



Board Assurance Statement

**Our 2020-2025 Business Plan
April 2019 Update**

Messages from the Board

Ian Marchant, Thames Water's Chair of the Board, on how the Board has directed and challenged updates to the Plan



"The Ofwat initial assessment of our business plan, placing us in the bottom category "significant scrutiny", was really disappointing to me and my fellow Board members. We fully recognise the failings of our recent past and the ongoing challenges we continue to face to provide the services our customers deserve.

Our customer led plan for 2020-2025 was designed to meet these challenges head-on and build the strong foundations needed to meet the demands of our current and future customers. So although we were disappointed, we've listened and thought carefully about the assessment from Ofwat, put ourselves in the shoes of our customers – which many of us are - and challenged ourselves to drive greater efficiency and improved outcomes.

As a result we've challenged the scope and spend of our services proposed in September to achieve a £400m efficiency improvement, a greater reduction in wastewater pollution incidents from 18% to 30% and further reducing internal sewer flooding incidents from 15% to 20%.

I hope our customers and stakeholders recognise the personal responsibility that the Board and I felt in directing and making sure our April submission is ambitious, delivers for customers and subject to the same high quality assurance as for September."



Steve Robertson, Thames Water's Chief Executive Officer and executive member of the Board, on how our vision to be 'Here for you, in a changing world', is all about keeping our customers at the heart of our Plan.

"Thames Water provides essential services for life. We can't live without water and our health would be awful without our wastewater services. I am personally responsible for these services, which is why I lead all aspects of this business to think about and have our customers at the heart of everything we do. Our April submission is no different.

Our vision 'Here for you, in a changing world' means so much, from making our bills affordable for all now and in the longer term, protecting our environment to making performance commitments we can deliver.

I am proud of the extra challenge and stretch we've placed on ourselves in our April submission to meet the challenge from Ofwat and transform more quickly and responsibly to become an outstanding water and wastewater company."

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1. Introduction and Assurance overview

We (the Board) remain committed to delivering a customer led, high quality, accurate and deliverable Business Plan for 2020-2025 (“Plan”). We have listened to our regulator and stakeholders, spoken further with our customers and have improved our initial Plan. It is vitally important to us that our customers and stakeholders can have confidence in the Plan, and be satisfied that it meets their expectations of a responsible water and sewage company.

Therefore, during the process to prepare our April submission, we applied again our risk management three lines of defence framework¹. This meant ensuring there were embedded and robust assurance processes and checks, including:

- information integrity declarations from information providers, information checkers and senior accountable managers to confirm, for example, accuracy, reliability and completeness of our information;
- technical challenge from internal and external experts, such as our Strategy & Regulation Team and Mott MacDonald to help us understand the risks associated with, for example, our performance commitments and outcome delivery incentives;
- independent external assurance on key topics such as the accuracy, reliability and completeness of our data tables submission from KPMG and our financeability from Evercore;
- assurance from our internal independent Business Plan Assurance Team;
- independent assurance oversight from our Strategic Assurance Partner, PwC;
- Audit, Risk and Reporting Committee review and endorsement of our assurance approach and delivery; and
- continuation of Board sub-group “Directors Deep Dive” sessions on delivery and outcomes from independent assurance activities.

This broad mix of assurance activities and providers (both internal and external) has ensured that we have put in place the right blend of technical, analytical and subject matter experts to satisfy ourselves that our April submission is customer led, high quality, and more ambitious.

2. Board Leadership and Challenge

Throughout the preparation of the April submission we were guided by our vision of being ‘Here for you, in a changing world’. We led development of the Plan through 16 meetings and workshops with Thames Water Executives and Senior Leadership. We used these meetings to discuss Ofwat feedback, evaluate options, endorse further customer research, decide next steps and challenge management.

We considered the longer term challenges of affordability, climate change, population growth and resilience in the round. We reviewed our revised draft Water Resources Management Plan after further consultation, resulting in changes to our Plan to ensure alignment. We also challenged management to include additional stretch and be more ambitious on our performance commitments, deliver value for money for customers and set higher targets for efficiency.

We satisfied ourselves that the plan would meet the expectations of our customers and our vision.

¹ The three lines of defence is a risk management best practice approach, where the 1st line of defence is business operations, 2nd line are oversight, support and governance functions with 3rd line being independent assurance.

3. Board Assurance and Core Principles

We owned and endorsed changes to our Plan and the assurance framework applied by:

- taking full ownership of the assurance approach and assurance plan for the April submission. This included making sure that learnings from the September submission were applied and providing further challenge to the Executive team to ensure a thorough assurance process was put in place again;
- taking full ownership of the company's corporate strategy and its execution, including a strong focus on resilience. This included ensuring that changes to the Plan were consistent with, and aligned to, our corporate strategy;
- actively participating in a rigorous schedule of in-depth engagement with the company's Executive and management teams. This gave us full oversight and ability to challenge the decision making process, ensuring that Ofwat questions and challenges were responded to; and
- continuing the conversation with customers through updated research and engagement to make sure any changes made reflect what our customers are saying, and that the Plan continues to deliver the service our customers have asked for, now and in the future.

We have also continued to draw on the experience and expertise of both our Customer Challenge Group (CCG) and Independent Expert Panel ("Red Team")² to provide support and guidance on the updating of our Business Plan.

Furthermore, through our Directors Deep Dive sessions we have challenged the nature and extent of assurance activities, the mix of assurance providers, and the outcome of any assurance activities to ensure the application of a robust assurance framework that delivers a high quality, accurate and accessible plan. This included the presentation of work and findings from our external assurance partners, allowing us to ask and challenge them directly on the outcomes of their work.

During all assurance activities, from technical assurance over specific operational solutions and performance commitments to quality assurance over data integrity, we have maintained the following core principles:

- customer preferences remain central to the performance outcomes of our Plan;
- we will deliver efficiency and value for money for customers;
- we will make changes with a full understanding of the impact (including, for example, compliance with legal, regulatory and/or statutory obligations); and
- we will evolve the plan in full consideration of the challenges made by Ofwat.

Altogether, we have challenged management to deliver more efficiently and innovatively in response to Ofwat's initial assessment of business plans ("IAP").

² The Thames Water "Red Team" consists of academic and industry experts who provide support and advice to the Thames Water Board.

4. Board Assurance Statements

We remain fully committed to delivering our 2020-2025 Plan, and in our September Plan submission we made a number of assurance statements. We are fully committed to these statements, summarised below:

- **customers**, meeting the wants and needs of our customers;
- **affordability**, ensuring our bills are affordable for all and includes assistance for our vulnerable customers;
- **resilience**, building a resilient network in an increasingly volatile environment;
- **outcomes**, delivering customer led performance outcomes;
- **deliverability**, ambitious, stretching while remaining deliverable;
- **financeability**, ensuring we can raise sufficient funds to pay for our plan; and
- **information accuracy**, ensuring our data is accurate, complete and reliable.

Although we are confident in the Plan assurances given in September, Ofwat specifically requested in their IAP that we make four assurance statements (see Appendix 1). We are confident that we could have made these statements in September but are happy to provide more assurance as requested as we recognise we could have made them more explicit at the time.

Furthermore, our own additional enquiries and successful delivery of the April submission assurance activities have strengthened our position and we therefore supplement our original assurance statements with both the requested statements and some additional ones. We have, and will continue to:

- collectively own the overall strategy and direction of the Plan in the long term, for example, by proposing the highest levels of investment in the Water Industry to safeguard the interests of current and future customers;
- fully consider customer vulnerability and the affordability of our Plan during 2020-2025 and in the longer term, including ensuring support for those struggling, or at risk of struggling, to pay. Our April submission reduces customers' bills in real terms by 1.3% (or £5) during 2020-2025 as well as adopting Ofwat's recommendation on a 'common' priority services register performance commitment;
- fully consider and accept the inherent risks associated with delivering our ambitious and stretching Plan, for example, we are setting ourselves a 30% pollution reduction target, putting us at the forefront of the industry; alongside continuing with our risk management maturity improvement programme ensuring effective risk mitigation and management plans;
- strengthen our funding from operations (FFO) to net debt ratio from 4.8% to 6.1% to protect customers' interests in both the short and longer term. We also obtained independent specialist assurance that this approach ensures we remain financeable on both an actual and notional basis; and
- maintain our customer led commitment and, with oversight from our governance and assurance processes, will deliver operational, financial and corporate resilience through 2020-2025 and in the longer term.

Our focus on a robust assurance framework remained unchanged, with targeted and appropriate assurance activities being undertaken to increase ours as well as our customers and stakeholders trust and confidence in our April submission.

Overall, we fully support our April submission and plan for 2020-2025. We consider it to be stretching, high-quality, reflective of what our customers have told us and takes on board Ofwat's feedback.

5. Board Approval

We approved these statements at our Board meeting on 27 March 2019.

Ian Marchant

Ian Marchant
Chair of the Board



Steve Robertson

Steve Robertson
Chief Executive Officer



Brandon Rennet

Brandon Rennet
Chief Financial Officer



Nick Fincham

Nick Fincham
Director of Strategy & Regulation



Lorraine Baldry

Lorraine Baldry
Independent non-executive director



Alistair Buchanan

Alistair Buchanan
Independent non-executive director



Nick Land

Nick Land
Independent non-executive director



Catherine Lynn

Catherine Lynn
Independent non-executive director



Ian Pearson

Ian Pearson
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Ed Richards

Ed Richards
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Jill Shedden

Jill Shedden
Independent non-executive director



David Waboso

David Waboso
Independent non-executive director



Kenton Bradbury

Kenton Bradbury
Non-executive director



Christopher Deacon

Christopher Deacon
Non-executive director



John Morea

John Morea
Non-executive director



Greg Pestrak

Greg Pestrak
Non-executive director



6. Appendix 1 – Ofwat Actions

The following table provides a mapping between the Ofwat IAP required actions and our supplementary Board Assurance Statements.

Table 1: Mapping Board statements to Ofwat required actions

Ref. ³ and requirement	Ofwat assessment	Board statement
<p>TMS.CA.A1</p> <p>Assurance that the Board has identified the risks associated with delivering the plan.</p>	<p>The statement does not confirm that the Board itself is aware of the risks associated with delivering the plan since unlike for most of the remaining statements provided the Board's language does not explicitly demonstrate ownership (i.e. by using the first person).</p>	<p>We have, and will continue to, fully consider and accept the inherent risks associated with delivering our ambitious and stretching Business Plan, for example, we are setting ourselves a 30% pollution reduction target, putting us at the forefront of the industry; alongside continuing with our risk management maturity improvement programme ensuring effective risk mitigation and management plans.</p>
<p>TMS.CA.A2</p> <p>Assurance that the risk mitigation and management plans the Board has in place are appropriate.</p>	<p>The statement does not confirm that the Board itself is aware of the risks mitigation and management plans since unlike most of the remaining statements provided the Board's language does not explicitly demonstrate ownership (i.e. by using the first person).</p>	<p>Same statement as above.</p>
<p>TMS.CA.A3</p> <p>Assurance that the company's business plan is financeable on both the notional and actual capital structure and the plan protects customer interests in both the short and long term. The statement should clearly set out the steps taken to provide this assurance.</p>	<p>The Board's assurance statement does not to confirm that the plan protects customer interests in the short and long term.</p>	<p>We have, and will continue to, strengthen our funding from operations (FFO) to net debt ratio from 4.8% to 6.1% to protect customers' interests in both the short and longer term. We also obtained independent specialist assurance that this approach ensures we remain financeable on both an actual and notional basis.</p>
<p>TMS.CA.A4</p> <p>The company's business plan provided sufficient and convincing evidence covering all necessary areas, that the company's full Board had provided assurance that its governance and assurance processes will deliver operational, financial and corporate resilience over the next control period and the long term.</p>	<p>The Board advises that it considered the observations of the resilience work carried out by Arup, but the statement does not confirm that its governance and assurance processes will deliver resilience in the next price control period and longer term.</p>	<p>We have, and will continue to, maintain our customer led commitment and, with oversight from our governance and assurance processes, will deliver operational, financial and corporate resilience through 2020-2025 and in the longer term.</p>

³ The reference number provided is from Ofwat's 'Thames Water: Actions summary table'

We have also provided additional assurance statements for some Ofwat observations covering financeability on our actual capital structure, collective ownership of the strategy and affordability for all customers.

Table 2: Mapping Board statements to Ofwat observations

Ref. ⁴ and requirement	Ofwat assessment	Board statement
<p>TMS.RR.A2</p> <p>Has the Board provided a clear statement that its plan is financeable on both an actual and a notional basis?</p>	<p>The company should provide further evidence of how the Board has assured itself that the company remains financeable on its actual capital structure given the level of the S&P funds from operations: net debt ratio and the business plan setting out that this will continue through the next price review period.</p>	<p>We have, and will continue to, strengthen our funding from operations (FFO) to net debt ratio from 4.8% to 6.1% to protect customers' interests in both the short and longer term. We also obtained independent specialist assurance that this approach ensures we remain financeable on both an actual and notional basis.</p>
<p>CA9.1d</p> <p>It has collectively owned the overall strategy and direction of the plan in the long term.</p>	<p>The Board's assurance statement does not confirm that it has collectively owned the strategy.</p> <p>No action required.</p>	<p>We have, and will continue to, collectively own the overall strategy and direction of the Plan in the long term, for example, by proposing the highest levels of investment in the Water Industry to safeguard the interests of current and future customers.</p>
<p>CA9.1g</p> <p>Assurance that the company's business plan is affordable for all customers, including in the long term and including appropriate assistance for those struggling, or at risk of struggling, to pay.</p>	<p>The Board's assurance statement makes no reference to the plan being affordable for all customers in the long term.</p> <p>No action required.</p>	<p>We have, and will continue to, fully consider customer vulnerability and the affordability of our Plan during 2020-2025 and in the longer term, including ensuring support for those struggling, or at risk of struggling, to pay. Our April submission reduces customers' bills in real terms by 1.3% (or £5) during 2020-2025 as well as adopting Ofwat's recommendation on a 'common' priority services register performance commitment.</p>

⁴ The numbers in brackets are references from Ofwat's 'Thames Water: Actions summary table' or 'Thames Water: Securing confidence and assurance detailed actions'