



A message from the chairman of the Thames Water Board

Our customers' trust and confidence in our plan is key

"We want our customers to be proud of their water company and this means working with them. Our vision, to be 'Here for you, in a changing world', is all about putting our customers at the heart of everything we do.

The Thames Water Utilities Limited Board, Executive team, and teams across the business recognise things have not always gone as well as they should in the past and over the last year we've been working hard to make the necessary changes to build trust and legitimacy with our customers and stakeholders. We're committed to delivering our vision in an open and transparent way, and we're in constant conversation with our customers to understand what they want and need from their water and wastewater company. We've been using this insight to help inform our plans.

When I joined the Board as chairman in January 2018, I commissioned a comprehensive review of our governance to ensure we, as a Board, are set up in the best way to make sure the company delivers for our customers and that our governance is transparent and 'best in class'. Before I joined, the Board and Executive team had already spent a lot of time looking at the corporate strategy, supply partnerships and brand purpose, and how to focus these more on delivering great customer service. I helped the Executive team finalise our "OneThames" restructure of the business to increase focus on delivering great end-to-end service for our customers. This has allowed us to break down the barriers between the different water, wastewater and retail divisions and create a more collaborative organisation. As part of this, we have also adjusted where we focus our supply chain partners to get the most out of their strengths.

As part of our commitment to get things right for customers, our external shareholders are supportive of the Board's decision to prioritise investment over dividends; there will be no external shareholder dividend until 2020 to allow us to invest more into delivering for our customers. Steve Robertson, our CEO, has agreed with the Board's remuneration committee that he will not receive a bonus payment until 2020 and then only if we achieve our challenging customers outcome targets. This is his personal commitment to delivering the right outcomes for customers and the environment.

Increasing transparency and simplifying our structure are high on our agenda. The Board has overseen an improvement in the clarity and frequency of the reporting of the company's performance to all stakeholders. Examples of this include the creation of a dedicated area on our website to give customers visibility of our progress in tackling leakage and the joint publication of the annual report and the annual performance report following requests from our CCG. We are also well along our way to closing our Cayman Island-based subsidiaries, as this is one aspect of our structure that is eroding trust in our transparency.

We've approached our PR19 business plan for AMP7 with the same customer-centric focus. Appendix 9 'Delivering trust, confidence and assurance' outlines the approach and actions taken by the Board to ensure the creation of a high quality and deliverable plan that builds a better future for our customers and inspires trust and confidence in our business.

For PR19, we were clear at the outset of the planning process that assurance needed to be an integral and embedded part of the end to end process and that effective ownership and assurance by the Board of the business plan would be key to ensuring that it will deliver what customers and stakeholders expect. In this respect, the Board has had full ownership of the plan development and its assurance, by:

- Engaging with the outcomes of the customer research that has helped to identify what matters to our customers in the service we provide to them, now and in the future.*
- Taking full ownership of the company's corporate strategy and its execution, including a strong focus on resilience.*
- Developing a sound corporate governance structure, including changes to improve compliance with best practice Board leadership, transparency and governance principles.*
- Participating in a schedule of in-depth engagement with the company's Executive team that went well beyond the business as usual frequency of Board meetings. This has enabled full oversight and challenge of the Executive team throughout the development and delivery of the PR19 business plan and its component work streams.*
- Taking full ownership of the assurance approach and assurance plan for the submission. This included making sure that learnings from past shortcomings in the quality of our submissions are applied and challenging the Executive team to ensure shortcomings identified in the assurance process were addressed; that the plan also meets our statutory and licence obligations; and we've commissioned additional independent external assurance where appropriate.*

These activities undertaken, and the evidence reviewed, have given me and my fellow Board members the confidence to personally sign the Board assurance statement attesting to the quality and robustness of our business plan."

Our Assurance Statement

We have considered how our assurance activities and oversight of the development of the plan have evolved throughout the process. Our assurance plan is covered in more detail in Appendix 9 'Delivering trust, confidence and assurance' but in summary, we have used a variety of assurance activities, a broad mix of assurance providers, and ensured at all stages that we had the right mix of technical, analytical and subject matter experts to cover the key aspects of the plan. Additionally and importantly, we have drawn on the knowledge and experience of our Customer Challenge Group ("CCG")¹ to provide challenge to the plan and we have utilised the depth of knowledge of our own Executive team and Board members to provide challenge across all areas of the plan.

Throughout all aspects of assurance, from technical challenge over our performance commitments to data integrity reviews, we have consistently challenged ourselves against the following core principles that:

- customers' wants and needs are properly captured through customer engagement and reflected in the performance outcomes of our plan;
- efficiency and value for money are at the centre of our proposals;
- any trade-offs have been made without compromising the integrity of the plan;
- the plan adequately addresses deliverability risks; and
- the plan has evolved to challenges made throughout the assurance processes.

¹ Thames Water, CSD004-PR19-CCG Report

Following our in depth involvement in the planning process, finalisation of the business plan and successful delivery of the assurance programme, we are confident in confirming the statements below:

Customer Engagement

To deliver our vision – Here for you, in a changing world – we need to engage with our customers and understand their wants and needs. Our stakeholder engagement plan for PR19 and beyond has captured what our customers want and need; we have designed a plan to meet these

- we have actively engaged with our 15 million customers, obtaining insight from over 984,000 customers through, for example, focus groups, deliberative events and online surveys, to gain a deeper understanding of the value of water and wastewater services to their lifestyles;
- our CCG has reviewed, challenged and helped us to ensure active customer participation throughout our customer engagement programme;
- we have assured ourselves that the summarised feedback from customers is accurate and reliable;
- our business plan has been driven and informed by feedback from both customers and our CCG;
- we have actively ensured that all our customer priorities are appropriately, to the fullest extent possible, addressed through the creation of our “line of sight”² document; and
- the Board has monitored the emerging customer insights and line of sight document on an ongoing basis and also attended customer insight workshops to hear customer views first hand.

Affordability

Affordable bills for all of our customers is of critical importance to us and after engagement with our customers we have designed a plan that ensures our bills are affordable for all and includes assistance for our vulnerable customers and those who find it difficult to pay.

- our business plan considers both affordability and willingness to pay over the coming price control period and in the longer term. To this end, we are keeping bills flat, on average, in real terms between 2020 and 2025;
- we have challenged our plan to ensure, as far as possible, that it is affordable for all and provides value for money, for example, by a five-fold increase in the number of households who receive direct financial support to help them pay their bill; and
- we have ensured appropriate assistance will be in place for customers who may be vulnerable, at risk or struggling to pay, for example, increasing the number of customers on our priority services register to 400,000 by the end of AMP7 and supporting at least 200,000 families who find it hard to pay.

² CSD003: PR19 Line of Sight document (“line of sight”) demonstrates how our business plan is built based on what our customers want

Resilience

Our plan includes £2.1 billion directly attributable to resilience in an increasingly volatile environment.

- we commissioned Arup to complete a thorough review of our resilience against the Resilience in the Round publication. We carefully considered the immediate and long term observations of this work alongside our customer feedback on resilience ensuring this was incorporated into our business plan;
- investment of £2.1 billion in AMP7 on improving outcomes and delivering a more resilient service;
- improving our financial resilience by reducing gearing to 76.2% which is equivalent to significantly increasing our equity buffer; and
- our business plan has been informed by a series of resilience focus group sessions with customers enabling us to include deliverable enhancements to our operational, financial and corporate resilience over the next price control period and in the longer term.

Business Planning

Our business plan has been owned and driven by the Board of Directors. It meets our statutory responsibilities and our customer needs. It is stretching, efficient and deliverable and will improve the resilience of our network for future generations.

- our business plan has been produced under the strategic leadership of the Board using over 50 formal meetings across the course of the past 30 months, detailed workshops held with attendees from within the business and Board members and sub-committee activities;
- we have challenged management on the overall quality of the business plan during both our formal meetings and informal catch-up with Executive members and Senior Management;
- we established a “Red Team” to provide us with advice and support, made up of academic and industry experts on topics such as affordability, customer experience, the environment, per capita consumption, innovation and leakage;
- we have assured ourselves that the component elements of the business plan are high quality. We addressed the 42 specific customer ‘wants and preferences’ identified over the course of our customer engagement activities. We ensured accuracy and reliability in all material respects using best practice or industry recognised assumptions and methodologies where appropriate. We built a plan designed to meet our regulatory and statutory responsibilities. We have proposed investments that are in the best interests of customers. Finally, we have created a plan which we think is explainable in a simple and transparent way;
- we have designed our business plan to ensure that there are sufficient resources to meet our key statutory and licence conditions, including UK Government policy statements;
- We have satisfied ourselves that where resources need to be enhanced now and in the future, for example we have created the roles of Chief Engineer and Chief Scientist as well as broadening our focus on technical skills, there is a plan to achieve the recruitment across the remainder of this AMP in readiness for the start of the next;
- we have challenged and duly considered our obligations and responsibilities to our wider stakeholder groups, including and not limited to, Environment Agency, Natural England, and Drinking Water inspectorate;

- our business plan is designed to enhance operational, financial and corporate resilience over the next price control period; and
- we are already simplifying our corporate and financial structures with the imminent closure of the Cayman subsidiaries and will continue to present these formally to customers in our Annual Report and Annual Performance Report, our Interim Financial Statements, our other financial publications – ‘Our Finances Explained’, ‘Our Taxes Explained’ and at relevant times during our customer engagement programme.

Outcomes

Our plan delivers the outcomes to ensure we meet our statutory responsibilities and our specific outcomes for customers, linking to what customers have told us is important for them

- we have overseen the development of the 53 performance commitments and 45 outcome delivery incentives;
- we have challenged the choice of performance commitments and outcome delivery incentives to ensure they reflect customer views and priorities, are consistent with our statutory and licence requirements, are deliverable and are robust and stretching;
- we have assured ourselves over the completeness, accuracy, and reliability of the performance commitments and outcome delivery incentives using a variety of assurance techniques including technical challenge from Mott MacDonald, topic deep dives with Directors, engagement with CCG as well as data methodology and calculation checks by KPMG;
- our business plan is cost efficient, containing projections and estimates based on reasonable assumptions and methodologies;
- we will provide clear and transparent reporting on our performance;
- our approach to remuneration is based on our commitment to the following key principles:
 - it aligns the interests of our senior management with customers’ needs and the long-term objectives of all stakeholders;
 - it drives behaviours that support what our customers want, need and expect, that have defined our strategy and business objectives;
 - it has a clear link between performance-related pay and excellent operational performance; and
 - it seeks to offer competitive pay and benefits which are simple, transparent and fair.
- the governance and reporting structures of Thames Water are designed to ensure that our operational performance, measured by performance commitments and outcome delivery incentives, is monitored by us on a regular and timely basis, at least monthly, but more frequently when required.

Cost Assessment

Our plan has been designed to be efficient in all areas. We have benchmarked and market tested expenditures and solutions to ensure we are delivering the right solution and deploying the right resources to deliver it

- the expenditure forecasts used in our business plan are designed to be high quality;
- reasonable and appropriate due diligence has been undertaken over our large investment proposals considering alternative options, affordability, financing and deliverability;
- we are making large scheme investments based on a robust methodology which ensures an optimal outcome for customers;
- we have considered what solutions and schemes should be tested for Direct Procurement for Customers and identified two schemes that should be delivered in this way;
- we have assured ourselves over the accuracy and reliability of our data with external independent assurance from KPMG; and
- the Board and subsets of Directors have challenged efficiency and conducted deep dives.

Ambition

Our vision 'Here for you, in a changing world' means being 'here' for every single one of our customers, the community and society at large. Living up to this means challenging ourselves and setting targets that ensure we deliver efficiently, effectively and economically now and in the future.

- we have challenged each aspect of our plan to deliver higher levels of efficiency within our business. For example, deliver frontier levels of efficiency to reduce operational unit costs by 13.6% in real terms between AMP6 & AMP7;
- we are setting targets to protect the environment, for example, we will achieve and maintain a 4* Environmental Performance Assessment (in 2016 our rating was 2*) and integrate the value of Natural capital³ into our decision making, we have already made steps towards this with a 3* EPA in 2017;
- we consider our package of performance commitments and associated outcome delivery incentives to be stretching and that our reporting against them will be robust and auditable. For example, we have set targets to reduce leakage by 15% between 2020 and 2025 and are building a plan for a 50% reduction; and
- enhance the quality of data available to us and turn this into insight enabling better decision making and more targeted action, for example, by increasing the number of smart meters by 700,000 by 2025.

³ Natural capital relates to environmental assets that may provide benefits to humanity (i.e. how we sustain and manage natural resources through our actions).

Deliverability

Our plan has been designed to be deliverable and being cognisant of some past failings, this aspect has been under significant scrutiny by the Board.

- we have ensured that changes already made have set us up for success, for example, through redesign of our Alliances framework, business operating model and information technology infrastructure;
- we have challenged management on the overall deliverability of the business plan at Board meetings and deep dive sessions with the Executive team and management;
- we have obtained independent assurance that our business plan is designed to meet our statutory obligations;
- we have used our understanding of our business to use cost drivers, as far as possible, in our business planning approach for forecasting both our operational performance and financial resourcing requirements;
- we have assured ourselves that we can obtain or develop people with the skills and capabilities needed when we require them; and
- we have assured ourselves that we will have adequate and effective systems and technology in place, through insourcing critical IT functions and starting a £60M investment programme to modernise our IT infrastructure.

Financeability

Our plan has been tested for financeability against the notional and actual structure. We have gained assurance that the plan does not result in us breaching our financial covenants and the plan is financeable

- we received assurance from financial advisors that we are financeable under the notional and actual capital structure within the business plan which gives us confidence that customer interests are protected in both the short and longer terms;
- we have considered the balance of cost recovery from customers through pay-as-you-go and regulated capital value run-off rates against our expenditure and investment plans within each price control. We consider these to be appropriate and that customers support how these affect their bills as confirmed during our final acceptability testing with them;
- we have considered the resilience of our business plan against breaching our securitisation covenant requirements; and
- we have decided to include a lower dividend level to specifically fund de-gearing in response to customer feedback and to improve our financial resilience and legitimacy.

Risk and Return

Our plan is designed to give customers the long term service they deserve, one that is resilient and affordable, and gives our investors a fair return

- the principal risks associated with delivering our business plan have been identified and assessed with appropriate risk mitigation and management plans in place;
- in our view, our business plan proposes a reasonable balance of risk and reward between customers, investors and other stakeholders, with efficient proposals to share 'pain and gain' with customers;
- we have focussed resources on those areas where customers are most concerned, such as resilience of water supplies and reducing leakage; and
- external shareholders are receiving lower annual dividends of c. £20 million.

Data Assurance

It is critically important to us to have trust and confidence in the information we publish and so we have put in place multiple checks to ensure our data is accurate and complete.

- we have embedded data assurance controls throughout our business planning process, based on the Ofgem data assurance guidance⁴ approach, and satisfied ourselves that these controls have operated effectively and that observations have been addressed prior to submission;
- we have engaged with a variety of assurance partners and used a variety of assurance activities through the development of the plan to test and challenge almost all aspects of the plan. Where external assurance has not been considered necessary, our own internal assurance processes have been utilised to ensure that everything has a level of assurance;
- we have published our approach to mitigating reporting risks in “Our 2020-25 Business Plan – Reporting Risk & Assurance” publication; and
- our Board have met with 3rd party assurance providers to monitor progress on an ongoing basis, and a subset of the Directors have conducted multiple assurance deep dives.

Signed by the full Board

Chair of the Board, Ian Marchant, Independent Non-Executive Director

Chief Executive Officer, Steve Robertson, Executive Director

Chair of the Customer Services Committee,
Dame Deirdre Hutton CBE, Independent Non-Executive Director

Chair of Audit, Risk & Reporting Committee,
Nick Land, Independent Non-Executive Director

Chief Financial Officer, Brandon Rennet, Executive Director

Strategy & Regulation Director, Nick Fincham, Executive Director

Lorraine Baldry OBE, Independent Non-Executive Director

Alistair Buchanan, Independent Non-Executive Director

Ian Pearson, Independent Non-Executive Director

Ed Richards CBE, Independent Non-Executive Director

Kenton Bradbury, Non-Executive Director

Christopher Deacon, Non-Executive Director

Guy Lambert, Non-Executive Director

Greg Pestrak, Non-Executive Director

⁴ Ofgem, Data Assurance Guidance document v1.3