), what challenges have been made and what responses SWW made in response to challenges and feedback given by the WFCP, the Research and Vulnerability (REaV) Sub Group and the Legislative, Regulatory and Environmental Investment Sub Group (LREI).

### Background

2. In supporting the development of the updated long term strategy in the vision to 2050 document, South West Water has presented a synopsis of:

- Legislative and regulatory obligations to 2050
- Solutions and scale of investments to deliver these obligations
- Options of potential timing / phasing of delivery of these investments to 2050
- Outcomes and measures of success that result from these investments
- The link to customer priorities.

3. In accordance with the terms of reference, an accompanying statement has been prepared which acknowledges:

- Consideration of potential longer term obligations has taken place
- An investment programme has been outlined against the potential obligations
- Consideration has been given to the timing and phasing of delivery against the potential required obligation
- SWW has undertaken appropriate customer research and engagement to identify customer priorities that is suitable for inclusion in the vision to 2050
- Consideration of the link the company has made between the obligations / priorities / investments to outcomes and measures of success.

### Assurance

4. The WFCP and sub groups have reviewed and challenged various information and evidence that has been used to inform the development of the vision to 2050. The specific items that were reviewed by the sub groups are set out as appendices to this report.

### Recommendation

5. The WFCP acknowledges that the vision to 2050 has been informed by and is supported by appropriately evidenced investment plans and customer research results and reflects feedback and challenge received from the WFCP, REaV and LREI throughout its development (all challenges are recorded in a challenge log – copies available on request).

### APPENDIX A

SOUTH WEST WATER LIMITED

WATERFUTURE CUSTOMER PANEL (WFCP)

WFCP LEGISLATIVE, RESILIENCE AND ENVIRONMENTAL INVESTMENT (LREI) SUB GROUP

SITUATION REPORT & STATEMENT

### Purpose

1. The purpose of this report is to:

- Outline the proposed approach to commenting on the work undertaken by South West Water (SWW) in developing the building blocks (regulator priorities, investment plan, outcomes and measures of success) for the long term strategy document to 2050
- Recommend a report and accompanying statement that could be used by the chair of the WFCP to develop and submit a report to Ofwat, outlining the progress the WFCP has made to date in the PR19 process.

### Background

2. To accompany the delivery of an updated long term strategy to 2050, the WFCP LREI has developed:

- A short report explaining the approach taken to reviewing the investment plan supporting SWW's updated long term strategy to 2050; and
- A statement covering whether the investment plan:
  - Reasonably reflects legislative, resilience, environmental and regulatory obligations that SWW must comply with
  - Reasonably reflects a sound understanding and reasonable balance of customer views
  - Phasing, scope and scale is appropriate to deliver stated outcomes and is socially, economically and environmentally sustainable.

3. To support a WFCP report and statement, the LREI have provided a short report to the WFCP.

### Report

4. The LREI terms of reference state that the objective of the LREI is to advise and challenge SWW as it develops its legislative investment programme over the long term.

5. In developing the building blocks that support the long term strategy to 2050, SWW has presented a number of

documents for review and challenge by the WFCP and LREI, including:

- High level assessment of legislative and regulatory obligations to 2050 based on the information available at this point in time
- High level assessment of the overall value and composition of the investment plan delivering solutions to those obligations
- Outcomes and measures of success linked to customer priorities
- Investments mapped to regulator priorities and Defra statement of objectives to Ofwat.

6. Through individual discussions with the company, and collectively in the LREI, regulators have advised and challenged the company on behalf of the WFCP as the investment programme was developed. This has included working with SWW in identifying the legislative and regulatory obligations that the company must comply with.

7. Specific feedback and challenges given to the company included:

- Westcountry Rivers Trust (WRT) requested details on how the costs of the investment programme were generated and whether they were affordable
- WRT queried the value of catchment management activities forecast at approximately six times the current value of the programme
- WRT noted the overlapping nature of the different investments and the importance of ensuring a holistic programme that delivers multiple benefits to customers and the environment
- Environment Agency (EA) challenged whether the level of capital maintenance was sufficient to deliver 100% compliance
- EA challenged how the company ensured the investment programme meets all legislative requirements.

8. The company responded to these challenges, capturing them in the LREI challenge log.

9. In addition to the review and challenge made by the LREI, all parts of the investment programme have been reviewed and challenged internally within SWW. These have been quality assured and signed off by asset management, senior managers and directors.

10. External audits (undertaken by CH2M) have been completed in order to give independent assurance that the SWW long term strategy to 2050 publication, and associated investment programmes, are robust and prepared in accordance with company methodologies.

### Statement

11. In accordance with the terms of reference, an accompanying statement has been prepared which acknowledges:

- Consideration of potential longer term obligations has taken place
- An investment programme has been outlined against the potential obligations
- Consideration has been given to the timing and phasing of delivery against the potential required obligations
- SWW has made a link between the obligations / priorities / investments to outcomes and measures of success.

12. The statement is based on the information that is available at the time of preparing the statement and is on the understanding that looking forward to 2050 is inherently uncertain and therefore needs to be examined in that context.

13. Our opinion is not on the granular level of detail of the investment programme or scale and value of indicative values. It is an acknowledgement that the investment programme (including timing of investments) proposed by the company and included in the long term strategy to 2050 is, at a strategic level:

- Broadly consistent with EA, Drinking Water Inspectorate (DWI) and Natural England (NE) priorities
- Aligned with Defra's recently published government objectives for Ofwat
- Complete with no obvious omissions
- Appropriately linked to the results from customer priority surveys.

### Recommendation

14. The LREI is asked to APPROVE this report and statement to the WFCP for the purpose of acknowledging the SWW investment programme included in the long term strategy to 2050.

### APPENDIX B

SOUTH WEST WATER LIMITED

WATERFUTURE CUSTOMER PANEL (WFCP)

WFCP RESEARCH, ENGAGEMENT & VULNERABILITY SUB GROUP

REPORT AND STATEMENT ON THE RESEARCH & ENGAGEMENT RESULTS SUPPORTING THE SWW 2050 VISION

### Purpose

1. The purpose of this report is to:

- Outline the approach to commenting on the work undertaken by South West Water (SWW) in developing the 2050 Vision document
- Recommend a report and accompanying statement that could be used by the WaterFuture Customer Panel (WFCP).

### Background

2. To accompany the publication of an updated SWW 2050 Vision, the main WFCP will develop a short report confirming the involvement the WFCP has had in supporting the development of the SWW 2050 Vision

3. To support the WFCP report, the Research, Engagement and Vulnerability Sub Group (REaV) have been asked to provide a report and statement to the main panel outlining the research and engagement work carried out to date.

### Report

4. SWW has presented a number of documents for review and challenge by the WFCP and REaV including:

- Overall approach to customer and stakeholder research and engagement
- Presentation and report on methodology (project brief and topic guides) and outputs including a consolidated list of customer (end user) priorities undertaken in December 2016
- Presentation and report on methodology (project brief and survey questionnaires) and outputs from the priority ranking survey
- Held a valuation workshop to discuss the company's valuation strategy including triangulation of evidence
- Held a workshop to discuss the stated preference questionnaires, attributes and presentation of information within the surveys

5. The REaV acknowledges that the research and engagement activities are continuing and will be scrutinised further when considering how they are applied in the development of the 5 year business plan.

6. Members of the subgroup have advised and challenged the company on behalf of the WFCP as the results of the research and engagement plan have been received. Members of the REAV and WFCP have also attended focus groups as observers.

7. All challenges are recorded in the challenge diary associated with the REAV.

### **Statement**

8. In accordance with the terms of reference, the REAV acknowledges that as far as the group is aware that the:

- Overall research and engagement plan meets the requirements of the WFCP and considers Ofwat's policy statement on PR19 customer engagement (May 2016) and the more recent publication 'tapped in'
- Qualitative and quantitative phases of research to determine priorities were carried out appropriately, and the methodology (project brief, topic guides and questionnaires etc) and outputs agreed.
- Company has considered a sampling strategy ensuring consistency of information is collected through every quantitative survey and is flexible to enable increasing sampling sizes to ensure sub categories are robust
- Company has considered and drafted a valuation strategy which includes triangulation within the methodology

9. The statement is based on the information that is available at the time of preparing the statement and is on the understanding that looking forward 30 years is inherently uncertain and therefore needs to be examined in that context.

### **Recommendation**

10. The WFCP is asked to APPROVE this report and statement for the purpose of acknowledging the design of the SWW research and engagement activities and the results of this research and engagement are valid and are appropriate to be used in supporting the development of the SWW 2050 Vision.

## UK corporate governance code

The UK Corporate Governance Code (the Code) sets the underlying key principles for good governance.

The 2018 UK Corporate Governance Code was released in July and will be applicable for periods commencing with 2019/20. The revised Code puts the relationship between companies, shareholders and stakeholders at the heart of long-term sustainable growth in the UK economy.

The key principles of the Governance Code are aligned to the following themes:

- Board leadership and company purpose
- Division of responsibilities
- Composition, succession and evaluation
- Audit, risk and internal control
- Remuneration.

South West Water has established Governance Committees (Audit, Sustainability, Remuneration and Nominations) chaired or attended by independent Non-Executive Directors.

As a result the governance and assurance process established for the PR19 business plan has mirrored South West Water's established integrated approach approved by the SWW Audit Committee. This approach includes transparent reporting to the Board throughout the process, including Non-executives, robust internal checks and assurance sign-offs, complemented with external assurance.

We have considered each of these areas, where this may apply to this business plan assurance requirements and the assurance or processes in place to make a statement of compliance with the code. Given the business plan covers the 2020-25 period, we have deemed it appropriate to consider the requirements of the 2018 Code.

Principle	Relevant principle for business plan	Process and assurance
<b>Board Leadership and company Purpose</b>	<ul style="list-style-type: none"> <li>• (A) A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.</li> <li>• (B) The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.</li> <li>• (C) The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.</li> <li>• (D) In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.</li> <li>• (E) The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.</li> </ul>	<p>The Board has led and approved the strategy throughout the WaterFuture vision to 2050, Proposals &amp; Choices and the 2020-2025 business plan</p> <p>Executive Directors have developed the plan through the PR19 Steering Group and key decision made in this forum with final approval by the Board.</p> <p>Non-exec directors have seen information and updates to challenge and direct the strategy including attendance at a WaterFuture Customer Panel and customer focus groups.</p> <p>The Board has thoroughly scrutinised the plan to ensure that the objectives are stretching, in line with stakeholder priorities and can be achieved given the resources available. Risks relating to the business plan are considered within the company's established risk management framework.</p> <p>Customer panels, focus groups, and interaction with other stakeholders has provided the Board with effective participation at all stages during development of the business plan.</p> <p>The Board and PR19 Steering Group have received support from all areas of the business and the plan is fully in line with the company's values.</p>

Principle	Relevant principle for business plan	Process and assurance
<p><b>Division of responsibilities</b></p>	<ul style="list-style-type: none"> <li>(F) The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgment throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.</li> <li>(G) The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.</li> <li>(H) Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.</li> <li>(I) The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.</li> </ul>	<p>Throughout the business plan process Director led sub-groups were formed to develop the plan based on appropriate knowledge and skills. Specific groups included:</p> <p>Finance, Cost Assessment and Assurance Asset Management Communications Resilience Customer Research and Engagement</p> <p>In addition, our WaterFuture Customer Panel, including key regulators and stakeholders have provided additional knowledge, skills and experience to the processes.</p> <p>The PR19 Steering Group has met at least monthly to discuss the key issues and regular updates have been provided to the full SWW Board.</p> <p>The Board led by the Chair and with full Non-executive engagement have received regular reports from the company's executive and the PR19 Steering Group which they have thoroughly scrutinised. Reports have been presented in advance of Board meetings and sufficient time has been allocated within Board meetings for full engagement.</p>
<p><b>Composition, succession and evaluation</b></p>	<ul style="list-style-type: none"> <li>(J) Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</li> <li>(K) The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.</li> <li>(L) N/a</li> </ul>	<p>Extensive procedures led by South West Water's Nomination Committee when appointing Directors and Executive Management.</p> <p>Broad skill-sets are sought for Directors, however external support provided in key PR19 areas.</p>
<p><b>Audit, risk and internal control</b></p>	<ul style="list-style-type: none"> <li>(M) The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.</li> <li>(N) The board should present a fair, balanced and understandable assessment of the company's position and prospects.</li> <li>(O) The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.</li> </ul>	<p>The 2020-25 business plan has been developed over two years and has responded to a significant amount of challenge through customer and stakeholder engagement.</p> <p>External independent assurance has been received throughout this process and will continue until submission.</p> <p>The key areas of risk and uncertainty within the plan have been identified and reported through to the Board to ensure our plans are balancing these risks appropriately within the regulatory framework.</p> <p>Whilst we have engaged the company Auditors to complete an element of independent assurance – particularly over the financial modelling and business plan tables – we have also engaged other external experts to support the process.</p>
<p><b>Remuneration</b></p>	<p>Not applicable for the business plan</p>	

## Licence obligations

As part of our annual reporting process the licence conditions below are reviewed to ensure compliance with the relevant requirements, and external assurance is provided over specific statements included within the Annual Performance Report statement which specifically assures:

- Condition K – sufficient rights and assets
- Condition F – sufficient financial resources to operate for 12 months.

Licence requirement	Meaning of requirement	Relevance to this business plan assurance	Process and assurance
<b>Condition A: Interpretation and construction</b>	No obligations arise from these definitions of terms	Not applicable	Not applicable
<b>Condition B: Charges</b>	Price limits compliance with a revenue control Restriction of Standard charges Requirements of Ofwat charging rules  Periodic Reviews and Interim Determinations	Business plan will include reference to SWW tariffs and charges and average bill illustrations but the detailed basket of tariffs will not be included in the submission.  Specific requirements relating to the price review are:  Comply with the price control requirements and provide information to enable the periodic review to be completed.  Separate price control for water and sewerage, retaining 'K' and RPI/CPIH  Confirmation of wholesale & retail activities (RAG 4.07)  SWW have not submitted an interim determination for this price review but have requested a change protocol.	KPMG will review the calculation and assumptions in identifying the average bills within the plan.  In delivering our business plan we have ensured compliance with the key areas noted within the condition which are reflected in Ofwat's charging rules. KPMG are engaged in reviewing our plans for compliance with Ofwat's charging rules.
<b>Condition D: New Connections</b>	Connection Charges and Charges Scheme	An assumption for the level of new connections has been assumed in the plan The approach is consistent with the 2015-20 position which is reviewed annually.	Jacobs review of expected customer growth and assumptions on developer activity included.
<b>Condition E: Prohibition on Undue Discrimination and Undue Preference and Information on Charges</b>	Restrictions on differentiation between customer groups in charging	Assurance statement specifically required on non-discrimination for customers in the default tariff.  SWW have applied a cost reflective approach to developing the default tariff which considers the customer service offered to each customer type.  Compliance with Ofwat's Wholesale Charges Rules and Charges Scheme rules	KPMG has reviewed SWW's approach and calculation of the default tariff and considered the factors for non-discrimination which have been applied for appropriateness.
<b>Condition F: Accounts and Accounting information</b>	Requirements for Accounting records F6: Ensuring that trade with associates is at arm's length Regulatory accounting requirements Audit and publication of accounts	The appropriate regulatory accounting requirements need to be applied to the business plan.  Key assumptions include:  Application of RAG 4.07 to allocate costs between wholesale/retail (subject to some prescriptive allocations requested in the methodology)  Asset valuation – NMEAV	KPMG has completed a review of the financial outputs to ensure these are consistent with the regulatory accounting guidelines where applicable.

Licence requirement	Meaning of requirement	Relevance to this business plan assurance	Process and assurance
<p><b>Condition G: Code of Practice for Customers and relations with the Customer Service Committee</b></p>	<p>Requirements of a code of practice</p> <p>Three yearly reviews with consultation with CCWater, followed by submission to approval to Ofwat for any revision.</p> <p>Requirement for a Director to be present at a CCWater meeting at least once a year.</p> <p>Requirement to draw customers attention to the codes</p> <p>ID methods when visiting customer premises</p>	<p>Customer engagement has been a key element in the development of our plan. We have ensured that our engagement approach is consistent with our current policies and established practices.</p> <p>The WaterFuture Customer Panel (WFCP) has been chaired by a CCWater representative and CCW chaired the Research and Engagement sub-committee.</p> <p>As part of our customer consultation in July, Waterlevel was delivered to each property to ensure customers were aware of our proposals. A second customer focused document is being prepared for the final plan.</p>	<p>The research and engagement has been completed by a range of independent external consultants.</p> <p>The approach to customer research was undertaken by ICS and Accent and was Peer reviewed by Professor Ken Willis and this review concluded that it was a robust piece of work and met the requirements of the WFCP.</p> <p>The engagement work was completed through a range of activities including Focus Groups (Turquoise), Surveys (Heart FM), Website online engagement tool.</p> <p>An independently written report endorsing our plan is being submitted by the WFCP.</p>
<p><b>Condition I: Code of Practice and Procedure on Leakage</b></p>	<p>Code on liability for domestic customers with unidentified leak on supply pipe.</p> <p>Requirement to check when meter installed and subsequently adjust measured charges for first leak</p> <p>Three yearly review with consultation with CCWater, followed by submission to approval to Ofwat for any revision.</p> <p>Draw attention to code in demand for charges</p>	<p>This condition relates to the procedures for customer supply pipe leaks – not on the company leakage targets.</p> <p>The business plan retail tables specifically identify the costs associated with this activity and, companies are asked to identify the costs funded by the wholesale and retail business.</p> <p>SWW are not proposing a change in approach or policy in relation to customer supply pipe leaks and therefore the 2020-25 plan includes only the base level of service and costs going forward.</p>	<p>The allocation of costs within the business units has been reviewed by EY as part of their audit of Regulatory Reporting as at March 2018, including Accounting Separation.</p> <p>In addition the 2020-25 forecast has been reviewed by KPMG in both the business plan tables and overall retail plan.</p> <p>External development of bid assessment framework by KPMG.</p>
<p><b>Condition K: Ring Fencing and Disposals of Land</b></p>	<p>Ensure that so far as reasonably practicable, sufficient rights and assets (not financial) available to special administrator</p> <p>Publish statement within audited accounts as to compliance with above</p> <p>Group company rights must be available (no reasonably practicable exception)</p> <p>Disposals of protected land process and notification</p>	<p>There are two factors applicable for the business plan:</p> <p>2015-20 impacts of land sales on 2020-25 prices</p> <p>2020-25 potential land sales</p>	<p>A specific business plan table (App9) reports the historical and forecast land sales for 2015-20 and identifies the opening adjustment required for customer bills. EY have reviewed this table.</p> <p>The business plan submission does not include a forecast of land sales, however with the mechanism of pain / gain sharing with customers this may be a noted item.</p>



Licence obligations continued

Licence requirement	Meaning of requirement	Relevance to this business plan assurance	Process and assurance
<b>Condition M: Provision of Information to the Director</b>	Provision of any information to Ofwat to fulfil duties	Ofwat have issued the Methodology for price setting and subsequently information notices, further requests for information and clarification of industry queries raised.	Throughout the Jacobs, EY and KPMG reviews, consideration has been given as to SWW's compliance with Ofwat's guidance.
<b>Condition M1: information remedies</b>	Provision of information to support the development and operation of a market in water resources, demand management, leakage services and bioresources	None – the condition obliges the company to comply with a direction from Ofwat to provide specified information	N/a
<b>Condition N: Fees</b>	Pay Ofwat fees	The business plan includes South West Water's estimate of Ofwat fees. No uplift in excess of CPIH has been assumed.	South West Water's financial data table assumptions have been
<b>Condition O: Circumstances in which a replacement appointment may be made</b>	25 years rolling notice from Secretary of State	Not applicable	Not applicable
<b>Condition P: Regulatory ring-fence</b>	<p>Appointed business to be conducted as if it is substantially the Appointee's sole business</p> <p>Appointee retains sufficient rights and assets and has in place adequate financial resources and facilities management resources and systems of planning and internal control</p> <p>Transfers or transactions entered in to do not affect the Appointee's ability to carry out its regulated business</p> <p>The Appointee demonstrates compliance with the requirements of the condition</p>	<p>The business plan has been developed in line with the principle of the appointed business being substantially South West Water's sole business, which is overwhelmingly in line with reported financial data within South West Water's Annual Performance Reports.</p> <p>Sufficient rights and assets are in place and a detailed financial resilience exercise has been completed.</p> <p>The plan requires sufficient resources and facilities in line with South West Water's committed outcomes and its systems of risk management and internal control.</p> <p>No transfers or transactions are entered into which impact the company's ability to carry out its regulated business.</p>	<p>KPMG and Jacobs assurance of business plan and review of Appointee tables.</p> <p>Annual external assurance and Risk and Compliance Statement.</p>
<b>Condition Q: Interruptions in Supply because of Drought</b>	Payments to customers for drought supply interruptions	The business plan sets out our plans for water supply demand and clearly our K6 plan does not foresee any issues with drought.	SWW's Water Resources Management Plan (WRMP) was reviewed by Jacobs as part of the early assurance process prior to submission, and the EA and Ofwat have provided comment on our plan with no significant issues that change the overall strategy.

**Licence obligations** continued

Licence requirement	Meaning of requirement	Relevance to this business plan assurance	Process and assurance
<p><b>Condition R: Provision of Combined and Wholesale Water Supplies</b></p>	<p>Arms length with associated WSL licensee</p> <p>Compliance code reviewed annually which it conforms to</p> <p>Requirements to provide information to WSSL licensee</p>	<p>Whilst the wholesale/retail elements are considered separately and our plan includes some costs expected as a result of market opening the impact of any new water supply licences will not be included.</p>	<p>Not applicable</p>
<p><b>Condition S: Customer transfer protocol</b></p>	<p>Requirement to comply with CTP for the wholesale supply market (where new licencees introduce water to supply their customers)</p> <p>Obligation to have an Access Code</p>	<p>Whilst the wholesale/retail elements are considered separately and our plan includes some costs expected as a result of market opening the impact of any new water supply licences will not be included.</p>	<p>Not applicable</p>

## Defra's strategic objectives to Ofwat

Ref	Priority/objective	Requirement	PR19 Investment programme	PR19 Compliance
1	Priority	Ofwat should challenge the water sector to plan and invest to meet the needs of current and future customers, in a way which offers best value for money over the long term.	<p>The Business plan has been developed based upon the company's largest programme of customer engagement to date, with focus on operational resilience considerations.</p> <p>Extensive independent external analysis has been provided (PA Consulting) and this will form the basis of the flagship Resilient Service Improvement (RSI) project which has commenced and will continue into the 2020-25 period.</p>	Willingness to pay achieved across a number of areas. The RSI project will help deliver a more resilient business into the future.
2	Objective – Water supply	Ofwat should further a reduction in the long-term risk to water supply resilience from drought and other factors, including through new supply solutions, demand management and increased water trading.	Continue to review, develop and maintain water resources models and their associated data and information requirements.	<p>WRMP published 2018.</p> <p>Overall strategy to reduce leakage and future demand for water, ensure availability of existing sources and their resilience to future droughts and developing our planning tools and understanding future options.</p>
3	Objective – Wastewater	Ofwat should challenge water companies to improve planning and investment to meet the wastewater needs of current and future customers.	<p>Prioritised investment in key identified areas:</p> <p>Coastal and fluvial erosion risk</p> <p>Cyber security for our key strategic wastewater assets</p> <p>Sewer flooding risk</p> <p>Wastewater treatment works flood response resilience</p>	<p>New formalised Drainage and Wastewater Management Plans (DWMPs) building upon our previous Drainage Framework Management Plans.</p> <p>Continued capital maintenance investment:</p> <p>Wastewater network</p> <p>Wastewater Pumping Stations</p> <p>Wastewater Treatment Works</p>
4	Objective – Resilience against flooding and wider risks	Ofwat should challenge water companies to make sure that they assess the resilience of their system and infrastructure against the full range of potential hazards and threats and take proportionate steps to improve resilience where required.	<p>Continuation and expansion through sustainable partnerships of our Upstream Thinking and Downstream Thinking programmes.</p> <p>Prioritised investment in key identified wastewater areas:</p> <p>Coastal and fluvial erosion risk</p> <p>Cyber security for our key strategic wastewater assets</p> <p>Sewer flooding risk</p> <p>Wastewater treatment works flood response resilience</p>	<p>New formalised Drainage and Wastewater Management Plans (DWMPs) building upon our previous Drainage Framework Management Plans.</p> <p>Inclusion of full range of potential hazards within the company's risk management framework</p>

Defra's strategic objectives to Ofwat continued

Ref	Priority/objective	Requirement	PR19 Investment programme	PR19 Compliance
5	Objective - Environment	Ofwat should challenge companies to further the resilience of ecosystems that underpin water and wastewater systems, by encouraging the sustainable use of natural capital and by encouraging water companies to have appropriate regard to the wider costs and benefits to the economy, society and the environment.	<p>Significant funding in the award winning Upstream Thinking programme, with direct impact upon resilience of ecosystems and biodiversity.</p> <p>SWEEP collaboration programmed conducting a catchment level natural capital exercise.</p> <p>Natural capital assessment on WRMP and catchment management.</p>	Performance Commitments relating to ecosystems and biodiversity.
6	Priority	Ofwat should challenge the water sector to go further to identify and meet the needs of customers who are struggling to afford their charges.	<p>Continued expansion of affordability schemes (including in the Bournemouth Water area).</p> <p>Continued staff training from the charity MIND to ensure our staff are more aware of mental health conditions and their potential triggers for vulnerability.</p>	<p>Extensive data analysis to build a vulnerability profile across the region.</p> <p>Continued performance monitoring.</p>
7	Objective – Household customers	Ofwat should challenge companies to improve the availability, quality, promotion and uptake of support to low income and other vulnerable household customers.	<p>Support for affordability schemes continued and expanded into 2020-25 in both the South West Water and Bournemouth Water area.</p> <p>Increased focus on identifying vulnerable customers.</p>	Performance commitments in respect of bill to income ratios and customers utilising support tariffs.
8	Objective – Business customers	Ofwat should promote an enhanced focus by water companies on the needs of small business customers that may struggle to access the best deals.	<p>(limited applicability following South West Water's exit from the Business Retail market)</p> <p>Commitment to ensure that South West Water maintains full compliance with market codes and that charges (whether wholesale charges in the market or developer charges etc) are fair, clear and transparent.</p> <p>Water efficiency for non-household tourism properties.</p>	Market Code Developer Services Standards
9	Priority	Ofwat should promote markets to drive innovation and achieve efficiencies in a way that takes account of the need to further: (i) the long-term resilience of water and wastewater systems and services; and / or (ii) the protection of vulnerable customers.	<p>Principles and means for trade established.</p> <p>Detailed analysis undertaken for options.</p> <p>Market offers to be assessed against internal service provision (where applicable) and most cost effective solutions in line with long term strategic approach utilised.</p>	<p>Significant external analysis undertaken to ensure opportunities are fully considered.</p> <p>Clear bid assessment framework and internal processes in place.</p> <p>Approved trading and procurement code in place.</p> <p>Water resources and bioresources market data published.</p>

## Professional credentials of third parties

### Jacobs

Jacobs Engineering Inc (Jacobs) has been appointed as South West Water's core technical assurance partner for Annual Reporting as well as the PR19 process. This is delivered through Jacobs' subsidiary company, Halcrow Management Sciences Ltd (HMS). HMS has global experience in strategic business planning and regulation for water companies. HMS is a ring-fenced company with its own Board of Directors and governance and quality management system. Jacobs became HMS's ultimate parent following the acquisition of its previous owners CH2M HILL in December 2017. Halcrow Management Sciences Limited (HMS) has been a leading provider of technical assurance services to the UK water industry since privatisation in 1989.

HMS's independence enables us to provide a candid and confidential service to operators, regulators, governments and banks. Our personnel all have regulatory, water and wastewater engineering, contractual and economics backgrounds and have specialist expertise in all aspects of utility regulation, diagnosis and performance assessment. With this capability, HMS offers a detailed appreciation of the major themes related to effective regulation with a particular emphasis on technical assurance of information through methodology and process review.

Despite changes in the regulatory environment in 2012 to a lighter-touch, risk-based, self-assurance reporting regime, South West Water, along with most companies, opted to secure the services of experienced independent technical advisors to provide assurance to its senior management, Board of Directors and parent company. This provides additional comfort of the company's continuing stewardship of these essential services, ensures customer's preferences are well considered, secures a more predictable outcome to the business planning process, helps retain suitable credit ratings and access to capital, and improve shareholder value.

Throughout the PR19 process, we have been working in partnership with South West Water to help ensure that its business plan submission receives suitable levels of independent assurance such that the senior and executive management, Board of Directors and in turn, the customer challenge groups, Ofwat and other stakeholders can be confident about the foundation of the information presented. Our team is led by Graham Hindley who is a Chartered Civil Engineer of over 20 years' experience and is a Director of HMS Ltd.

### EY

EY is one of the largest providers of assurance services within the UK and provides assurance to a number of water and other utility companies. It has extensive experience of both annual reporting and regulatory returns, including business plans.

We have been South West Water's (and the Pennon Group's) statutory auditor since 2014/15. As part of this engagement we performed assurance (both audit and agreed-upon-procedures) over South West Water's Regulatory Reporting each year.

EY has provided assurance over financial data contained within each of South West Water's early submission tables, reviewed inputs into South West Water's internal modelling and an overarching review of South West Water's business plan submission documents. This has been provided by a team with knowledge of South West Water, the Water Industry and the requirements of the Periodic Review process.

### KPMG

KPMG is a leading provider of professional services, including audit and advisory solutions integrating innovative approaches and deep expertise to deliver real results. We have extensive water industry experience.

We have worked with South West Water over a number of years, acting as financial advisor at PR14 as well as reviewing retail margins, default tariffs and providing retail modelling advice.

We have provided expertise in a range of relevant areas including analysis in respect of options for direct procurement and supporting the development of South West Water's approach to trading in the Water Resources market, including reviewing South West Water's market and procurement code. This follows extensive involvement with multiple companies within the industry providing advice ahead of the opening of the non-household retail market.

Our team includes members who have previously been involved in the development of market frameworks in the industry as well as policy for PR19.

### **ICS Consulting**

ICS Consulting was established in 2000 and specialises in providing consultancy and support services to infrastructure businesses and regulators in the UK, Europe and Middle East. Their expertise covers:

- Customer and stakeholder engagement
- Regulatory economics, covering policy analysis and development
- Economics analysis, including assessing monetary benefits of investment and cost-benefit analysis
- Investment appraisal and optimisation, covering the design and implementation of bespoke asset management systems.

ICS is highly experienced in all aspects of the regulatory and business planning processes in the water industry and supports a number of key periodic review activities, namely:

- Customer research (priorities, willingness to pay, acceptability testing)
- Regulatory analyses (outcomes and incentives design, tariff formulation)
- Investment optimisation and business plan development (cost benefit analyses, scenario planning, business case development)
- Risk assessment (risk appraisal and assessment).

### **Oxera**

Oxera is a leading independent economics consultancy. They advise companies, policymakers, regulators and lawyers on any economic issue connected with competition, finance or regulation. They have been doing this for more than three decades, gathering deep and wide-ranging knowledge as they expand into new sectors. They have a reputation for credibility and integrity among those they advise, and among key decision-makers, such as policymakers, regulators and courts. Today they have offices in Oxford, Berlin, Brussels, London and Rome and are able to advise international clients in a highly flexible way, including providing advice in several other languages.





**South West  
Water**



**Bournemouth  
Water**