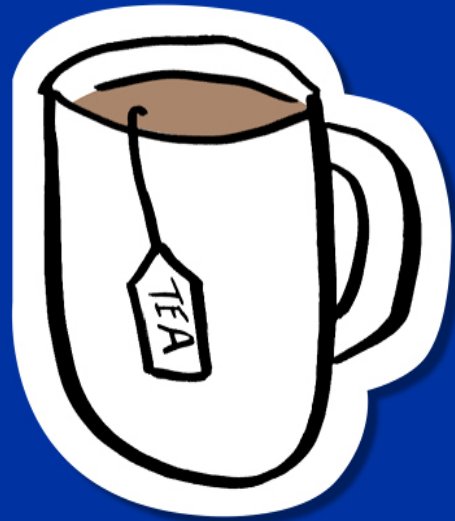


Appendix 17 – Board assurance statement (tracked changes)

Wessex Water

March 2019

12. SECURING TRUST, CONFIDENCE *and* ASSURANCE



Section 12 Securing trust, confidence and assurance

This plan sets out our commitments for the period 2020 to 2025. It is endorsed by Wessex Water's full board as consistent with our vision, our aims and our strategy for the long term.

The board has worked alongside company management over a period of two years both to develop the proposals within it and to challenge the level of ambition and stretch in our future targets. The board has also engaged directly with customers, investors and other stakeholders so that we can be sure this plan meets the needs of customers and of wider society both now and in the long term.

This section describes the process that the board has followed to be able to make this statement and the following assurances. The board assures:

- that the submission is a high-quality and deliverable plan.
- that it is consistent with, and will allow the company to deliver against both, its current licence conditions, and its statutory obligations now and up to 2025, and takes account of the Government's Strategic Priorities and Objectives for Ofwat.
- that the ~~company board~~'s ongoing governance processes are fit for purpose and will enable us to monitor and hold company management to account for the delivery of this business plan delivering operational, financial and corporate resilience over the next control period and the long term.
- that it enables trust and confidence, through appropriate measures to provide a fair balance between customers and investors (which include outperformance sharing, dividend policies and any performance related element of executive pay) and high levels of transparency on issues that matter to customers including corporate and financial structures.
- that it is informed by customer engagement and the views of the Wessex Water Partnership (WWP), and that the performance commitments contained within it reflect customer priorities, are stretching and reporting is robust.
- that it is affordable for all including in the long term, and includes appropriate assistance for those struggling, or at risk of struggling to pay.
- that it is informed by a systematic assessment of the resilience of the company's systems and services, customers' views on resilience and an objective assessment of interventions to manage resilience in customers' long-term interests.
- that the expenditure projections contained within this business plan are robust and efficient, and that in particular for large investments a proper assessment of options has taken place and the options chosen are deliverable and best for customers.
- that where investments require an upwards adjustment to Ofwat's initial cost allowance that in each case the proposals are robust, efficient and deliverable. And that in each case a proper assessment of the options has taken place and that on that assessment the option proposed is the best one for customers. In addition, that in each case that there is a proven need for the outcome to be delivered by the investment and that there is sufficient protection for customers in the event that the outcome is not delivered.
- that it has identified the risks associated with the delivery of the business plan and has appropriate mitigation plans in place.
- that ~~the company's~~ data submissions and, in particular, the allocation of costs and assessment of taxation, are accurate, reliable and complete.

And also, that if the business plan is accepted in full by Ofwat with no material adjustments to expenditure or committed performance levels, or otherwise to the balance of risk and reward:

- that the plan is financeable on both Ofwat's notional capital structure and on the company's actual capital structure, and that in that regard that the plan protects customers' interests in the short and long term.
- that, consistent with the long-term viability statement in the 2018 company accounts, the company remains financially resilient in the long term.

Section 12 Securing trust, confidence and assurance – summary

In this section we give a description of the Wessex Water governance structure, the roles played by various board level committees in the compilation of this business plan and give the board's assurances on the plan's quality, deliverability, accuracy, consistency and resilience.

For the avoidance of doubt this section should be taken to be the Board's statement of assurance.

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- 12.2 The role of the board in the production of this business plan
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- 12.5 The role of the PR19 non-executive subject matter experts
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- 12.7 Our ongoing governance processes that are fit for purpose
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- 12.16 Accurate, reliable and complete data
- 12.17 Board endorsement

Where to find further information

Supporting information for various aspects of this section are provided as below:

Ref.	Title
Supporting document 12.1	Information about the Wessex Water Partnership
Supporting document 12.2	Assurance map
Supporting document 12.3	Third party report on reportability of our PCs
Supporting document 12.4	Statement from the Affordability Advisory Group
Supporting document 12.5	Corporate service resilience policy
Supporting document 12.6	Third party report on resilience

Supporting document 12.7	Report from our technical auditor
Supporting document 12.8	Report from our financial auditor
Supporting document 12.9	Third party report on allocation of costs
Supporting document 12.10	Third party report on tax assumptions
Supporting document 12.11	Third party report on statutory obligations
Supporting document 12.12	Strategic direction statement

12.1 Section introduction

The Wessex Water board assures this as a high-quality and deliverable plan and endorses it as consistent with our long-term vision for the company and our strategy

We, the board of Wessex Water, understand our accountability for this business plan. We are unequivocal in our assurance that the plan is both high quality and deliverable. We endorse it and confirm that it is consistent with our long-term vision for the company and our strategy.

We confirm that the plan will deliver operational, financial and corporate resilience over the next control period and the long term through the board's governance and assurance processes.

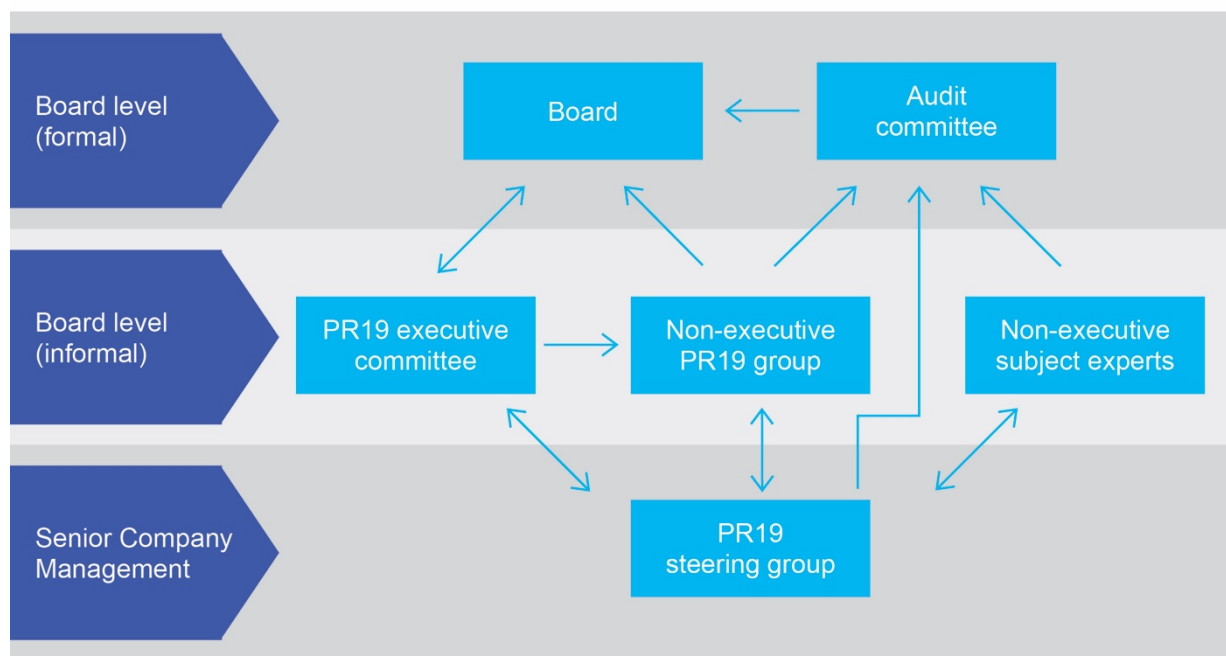
We can make these statements because we considered in detail the governance arrangements for the development of the plan, in particular the role of our independent non-executive members in:

- developing the long-term strategy and ensuring it is embedded into the PR19 submission
- challenging the executive and senior company management throughout, including direct engagement with members of the company PR19 steering group.

In 2016 we agreed a governance structure for the development of the business plan and the submission as follows.

Figure 12-1: PR19 Governance Structure (Internal)

**Wessex Water Services Ltd
PR19 Governance Structure**



12.2 The role of the board in the production of this business plan

As a board we are responsible for setting the long-term vision of Wessex Water and its strategic direction. The approval of this business plan is a matter reserved to the board.

The key activities of the board in the development of this business plan have been as follows.

March 2016

Strategic Direction Statement considered and approved for publication.

April 2016

Publication of Strategic Direction Statement, included as supporting document 12.12

July 2017

Consideration of Ofwat's draft methodology.

August 2017

Approval of the response to Ofwat's methodology from the senior independent director and managing director.

September 2017

Approval of the submission of Wessex Water's proposed bioresources RCV and draft Water Resources Management Plan.

January 2018

Approval of the submission of the company's proposed water resources RCV.

March 2018

Review of the outline plan submission including approval of the draft performance measures. Approval of the publication of the information assurance plan.

May 2018

Consideration of the draft final plan narrative.

July 2018

Approval of submission and endorsement of the plan subject to due alterations for detail.

12.3 The role of the Audit and Risk committee in the production of this business plan

The Audit and Risk committee is comprised of all the independent non-executive board members. Its role in this context is to:

- scrutinise the company's proposals, information and data submissions
- ensure that these submissions are accurate, reliable and complete, and consistent with the company's statutory obligations
- report at each board meeting the outcome of its activity at the previous meeting. It may also recommend to the board whether we can approve the submission of regulatory information.

The Audit and Risk committee considered and recommended for approval the publication of the company Strategic Direction Statement in March 2016 and then took the following actions.

November 2016

Review and approval of the assurance and governance strategy.

September 2017

Scrutiny of the company's proposed bioresources RCV and its submission at the subsequent board meeting recommended.

November 2017

Scrutiny of the company's water resources RCV and its submission at the January board meeting recommended.

March 2018

Approval of the company's assurance plan, and proposals for PR19 plan assurance considered and approved. The assurance map is shown as supporting document 12.2.

July 2018

Scrutiny of the plan submission, recommending approval at the subsequent board subject to due alterations for detail.

August 2018

Review of the final plan submission by the chair of the committee confirming any changes were alterations for detail.

12.4 The role of the PR19 non-executive meetings

YTL is a long-term investor and consequently understands it must ensure the long-term health and resilience of the Wessex Water business. It considers that the independent non-executive directors are particularly important in making sure we always maintain the right balance between customers and investor. YTL has been clear that it will never do anything that does not have the support of the independent non-executives.

This group, made-up of five non-executive directors, including all the independent

directors, met on four separate occasions to consider the business plan and elements of the PR19 submission.

These meetings were attended by executive directors and other company senior managers as required, including the director of regulation and reform. Due to their limited lifespan these have not been included as part of the company's formal governance and control arrangements.

At these meetings the non-executive directors worked alongside the company's management team to develop the company's approach and to increase and better convey the ambition contained within the business plan, its alignment with the board's strategy and the deliverability of its proposals.

Meeting	Topics considered
November 2017	Customer engagement Company vision, strategy and long-term direction
January 2018	Company vision, strategy and long-term direction Summary business plan and ambition Assurance plan
May 2018	Affordability Resilience Cost efficiency Financeability and financial resilience
June 2018	Financeability and financial resilience

12.5 The role of the PR19 non-executive subject matter experts

At an early stage in the PR19 process the non-executive directors understood that, in order to work alongside and challenge company management and the executive effectively, they needed to understand in greater detail the building blocks of the business plan. The board agreed to assign individual non-executive directors to specific subject matter areas, based on their areas of expertise.

The non-executives then met individually with managers across the business to understand and challenge at a detailed level, the company's proposals as well as with external stakeholders and regulators. This information was then shared with other board members through the 'challenge and approval process'. In this way the board has been able to retain its overall collective approval for the plan and its proposals.

Non-executive director	Subject	Experience
Gillian Camm	Customers	Gillian has had a lifelong career in change management, ranging from the implementation of significant change programmes through to the coaching and development of senior leaders in a variety of sectors. She has worked with organisations to improve their diversity and had significant involvement in the recruitment of both executive and nonexecutive directors. Gillian is chair of the Leadership Foundation for Higher Education, a vice-president of Quartet Community Foundation, a member of the Merchant Venturers and the Honourable Gloucestershire Company and a deputy lieutenant of Gloucestershire.
David Barclay	Financeability	As an investment banker, David assisted YTL Corporation with its acquisition of Wessex Water in 2002, and since then has been a director of Wessex Water Services Limited. His aim is to promote and defend high standards of integrity and corporate responsibility in the boardroom. David is also a director of Wessex Water Limited, the holding company for Wessex Water Services, and YTL Land and Property Limited. David is currently deputy chairman of the British Library and a senior independent director of Wates Group Limited. His previous roles include vice chairman of Dresdner Kleinwort and non-executive deputy chairman of John Lewis plc
Dame Fiona Reynolds	Environment	Dame Fiona has run or chaired large and small charities, many of which were going through change; she has campaigned for progress on conservation and environmental matters; engaged millions of people in conservation causes, and had a wide range of experience in public speaking, writing and the media. She became Master of Emmanuel College, Cambridge in 2012 after a long career in the voluntary conservation movement, latterly as Director-General of the National Trust. She was formerly Director of the Women's Unit in the Cabinet Office.

Huw Davies	Investment	<p>Chief financial officer and company secretary of the Wates Group for the last 10 years, Huw was previously head of corporate finance at Taylor Woodrow plc. He has also held key positions with KPMG, Ernst and Young and the government of Oman. Huw was formerly an independent non-executive director of West Bromwich Building Society, Hydro International plc and WSP plc.</p> <p>He has extensive experience in UK and international corporate finance, risk management and corporate governance with a number of sectors including construction and engineering, residential and commercial development, property investment and financial services.</p>
Richard Keys	Regulation	<p>A chartered accountant and a former senior partner at PricewaterhouseCoopers, Richard has extensive business and financial experience developed during a 37-year career at PwC, encompassing corporate governance, audit, accounting, financial reporting, risk management, transaction support and consulting across many sectors. He is also a non-executive director of Merrill Lynch International, NATS Holdings Ltd <u>and a non-executive member of the departmental board at the Department for International Development and at the Department for Transport.</u> He is chairman and non-executive director of Glaziers Hall Ltd. <u>He was formerly a non-executive director and chair of the audit committee at Sainsbury's bank plc and a non-executive member of the departmental board at the Department for International Development and a council member and chair of the audit committee at the University of Birmingham.</u></p>

12.6 Meeting our statutory obligations and licence conditions

The board assures that, in our collective view, the proposals within the business plan are consistent with, and will allow the company to deliver against both its current licence conditions and its statutory obligations now and up to 2025.

The business plan also enables the company to exceed these obligations where this is in the interests of the people, customers and communities we serve and of wider society.

In making this statement we considered independent reports from Mott MacDonald on the compliance of the plan with statutory obligations and licence conditions. See

supporting document 12.11 for further information on this.

The company senior independent non-executive director also engaged directly with representatives of DWI and the EA at a working level.

The board also confirms that the proposals in this plan take account of the government's strategic policy statement to Ofwat including by securing long-term resilience, protecting customers and by promoting the greater use of markets.

12.7 Our ongoing governance processes that are fit for purpose

The board of Wessex Water confirms that, in our collective view, the boardcompany's ongoing governance

processes are fit for purpose and will enable us to monitor and hold company management to account for the delivery of this business plan, delivering operational, financial and corporate resilience over the next control period and the long term.

Organisation and Control Arrangements

As a board we annually review and approve the company's Organisation and Control Arrangements (O&CA) which set out the framework for control of the company's affairs.

The O&CA set out requirements for the competency of board members and its committees, for effective management of the company and for the granting of delegated powers and authorisations. The principal duties of the board, the matters reserved for its decision and the terms of reference of its committees are fully documented and copies are available on our website. Matters reserved to the board include approval of this business plan.

The board will continue to be subject to regular board effectiveness reviews to ensure that it has sufficient resources and expertise to carry out its duties.

We will continue to have particular regard to FRC guidance on good governance and to ensuring the board's composition enables it to act independently and exclusively in the interests of the Appointed company.

Non-executive directors will continue to possess the necessary skills, experience and knowledge to act and influence independently. We will ensure that no one individual or group of individuals is able to dominate board decision making, and our current arrangements are such that no group is larger than the independent non-executives.

As a private company we will take full account of the recommendations of the Wates review as we continue to adapt our governance to meet future challenges.

Company law requires directors to act having regard to the interests of all its stakeholders and, as a company providing an essential public service, we have always considered this a moral as well as a legal duty.

Our existing governance arrangements are in our view consistent with Ofwat's proposals for updated main principles and objectives of good governance, and as a consequence, over the long term we achieve high quality outcomes for customers, environment, investors and all our stakeholders.

Additional committees

The day to day business of the board will continue to be supplemented by committees that consider audit & risk, corporate responsibility and remuneration in greater detail. These committees operate under the authority of the board and assist us in carrying out our duties. The committees report back to the board on decisions and actions taken together with any specific recommendations.

Customer Challenge Group

The Wessex Water Partnership (WWP) will continue to act as our Customer Challenge Group. It will bring the voice of the customer direct to members of the board. It will continue to challenge company management on both policy and performance against the proposals in this plan and on any adjustments to bills that result from this. It will also scrutinise the way the company has shared any outperformance with the Wessex Water community foundation. Its independent chair will continue to have direct access to both the company senior independent director and the company managing director.

Water Catchment Panel

During AMP6 we have supplemented the WWP with the Wessex Water Catchment Panel so that we can continue to bring varied parties together to find the best solutions to our problems at a catchment

level and bring a wider environmental voice to the board. During AMP7 we intend to explore taking this approach a step further by operating at an individual catchment level.

Employee interests

This plan has been developed following wide engagement with employees at all levels of the business. Regular surveys show a high level of employee engagement and strong alignment with the company strategy. Taking into account the recommendations of the Wates review we will take further measures to ensure that the voice of staff continues to be heard at board level.

Information assurance

The board considers that the company has a strong track record of providing high-quality and accurate data. The company has consistently met Ofwat's expectations, and other stakeholders and regulators consistently praise the openness and transparency of the company when providing information to them.

The board and Audit and Risk committee review and approve the company's strategy and approach to regulatory data assurance annually. The company Regulatory Assurance Manual is updated each year and published on the company website alongside the Assurance Plan.

The approach to data assurance for PR19 was agreed by the Audit and Risk committee. The board is, therefore, confident that the data assurance strategy has delivered high-quality, accurate data and information as part of this submission and will continue to do so for the lifetime of this plan.

12.8 Enabling trust and confidence

The board assures that this plan enables trust and confidence by ensuring a fair balance between customers and investors, and transparency on corporate and financial structures

As a board we are clear that the long-term interests of the company's owners must continue to be aligned with a wider social and public purpose. It follows that the value created will continue to be shared between investors and the people, businesses and communities we serve.

Greater transparency in the way that success is shared with others will aid trust. We will, therefore, more visibly share a greater proportion of this success by reinvesting transparently in the resilience of our local communities.

We intend to do this by creating and investing in a charitable trust. This community foundation will be independent of Wessex Water Services Ltd and its purpose will be to invest in the resilience of the local community, through investment in financial capabilities, STEM skills and environmental projects that will benefit wider society, thereby benefiting WWSL in the long run.

Underpinning our approach is the ethos of YTL, our long-term shareholder. YTL has shown its commitment to investment and growth in the UK and the building of more sustainable communities.

YTL's ethos means we have always been structured and financed in a simple and transparent way, and that we have always paid our fair share of tax. The company has recently engaged on these issues with all of its customers through the customer magazine, that is delivered to all addresses in our area of supply. Our simple corporate structure is published each year in our Annual Review.

As part of this plan we have updated our dividend policy to more clearly articulate how delivery for customers, the environment

and the fair interests of employees are taken into account when setting the level of dividends alongside financial resilience. We will publish each year how our level of dividend is in line with that policy.

The company will continue to be fully transparent on executive pay. In particular we will ensure that the calculation of any performance related element is substantially linked to stretching delivery for customers and the environment through service performance and cost efficiency.

12.9 Informed by engagement, reflecting customers' priorities, is stretching and can be reported against

The board assures that this plan is informed by customer engagement and the views of the Wessex Water Partnership (WWP), and that the performance commitments contained within it reflect customer priorities, are stretching and reporting is robust.

The PR19 non-executive committee reviewed the approach to customer engagement at its November 2017 meeting.

The executive presented the results and interpretation of that engagement and the resulting performance commitments were presented to the board in March 2018. The board approved these commitments for early submission.

The senior independent director has taken a particular role in this area and has:

- been briefed on the results of the key PR19 customer research project
- attended the meetings of the WWP. The terms of reference of the WWP (the company Customer Challenge Group) are included as supporting document 12.1
- been directly available to the WWP chair, Dan Rogerson
- met with Ofwat alongside company management on this subject
- attended customer research events to hear customers' views first hand.

The chair of the WWP attended both board and Audit and Risk committee meetings. The draft report of the WWP was considered by the Audit and Risk committee at its July 2018 meeting where the chair was in attendance.

The Audit and Risk committee has considered a report from the company technical auditor on the reporting of future performance commitments (supporting document 12.3).

12.10 Affordable for all

The board confirms that this plan is affordable for all including in the long term, and includes appropriate assistance for those struggling, or at risk of struggling to pay.

We can be confident that our business plan is more affordable for the generality of customers and that it is affordable for all individual customers.

This business plan proposes that bills fall, in real terms, up to 2025. Current OBR economic forecasts imply that, by 2025, our charges will be a lower proportion of average incomes than at any time for the last 20 years. As a board we have achieved this by:

- working alongside company management to find ways to reduce the impact on bills of environmental improvements including through innovation
- accepting lower returns for investors
- setting challenging efficiency targets
- passing savings achieved from innovation in this period back to customers.

Members of the board reviewed advice from our independent Affordability Advisory Group, contained in supporting document 12.4, which confirms their view that our customer offering remains leading and that our proposals for improvements are building on strong foundations.

Our Assist tariff, which has now been operating for more than 10 years, sets charges at an affordable level for all customers, with no other eligibility requirements above a genuine affordability need. The company analyses data on take-up to understand where it may not be succeeding in reaching customers in need and uses this to target our funding. In this plan the company has committed to extending the reach of its social tariffs significantly up to 2025. It also has proposals to improve utility affordability more generally.

12.11 Informed by a systematic assessment of resilience

The board confirms that the plan is informed by a systematic assessment of the resilience of the company's systems and services, customers' views on resilience and an objective assessment of interventions to manage resilience in customers' long-term interests.

Providing resilient water and waste water services to our customers is not a new issue for Wessex Water. Guided by our Business Resilience Policy, business areas have focused on developing business continuity arrangements and emergency planning procedures. We also adopt best practice approaches to managing the risks to service posed by our asset systems through ongoing implementation of ISO55001.

In 2017 the Audit and Risk committee reviewed how resilience planning was integrated into the corporate governance of risk identification and management. The business created a new corporate service resilience policy with ownership assigned to the chief operating officer (supporting document 12.5).

The Audit and Risk committee has reviewed the results of an independent report on the company's approach to systematically assessing operational resilience, conducted as part of this policy. This review uses the BS65000 framework to assess the maturity

of resilience planning of the company, to inform business-wide actions (supporting document 12.6).

The company is making sure that it has the staff and skills it needs for the future, through its education programme and workforce planning. This is evidenced by the company's membership of the 5% club, a government backed scheme signifying that more than 5% of our workforce is in formal training or apprenticeship schemes. In fact nearly 10% of our workforce in such schemes.

The board has also considered the results of our customer engagement on resilience, in particular that resilience is not a term readily understood by customers. They are more engaged by the use of the term 'future-proofing'. We understand, therefore, that customers:

- are willing to pay more now to reduce the risk to services for future generations
- consider that their bills already cover the costs of dealing with current risks
- understand that new risks to service will require investment and increases in bills
- are willing to play their part in increasing resilience.

The board considers that the measured proposals in this business plan for increased resilience are in line with customers' views. We understand that, while the assessment shows that our resilience is generally good, this process has identified proposed improvements to service and systems resilience during the next price control period. These improvements will ensure that: we are better able to maintain supplies from our largest water treatment works; that we remain resilient to cyber-attack; and that assets are protected from flooding.

Noting the willingness of customers to play their part, the board considers that additional investment in helping customers to change the way they use our services is recognition that resilience is not just about building assets. These will increase the resilience of the company's services in the

long run, reducing pollutions, sewer flooding and maintaining its strong water resource position.

Catchment-based approaches to protecting the natural resources that the company relies on are also an important part of this story and this business plan retains a strong focus on delivering catchment solutions wherever possible.

Often these solutions are lower cost and have lower environmental impact and are therefore in customers' long-term interests.

12.12 Efficient expenditure projections

The board confirms that the expenditure projections contained within this business plan are robust and efficient, and that in particular for large investments a proper assessment of options has taken place, and that the options chosen are deliverable and best for customers.

The board has also reviewed the investments that require in the company's view an adjustment to the cost allowance made in Ofwat's Initial Assessment of Plans published in January 2019. The board confirms that in each case the proposals that require an upwards adjustment to Ofwat's cost allowance are robust, efficient and deliverable. And that in each case a proper assessment of the options has taken place and that on that assessment the option proposed is the best one for customers. Also, in each case that there is a proven need for the outcome to be delivered by the investment and that there is sufficient protection for customers in the event that the outcome is not delivered.

The board has considered the outputs from work conducted by and with economic consultancies to develop models to assess the efficient level of retail and wholesale operating expenditure and maintenance costs and the way these have been incorporated into our plan projections. We have also considered external forecasts of input price pressure and productivity

improvements, as well as specific research on energy prices.

Where the business plan proposes large investments and/or specific adjustments to modelled costs, the board has reviewed reports from independent consultants to challenge and validate those cost estimates that are produced internally by company management. The board has also challenged company management on their deliverability and received assurances on this subject.

These assurances included that the company continues with its in-house engineering and construction provision that has successfully delivered projects ranging in value from a few thousand pounds up to a £228m water grid. Projects in AMP7 are of a similar nature and scale to those delivered in AMP6 and previous AMPs.

Internal cost estimates for our investment programme have been validated by external consultants and the Audit and Risk committee has had access to these reports.

The chair of the Audit and Risk committee, Huw Davies has taken a particular role in this area, meeting with company management through 2017 and 2018 to review the size, scope and efficiency of the investment programme.

12.13 Risks and their mitigation

The board confirms that it has identified the risks associated with the delivery of the business plan and has appropriate mitigation plans in place.

Risk identification and mitigation is a business as usual process, and the company has reviewed the corporate risk register and considered the quantum of risks within the context of PR19 and the five-year period to 2025 and has identified mitigation plans where these risks are material. In line with the company O&CA these risks and their mitigations have been exposed to and considered by the full board.

This work has identified that the key risk is the uncertainty over the quantum of the environmental programme, which will not be fully defined until after final determination. This plan proposes a mechanism that protects customers from significant changes in our statutory environmental requirements.

The board supports strong incentives for performance delivery and the application of financial adjustments for performance delivery within the price review period. The board notes however the potential negative impacts for customers in the short and long-term if these adjustments are too great in any one year. This plan mitigates this risk by proposing to cap the total level of adjustment in any one year with any remaining adjustment made at the end of the price control period.

12.14 Financeable

The board confirms that, if the business plan is accepted in full with no material adjustments to expenditure or committed performance levels, or otherwise to the balance of risk and reward that the plan is financeable on both Ofwat's notional capital structure as described in December 2017 and on the company's actual capital structure, and in that regard that the plan protects customers' interests in the short and long term.

The board has reviewed the outputs of Ofwat's financial model and the company's own corporate financial model to assess whether the plan is financeable.

The board considers that the plan gives us the opportunity to deliver reasonable value to investors up to 2025, commensurate with the risks faced while at the same time maintaining a robust investment grade credit rating.

This is the key test for financeability and the board is willing to assure the plan as financeable on that basis.

~~The board notes that the notional gearing structure proposed by Ofwat is lower than that contained in the plan and the board therefore considers that this structure would also be financeable. It notes that under Ofwat's notional company assumptions that interest covers are potentially below the level that is consistent with the target credit rating but that alternative financing arrangements that are likely to be available could help support the level of interest cover. The board also notes that the notional gearing structure proposed by Ofwat is lower than that contained in the plan. The board therefore considers that this notional structure would also be financeable~~

12.15 Financially resilient

The board confirms that, if the business plan is accepted in full with no material adjustments to expenditure, committed performance levels or otherwise to the balance of risk and reward that, consistent with the long-term viability statement in the 2018 company accounts, the company remains financially resilient.

We agree with Ofwat's view that financing strategy is a matter for company boards. We note that under the plan and its associated dividend policy the actual level of regulatory gearing is to be kept below 70% in all years. We also note that, while interest cover ratios are expected to be lower than in the current period, they remain substantially above the required levels to raise additional capital to finance future investment at a reasonable cost.

Taking the company risk register into account, plus the regulatory environment, the impact of the wider group and the wider economic situation and outlook including risks associated with Brexit, the directors considered the impact of individual risks. They also considered a series of scenarios linking back to one or more risks that would place financial stress on the company over

a number of years. The scenarios took into account some of the mitigations inherent within the regulatory framework and the company extended these scenarios to 2030.

This analysis, alongside an independent review from Oxera LLP consulting, included as appendix 10.1.A has been reviewed by the board.

The key areas considered by the directors were: the compliance with financial covenants in respect of gearing and interest cover and the ability to maintain an investment grade rating.

In making its assessment of financial viability over this extended time period the directors noted that in some instances not all metrics are held above a level that is required to maintain an investment grade rating, even with the most available mitigating actions having been taken, including restriction of dividends.

Where this is the case the directors considered the circumstances that would give rise to these modelled scenarios more deeply. Some of these scenarios have not been designed to reflect likely conditions over the long term and therefore it would not be appropriate to assume the adverse effects are maintained over a period of longer than one or two years. In some of these scenarios the impact on the ratios is itself short lived and would not reflect the underlying viability of the company.

In scenarios where the strain on ratings has more longevity, and this longevity of impact has credibility, the directors consider it would be highly probable that a significant proportion of the adverse impact would have been caused by an unforeseen circumstance that could not have been avoided by prudent management action. The directors would in these circumstances seek an adjustment to allowed turnover through the regulatory framework.

In making this assurance statement the board also takes particular note of:

- our active and long-term shareholder, YTL, and its commitment to long-term stewardship
- our continued flexible dividend policy, and
- Ofwat's duty to finance the company functions, in particular by allowing it to earn a reasonable return.

Following these assessments, and subject to the appropriate performance of Ofwat's statutory duties, the directors confirm that they have a reasonable expectation that, consistent with the view published in the annual accounts 2018, the company will be able to continue in operation and meet its liabilities as they fall due up to 31 March 2025.

The board also considered the same scenarios extended to 2030. It noted that the financial metrics up to 2030 showed no less resilience than in the period up to 2025. In particular, the adverse impacts suffered in the period to 2025 in the most severe scenarios result in upward adjustments to the companies' revenues after 2025 through the regulatory sharing mechanisms for expenditure.

In making its assessment post 2025 the company has had to make reasoned and reasonable assumptions on the availability of finance capital and the size of the statutory investment programme which is more uncertain than for the period to 2025. It has also assumed the continued appropriate performance of Ofwat's statutory duties. Having done so the board considers and provides a level of assurance that the plan is consistent with financial resilience in the long term.

12.16 Accurate, reliable and complete data

The board confirms that its data submissions and, in particular the allocation of costs and assessment of taxation, are accurate, reliable and complete.

Data table submissions and their associated commentaries have been subject to the highest-assurance level under the Regulatory Assurance Manual including:

- certification from compilers that they are accurate, reliable and complete and that any forecasts are reasoned and made in good faith
- certification from owners who are senior managers in the business that they can confirm information is accurate, reliable and complete and forecasts are reasoned
- external technical audit, with particular attention paid to information where judgement is required. (supporting document 12.7).

The Audit and Risk committee has also considered a report from Mott MacDonald on the allocation of our costs between price

controls (supporting document 12.9) and an agreed procedures report from Ernst & Young on the input of financial data (supporting document 12.8)

The Audit and Risk committee separately considered an independent report confirming that assumptions on corporation tax are robust and reasonable. (supporting document 12.10)

12.17 Board endorsement

On 23rd July the full board of Wessex Water Services Ltd following a recommendation from the company Audit and Risk committee, agreed a resolution to endorse the business plan and this assurance statement.

This business plan and the assurance statements contained in section 12 are therefore endorsed by the full board of Wessex Water Services Ltd:



Francis Yeoh CBE
(Chairman)



Gillian Camm
(Senior Independent Director)



Colin Skellett OBE
(Chief Executive)



David Barclay



Dame Fiona Reynolds



Hann Yeoh



Huw Davies



James Rider



Hong Yeoh



Richard Keys



Mark Watts



Mark Yeoh



Andy Pymer