



Trust and confidence in our reporting

Our 2020-25 Business Plan
Assurance Summary

ASSURANCE OVER OUR 2020-25 BUSINESS PLAN

Customers who participated in
engagement process 984k

Customer Challenge Group
meetings 40

Deep Dive meetings with Board
Directors 19

Number of internal sign offs 1,672

Number of independent assurers 8

Number of independent
assurance reports 38

Data table lines assured 4,023

Messages from the Board

Steve Robertson, Thames Water's Chief Executive Officer and executive member of the Board, on how the Board and the Executive team worked together to develop a plan that puts our Customers at the heart



"I recognised at the outset of our business planning process that effective ownership and assurance by the Board of the business plan was key to ensuring that it delivers what our customers and stakeholders expect. Full and open engagement with the Board to ensure the quality and deliverability to give our customers the service they want, required two things:

1) sufficient time spent by all members of the Board to allow for a thorough review of materials and engagement with the Executive team; and 2) exposure of the Board members to sufficient breadth and detail of the business plan to allow them to gain sufficient understanding of the substance of the plan.

To facilitate the level of Board challenge and input that we wanted, we engaged the Board at every stage in the 2020-25 business planning process, increasing the schedule of Board meetings to meet the needs of the programme. In addition to these meetings, our Board members have invested over 100 hours in carrying out deep dives with members of the Executive team reviewing aspects of the plan to give them confidence. I can honestly say that I have rarely experienced the level of Board scrutiny and challenge that has been applied to our business plan and I am convinced that this has resulted in a high quality plan that both the Board and the Executive team believe is the right one for our customers."



Nick Land, Senior Independent Director and chair of the Audit, Risk and Reporting Committee on how the assurance approach to our plan has given the Board confidence

"As a Board we committed to applying a best-in-class assurance programme for our 2020-25 business plan submission. In addition to the Board meetings, I, along with my fellow Board colleagues, actively supported and challenged the assurance process. Our focus included methodology and its rigorous application as well as reviewing the output from the work undertaken both internally and by our external assurance providers.

We have reviewed the outcomes of the assurance work, met with our external assurance partners and worked with the Executive team to agree actions to improve the quality of the plan. All elements of the plan have undergone a review by expert peers, managers and independent parties where that was appropriate. Both the internal assurance team and the Executive responded very positively to both challenge and suggestions for improving the quality of the plan."

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1. Background



It is critical to us that our customers and other stakeholders have trust and confidence in the “Business Plan”. Therefore, in June 2018, we published “Our 2020-25 Business Plan – Reporting Risk and Assurance” (“Assurance Framework”)¹, which set out our planned governance structure and the checks and balances we planned to undertake to ensure the accuracy and reliability of our Business Plan.

On 3 September 2018 we submitted our 5-year business plan for 2020-25 (“Business Plan”) to the water industry’s economic regulator, Ofwat.

We designed our Assurance framework to build your trust and confidence that our Business Plan meets the needs of all our customers, is of high-quality and deliverable.



2. What this document does

This document explains how we implemented the plans published in our Assurance Framework.

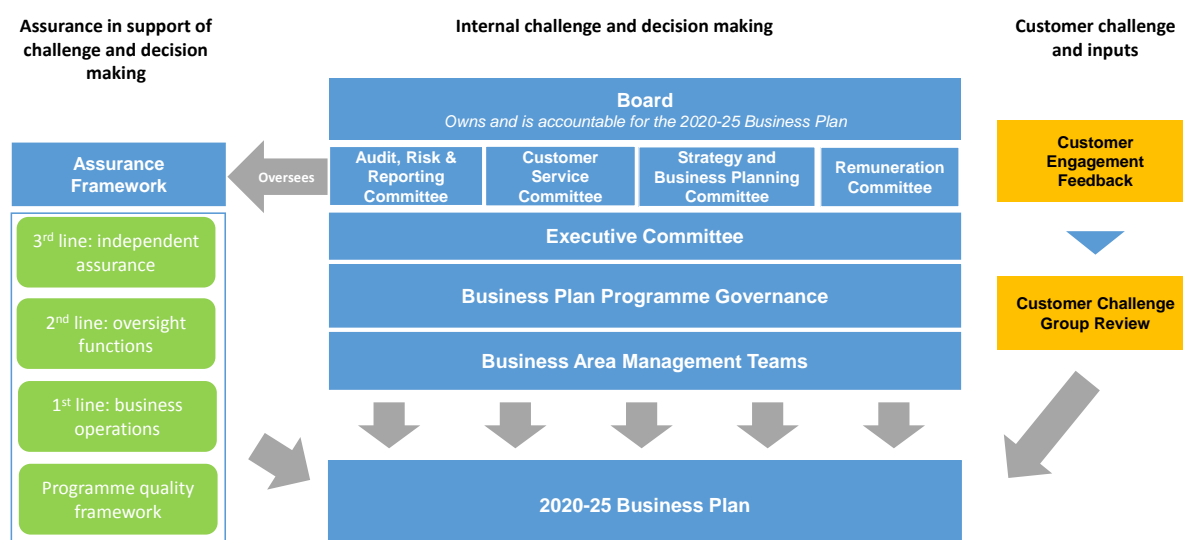
It also provides a summary of all the assurance activities we undertook.

3. Our implemented governance structure

Board and Executive meetings

Tone from the top is essential and our governance structure ensured that our full Board owned the overall strategic direction, development and delivery of our Business Plan. Our full Board met 12 times over nine months.

Figure 1: Business Plan governance structure



Source: Thames Water “Our 2020-25 Business Plan – Reporting Risk & Assurance”

We also held a number of other formal and informal meetings to give each Board member the confidence to personally and jointly sign a Board Assurance Statement¹ attesting to the quality and robustness of our Business Plan.

Table 1: Board sub-committee meetings

Meeting Type	Purpose	No.
Strategy & Business Planning Committee (“SBPC”)	Established in 2017, the SBPC supported the production of the Business Plan.	8
Customer Service Committee	Along with our Customer Challenge Group (“CCG”), ensured we were delivering for customers	6
Audit, Risk & Reporting Committee (“ARRC”)	Ensured adequacy and effectiveness of our Assurance Framework.	11
Directors’ Deep Dives	“Deep dives” by a mix of Executive and Non-Executive Directors into specific topics, including performance commitments and our assurance approach.	19
SBPC & ARRC Workshops	To complement the Directors’ Deep Dives, we had detailed workshops with committee members.	2

Source: Thames Water CSD015-PR19 Board Engagement and deep dive record

¹ <https://corporate.thameswater.co.uk/-/media/Site-Content/Thames-Water/Corporate/AboutUs/Our-strategies-and-plans/PR19/Board-Assurance-Statement.pdf>

Our Customer Challenge Group

The Customer Challenge Group (“CCG”) is an independent committee who look after the interests of our customers. They challenged and supported us to make sure that customers were at the heart of our business plan.

As part of our response to this challenge, the Internal Assurance team attended seven meetings to present our planned assurance activities and report progress against our assurance plan. The results of the assurance activities were also shared and our external assurance providers attended meetings to present their findings and opinions directly to the CCG.

The CCG submitted an independent report alongside our Business Plan to Ofwat². As shown in the quote below, they were impressed with the rigour of our process. We acknowledge that they were disappointed that not all the Performance Commitments (and associated Outcome Delivery Incentives) received the same level of independent external scrutiny. However, they did acknowledge that we prioritised the reviews based on the materiality of the commitments.

Anne Heal, Chair of the Thames Water Customer Challenge Group

“The CCG was presented with a summary of the assurance process, including assurance by information flow, and explored in some detail the respective roles of the various third party assurance partners.



The CCG was seeking in particular to understand how they had used key documents such as What Customers Want as part of the assurance process and also to understand how well what Thames was proposing met regulatory, legislative and other relevant requirements. The CCG was also encouraged to learn that Thames has created an Independent Challenge Panel (“Red Team”) to act as part of the assurance process.

While the CCG is not able to comment in any depth on the detail within the various models and activities considered, the CCG feels that Thames has put in place a robust assurance process and the CCG can be comfortable that appropriate account has been taken of issues and processes that are of concern to the CCG.”

Source: CCG response to Ofwat

² <https://corporate.thameswater.co.uk/-/media/Site-Content/Thames-Water/Corporate/AboutUs/Our-strategies-and-plans/PR19/CCG-independent-report.pdf>

4. Our implemented Assurance Framework

“Best in class” assurance framework

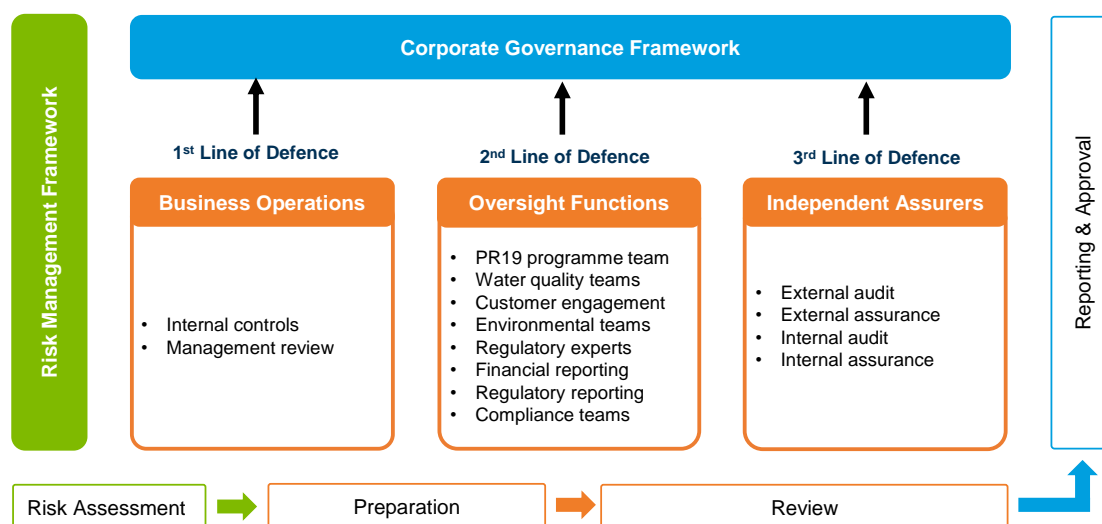
The Board gave a clear direction that we were to deliver a “best in class” assurance programme, which took into account lessons learnt from the past and our “prescribed” status in Ofwat’s 2016/17 CMF assessment³. At the Board’s request we included the following assurance principles in the development of our framework:

- plan must be supported by the outcomes from our customer research;
- plan will be designed to deliver the desired outcomes for our customers and be compliant with our legal, regulatory and statutory obligations;
- all data and information, in our Business Plan to be reliable, accurate, complete, transparent and accessible;
- assurance checks to be undertaken on time and to the appropriate quality; and
- we will have a good understanding of the risks and mitigations associated with our Business Plan (e.g. around the resilience of our business).

“Three lines of defence” risk management

We used our company’s risk management three lines of defence approach⁴. This framework allowed us to understand and manage our business and reporting risks throughout and up to submission.

Figure 2: Risk management and assurance framework



Source: Adapted from Thames Water Annual Report and Annual Performance Report 2017/18 and Thames Water, Data Assurance Summary 2017/18

³ The annual assessment results in one of three categories which are ‘self-assurance’, ‘targeted’ or ‘prescribed’. <http://www.ofwat.gov.uk/publication/company-monitoring-framework-final-position/>

⁴ The “three lines of defence” is a best practice model used to ensure clarity of roles and responsibilities in effective enterprise risk management

We consider that the independence of the third line is critical in providing our Board, Ofwat and customers with confidence that we challenged our Business Plan thoroughly.

Furthermore, by working in conjunction with the second and first lines of defence our external partners helped us to minimise our Business Plan reporting risk. In all, we used eight⁵ different independent assurance providers to ensure we challenged ourselves effectively.

By implementing all three lines of defence, we are confident that our approach has been rigorous and thorough. We have provided further details on our assurance process in Appendix 1.

Embedding and evidencing “three lines of defence”

Our assurance framework required that we provided evidence that we had managed the risks that we identified. The table below shows how we evidenced that our controls were effective:

Table 2: Summary of lines of defence activities

Line of defence	Activity	Evidenced by
1 st	Preparation of Business Plan content, supported by and with oversight from second line of defence	We used information integrity declarations (“IIDs”) that confirmed that the content had been prepared thoroughly, accurately and consistently with Thames Water’s vision and Ofwat guidance. In all, we have 1,672 sign-offs over the various components and deliverables forming our Business Plan submission.
2 nd	Governance, as well as providing oversight and support to our business operations	We used a combination of internal and external people and teams to deliver our second line of defence, ensuring we had the right skills and capabilities available where necessary. For example, regular programme progress reporting, engagement of subject matter experts etc.
3 rd	Independent assurance function	We commissioned independent assurance reports on the adequacy and effectiveness of the 2 nd and 1 st lines of defence. Scopes of work included data or process assurance reviews and/or technical challenge over the Business Plan content.

Source: Thames Water, Business Plan Internal Assurance Team

⁵ See page 7, Table 3

Independent assurance and Ofwat expectations

Ofwat have said that they will undertake an initial assessment of our Business Plan (“IAP”) against nine key test areas, as well as reviewing for the characteristics of quality, ambition and innovation.

To gain confidence that we had thoroughly challenged all the IAP Tests through independent assurance, we mapped Ofwat’s IAP Tests against the scopes of work of our eight independent assurance providers plus our CCG and Red Team, consisting of industry and academic experts providing advice and support to the Board, to make sure that we had adequate coverage of these test areas.

There are multiple components within each IAP Test. The table below shows where an independent assurance provider has contributed to one or more elements. Further details of the component assurance activities are in Table 4.

Table 3: High level independent assurer mapping to IAP Test

IAP Test Area (consisting of multiple elements)	Independent Assurance Provider								Other	
	PwC ⁶	Mott MacDonald	Linklaters	KPMG	Internal assurance	Grant Thornton	Evercore	EY	Red Team	CCG
Engaging customers	◆	◆							◆	◆
Addressing affordability and vulnerability	◆	◆		◆					◆	◆
Delivering outcomes for customers	◆	◆	◆	◆	◆				◆	◆
Securing long term resilience	◆	◆				◆	◆			◆
Having targeted controls, markets and innovations	◆		◆	◆					◆	◆
Securing cost efficiency	◆			◆	◆					◆
Aligning risk and return	◆			◆		◆	◆			◆
Accounting for past delivery	◆			◆	◆					◆
Securing confidence and assurance	◆	◆	◆	◆	◆	◆	◆	◆		◆

Source: Thames Water, Business Plan Internal Assurance Team

⁶ PwC acted as our strategic assurance partner with oversight on overall submission and assurance activities

What we independently assured and visibility of our assurance

Our Assurance Framework initially identified 11 submission areas that required independent assurance. This number increased as we refined our approach.

Overall, our independent assurers reviewed 32 outputs and compiled 38 independent assurance reports prior to submission of the Business Plan.

Table 4: Listing of independent assurance outputs and publications

Type	No.	Output/submission description	Independent Assurer	Review ⁷		
				Data	Process	Expert
Early submission	1	Bioresources regulatory capital value allocation	KPMG	✓		✓
	2	Water resources regulatory capital value allocation	KPMG		✓	
	3	Water resources market information ●	Internal Assurance & KPMG	✓		
	4	Performance commitment definitions	Mott MacDonald & KPMG	✓	✓	✓
	5	Cost adjustment claims / assessments outline case	Mott MacDonald & KPMG	✓	✓	✓
	6	Annual report & annual performance report 2017/18 ●	KPMG	✓	✓	✓
	7	PR14 reconciliation ●	KPMG	✓	✓	✓
	8	Cost assessment tables ●	KPMG	✓	✓	✓
	9	Bioresources market information ●	KPMG	✓	✓	✓
	10	Shadow reporting	KPMG	✓	✓	✓
	11	WRMP published for consultation ●	KPMG	✓	✓	
Final submission (and components)	12	Data tables – Method statement	KPMG	✓	✓	✓
	13	Data tables – Final submission ●	KPMG	✓	✓	✓
	14	Business Plan documentation ●	PwC (& Red Team)			✓
	15	Board Assurance Statement ●	PwC			✓
	16	Review of decision support tools (“DST”s)	Internal Assurance	✓		
	17	Financeability (actual and notional)	Evercore	✓		✓
	18	Financeability: Thames Water model assurance	Grant Thornton		✓	✓
	19	Deep dive customer engagement	PwC			✓
	20	Strategic assurance partner	PwC		✓	
	21	IID review	Internal Assurance		✓	
	22	Performance commitments	Mott MacDonald	✓		✓
	23	Cost adjustment claims	Mott MacDonald	✓		✓
	24	Enhancement claims	Internal Assurance	✓		
	25	Outcome delivery incentives	Mott MacDonald & KPMG	✓	✓	✓
	26	Legal verification of documentation	Linklaters			✓
	27	Costed plan assumptions/completeness/ consistency	Internal Assurance	✓		
	28	RCV and PAYG run-off rates	Internal Assurance	✓		
	29	Presentation of business plan to Ofwat	Internal Assurance	✓	✓	
	30	Deliverability	Internal Assurance		✓	
Other	31	Final Gateway process	Internal Assurance	✓	✓	
	32	Programme management	EY			✓

Source: Thames Water, Business Plan Internal Assurance Team

■ 11 submissions noted in our initial Assurance Framework ● Published on our website

⁷ See Appendix 1 for explanation of terms

This independent assurance identified over 1,000 observations/recommendations, including 722 relating specifically to the 4,023 data tables lines (which contained over 50,000 data points).

A significant proportion of these observations were technical challenges that helped us strengthen the quality of our submission. Other observations identified where we had made errors in populating the tables themselves (e.g. not rounding to the required number of decimal places). All observations/recommendations were considered and actions taken, as appropriate, prior to submission.

Throughout the PR19 process, we kept the Board regularly informed on all assurance activities. This included providing copies of independent assurance reports and having external assurance providers present their observations and opinions at Board meetings. This further enabled our Board to challenge and guide the development of our plan.

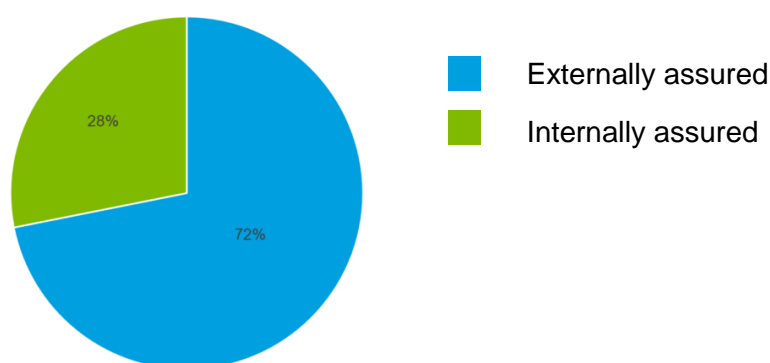
External and internal independent assurance

We designed our assurance framework to ensure all high risk activities were subject to independent assurance. We used both external and internal assurance providers.

We have an independent Assurance team specifically established to provide assurance over PR19 and we have the ability to draw on the expertise within the Company Independent Risk and Assurance team, however, many areas of the submission were technical in nature and to thoroughly challenge our submissions and build trust and confidence in our Business Plan, we chose to have the majority of our independent assurance performed by external assurance providers.

Using the number of outputs as a simple measure, more than 70% of our independent assurance came from external providers.

Figure 3: The split between external and internal independent assurance



Source: Thames Water, Business Plan Assurance Team

Strategic assurance partnership

To ensure completeness of our assurance framework we engaged PwC as our strategic assurance partner. They provided independent oversight on our assurance approach and activities, including a completeness review of our Assurance Framework. We addressed and/or incorporated all observations raised in our assurance framework.

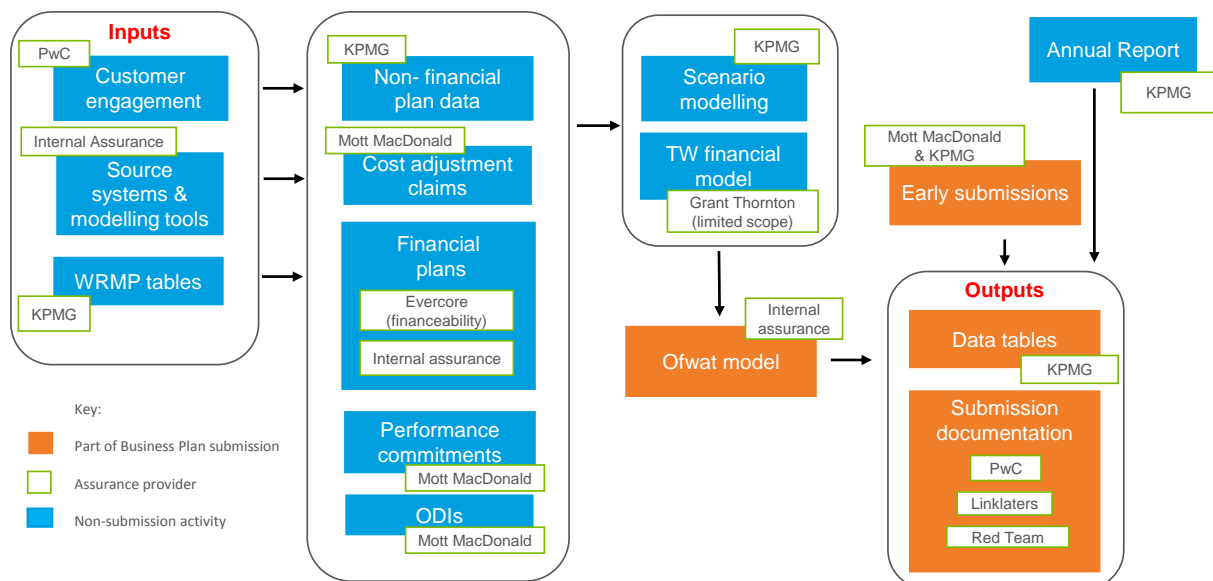
In order to maintain Board oversight, PwC reported their observations directly to the Chair of ARRC.

Assurance interdependency

Separately, we mapped the different components of the business plan to identify where there were interdependency relationships between outputs. This gave us further confidence over the completeness of our assurance framework, as all components of our Business Plan were covered.

The below diagram shows a simplified mapping of these interdependency relationships and our independent assurance activities:

Figure 4: Business Plan interdependencies and independent assurance activities



Source: Adapted from our Business Plan, Appendix 9

5. What happens next

Ofwat will undertake a review of ours and other water company business plans against their IAP Tests. They will report their findings by 31 January 2019.

Following publication of Ofwat's findings the next steps in the process are:

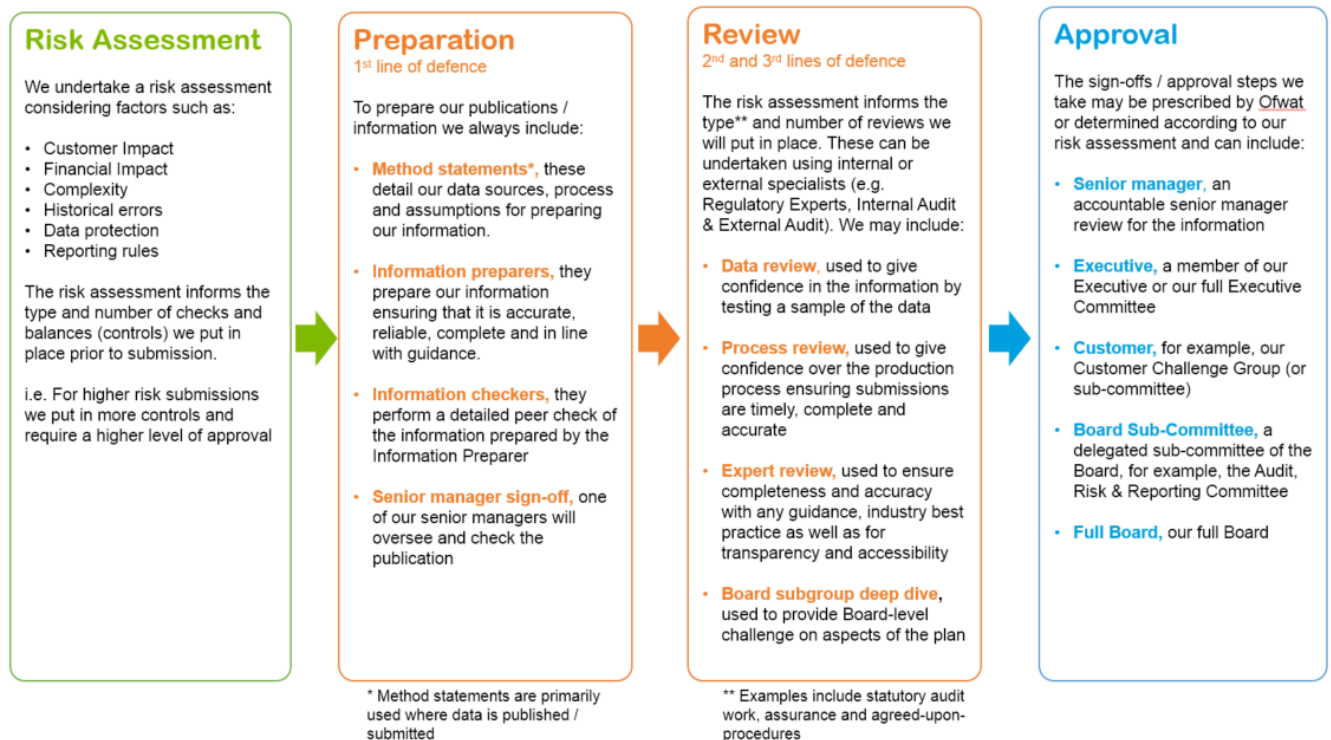
- Companies resubmit plans – April 2019
- Ofwat publishes Draft Determinations – July 2019
- Companies respond to Draft Determinations – September 2019
- Ofwat publishes Final Determinations – December 2019
- Companies accept or reject Final Determinations – February 2020

The draft determination gives a strong indication of the likely charges to customers for our water and wastewater services. The final determination is Ofwat's view on the price limits that, based on their evaluation, we could reasonably charge customers.

Appendix 1 – Assurance activity descriptions

The following gives clarity on the terms and references used in the assurance activity descriptions:

Figure 5: Risk and Assurance Process



Source: Thames Water Data Assurance Summary 2017/18

Appendix 2 – List of terms and definitions

Audit, Risk & Reporting Committee (“ARRC”) – An independent sub-committee of the Board responsible for protecting the interests of customers and stakeholders.

Bioresources – Wastewater sludge which, for example, may be used for energy generation.

Board – The Board of Directors of Thames Water Utilities Ltd.

Business Plan – Thames Water’s proposal for delivering customer and regulatory requirements for the period 2020-25.

Business Plan Internal Assurance Team – A Thames Water Team that provides challenge and assurance of the Business Plan.

Company monitoring framework (“CMF”) – Ofwat’s framework which defines how companies must provide and assure performance information.

Customer Challenge Group (“CCG”) – An independent committee who look after the interests of our customers.

Customer Services Committee (“CSC”) – A sub-committee of the Board responsible for reviewing, advising and challenging on customer matters.

Evercore – A global investment banking advisory firm.

External Audit/Assurance – Independent third party responsible for assuring certain aspects of the Business Plan.

EY – A global professional services firm.

Grant Thornton – A global professional services firm

Independent – An individual, team or organisation with no involvement in the design or implementation of the Business Plan.

Internal Audit/Assurance – Independent internal teams responsible for assuring certain aspects of the Business Plan.

KPMG – A global professional services firm.

Linklaters – A multinational law firm.

Mott MacDonald – A global engineering, management and development consultancy.

PAYG and RCV run-off rates (pay as you go and regulatory capital value run-off rates) – The method of matching bills with costs over the Business Plan period.

Price Review 2014 (“PR14”) – The 2015-20 Business Plan agreed with Ofwat in 2014.

PwC – A global professional services firm.

Strategic Business Planning Committee (“SBPC”) – A sub-committee of the Board responsible for developing and implementing Thames Water’s Business Plan.

Stakeholders – A person, group or organisation that has an interest or a concern in Thames Water.

Water Resources Management plan (“WRMP”) – A statutory plan showing how we will maintain the balance between water supply and demand for a minimum of 25 years.