

PR24 Draft Determination Representations Board Assurance Statement

August 2024



PR24 Draft Determination Representations

Board Assurance Statement

Context

The Board has now had an opportunity to review Ofwat's Draft Determination and is pleased to note that Ofwat has been receptive to the Board's strategy for PR24 and to the Company's plan overall, particularly in relation to efficiency of costs. However, we are of the view that there are targeted, but material, revisions required to ensure the Final Determination represents an acceptable, and investable overall package.

The Board is committed to good governance and assurance, and although not a formal requirement, given the updates to our plan through the DD Representations, we have considered the areas where we provided assurance in our Final Business Plan and we have made changes in our DD Reps plan.

Assurance of our Draft Determination Representations

As a Board we have met four times to discuss the Draft Determination published by Ofwat on 11 July 2024. This Board Assurance Statement confirms that the Draft Determination Representations are our own and take responsibility for those representations.

We have challenged management in order to satisfy ourselves that the assurance mechanisms used by the Company which support the costs and evidence provided in response to the Draft Determination, are robust. This includes the continuing work of third-party assurers PwC on financial data tables and Jacobs on technical data tables.

Where we have relied on evidence and analysis developed by our external advisors, this has been appropriately highlighted, and the relevant reports included in our response. We are satisfied that the views and work of our advisors reflects a reasonable balance of customer and company interests.

Deliverability

Deliverability continues to be a focus for our Draft Determination Representations given the change in the shape of our Plan and the additional totex which is now proposed.

To support the Deliverability Assurance for our Final Business Plan we undertook a thorough review of the deliverability of our proposed plan, drawing upon a suite of external sources on insight in addition to those within our existing Alliancing arrangements as detailed at page 32 of our ANH02 Board Assurance Statement. We have worked with KPMG to update this analysis to support our DD Reps.

Review of key delivery strategies

1. We developed seven key mitigating strategies to ensure that our Final Business Plan was deliverable, focusing on the risks within our control and those that can be materially influenced. We have made progress in these strategies, particularly in terms of:
 - a. Strengthening relationships with key alliance partners and securing further commitment for over 86% of the AMP8 related works. Our aim is to continue being the client of choice for their partners.

- b. Developing a strategy for a delivery partner support to provide expertise, resources and experience tailored to the AMP8 enhancement programme and future requirements. The process was started in April 2024, with the selection of a successful partner expected in first or second quarter of 2025. The anticipated duration of this delivery partner support is around 15 years.
2. Further acceleration in supply chain resilience and programme plan optimisation are needed to meet the AMP8 targets:
- a. Additional effort is required to build resilience within the supply chain network, in order to mitigate the potential impact of individual contractor failure on the overall programme's deliverability.
 - b. A review of the programme plan, based on current strategies, to ensure the adequate internal resources and support are available to deliver the works from the first year of AMP8, reducing the risk of failing to meet any delivery targets.

The Board has challenged management regarding the Plan contained in the Draft Determination Representations (the "Updated Plan"), and the expenditure proposals within it, and is satisfied that the Updated Plan is deliverable and that the Company has put in place measures to ensure that it can be delivered. This assessment of deliverability is provided on the basis of:

- a) The scope, scale and cost of our Updated Plan being accepted in full by Ofwat. The company needs to manage the wide range of projects within the Updated Plan as a whole. Deliverability of our Updated Plan is therefore conditional on the final determination enabling us to retain the ability to manage the diversity of risks across the Anglian Water. Further, if new obligations arise from regulators then deliverability would have to be re-assessed;
- c) An assumption that the continued dialogue between Anglian and Ofwat on the approach to facilitating the development of the Strategic Resource Options ultimately strikes an appropriate balance to manage the uncertainty of these Major infrastructure projects;
- e) Assurance is given based on those elements within management control noting there will always remain residual exogenous risks outside our control which may impact our ability to deliver the PR24 plan.

Outcomes

Our DD Reps reflect the latest information supporting our proposed PCLs provided from year 4 actual performance. The Board recognise this information was not available to Ofwat to inform Draft Determinations and welcome Ofwat's invitation to submit further evidence to support calibration of the PCLs. Further we have set out a number of adjustments which we believe are required to ensure that the PCLs remain achievable whilst also being stretching.

The Board has challenged Management and is satisfied that the revised performance commitment levels in the Plan are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure.

Risk and return

Having taken account of all components of our Updated Business Plan and based on our Representations on the Draft Determination, we are satisfied that the Updated Plan is financeable on the basis of the notional capital structure subject to attracting the necessary equity. We remain concerned that the current allowed return on equity and the overall balance of risk in Ofwat's Draft Determination does not present an investable proposition for AMP8 or for the longer term. Section 13 of Anglian's Representations provide Anglian's submissions on cost of capital and risk and reward, with a view to ensuring an investable and financeable package.

Confirmation

By signing below, each Director confirms that he or she has reviewed and approved this whole Board Assurance Statement (comprising 1 page).

This Board Assurance Statement was approved at a meeting of the Board held on 22 August 2024

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Dr Ros Rivaz
Chair

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Alistair Phillips-Davies
Independent Non-Executive Director

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Alex Nassuphis
Non-Executive Director

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Zarin Patel
Senior Independent Non-Executive Director

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John Barry
Non-Executive Director

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Kath Durrant
Independent Non-Executive Director

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Batiste Ogier
Non-executive Director

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Albena Vassileva
Non-Executive Director

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Ian Funnell
Independent Non-Executive Director

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Tony Donnelly
Chief Financial Officer

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Mark Thurston
Chief Executive Officer