



# Our 2020-25 Business Plan

## Reporting Risk & Assurance

Highlighting what matters most to you

Our customers are at the heart of our business. We want to keep you informed about the reporting risks we face as we develop our 2020-2025 business plan and, importantly, what we are doing about them to develop a plan that’s right for you.

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## 1. Background

Every five years we submit our business plan to the water industry regulator, Ofwat, who reviews it to ensure it will meet the needs of our customers and that the prices we propose charging for water and sewerage services are appropriate.

At present, we are developing our price review 2019 ('PR19') business plan ('Plan') which will eventually determine our prices for the next five year regulatory period (2020-25).

We want you to know about the reporting risks we have identified for producing the Plan and what we are doing about them.

We want everyone to have confidence that we are building a Plan that will deliver for all our customers.

## 2. What this document does

This document describes our governance structure for PR19 which has been designed to produce a high quality and deliverable Plan. It also details what Ofwat expect from our Plan and how we will assure and gain confidence in the Plan.

We have also included reporting risks around the market opening for Water Resources and Bioresources as these early submissions form an integral part of the PR19 framework.

## 3. What Ofwat expect from our business plan

Ofwat have stated in the final methodology for the 2019 price review that they want companies to produce high quality, ambitious and innovative business plans, pushing forward the performance and efficiency of the sector for customers.

To do this they have stipulated an initial assessment of business plans ('IAP') covering nine key test areas to ensure companies deliver for customers, the environment and wider society which are:

1. engaging customers;
2. addressing affordability and vulnerability;
3. delivering outcomes for customers;
4. securing long-term resilience;
5. targeted controls, markets and innovation;
6. securing cost efficiency;
7. aligning risk and return;
8. accounting for past delivery; and
9. securing confidence and assurance.

In addition, they will be assessing business plans against the characteristics of quality, ambition and innovation. Finally, our full Board are expected to prepare and sign an assurance statement explaining to Ofwat everything they've done to meet, or indeed exceed, these expectations.



## 4. What's coming up

Over the next few months, we will be working hard to finalise our Plan. To do this, there are a number of submissions we will be making to Ofwat between May and September 2018, which they will take into consideration in assessing our Plan.

Some of these submissions must be published on our website, as noted below, but we are committed to being more open, transparent and clear and where we feel it is important, we will look to publish more information than we are required to.

The following table provides an overview of these submissions:

Submission title	Detail	Timing	Requirement to publish on our website
Performance Commitment definitions	Summary of proposed commitments for 2020-2025	3 May 2018	No
Special cost factors	Request for additional considerations for items which are unique to our business due to our size and the area in which we operate	3 May 2018	No
2017/18 Annual Performance Report	Our 2017/18 regulatory accounts, including a summary of our performance against our 2015-2020 Performance Commitments and other regulatory information	On or before 15 July 2018	Yes
2017/18 cost assessment tables	Detailed breakdown of costs for 2017/18	On or before 15 July 2018	Yes
2017/18 shadow reporting	Performance for leakage, supply interruptions and sewer flooding as calculated under new guidance which will be effective for 2020-2025	On or before 15 July 2018	No
PR14 reconciliation tables	Reconciliation of what we planned to do in this regulatory period compared to what we expect to do now we are three years into the period	On or before 15 July 2018	No



Submission title	Detail	Timing	Requirement to publish on our website
Bioresources market information	Information relevant to companies wishing to enter the bioresources market in the future	On or before 31 July 2018	Yes
PR19 data tables and table commentary	Detailed information used to set price controls for the regulatory period 2020-2025	3 September	No
PR19 business plan narrative	Our plan for the regulatory period 2020-2025	3 September 2018	No
Water Resources Management Plan	Summary of our plan and approach for water resources	September 2018	Yes
Water resource market information	Information relevant to companies wishing to enter the water resources market in the future	Within 1 month of WRMP publication (September 2018)	Yes

## 5. What is assurance and why is it important?

Assurance consists of all the checks and balances used to ensure, for example, our submissions are accurate, complete and on time. This is why we consider it to be a key element in building trust and giving customers and other stakeholders confidence in the information that we publish and provide.

Assurance also enables Ofwat to effectively carry out its role as our regulator because it also helps them gain trust and confidence in our information. For example, we regularly report on our performance to Ofwat and our other stakeholders, to explain what is being delivered in return for the money we collect from customers through their bills. It is therefore imperative that we take full responsibility for the integrity of the data we collect, analyse, publish and submit.

Ofwat provide guidance on their assurance expectations/requirements for certain submissions and rely on us to make our own judgement on how much assurance is needed for others. To guide our decisions for PR19 we have designed an assurance plan that is both aligned with Ofwat expectations and the strategic direction of our Board for high quality submissions.

We started by completing a risk assessment of each PR19 submission, considering aspects such as customer impact, financial impact, complexity and historical errors. These results have guided our core assurance activities for each submission. Higher risk submissions will have more checks and balances to ensure they are accurate, complete and timely.

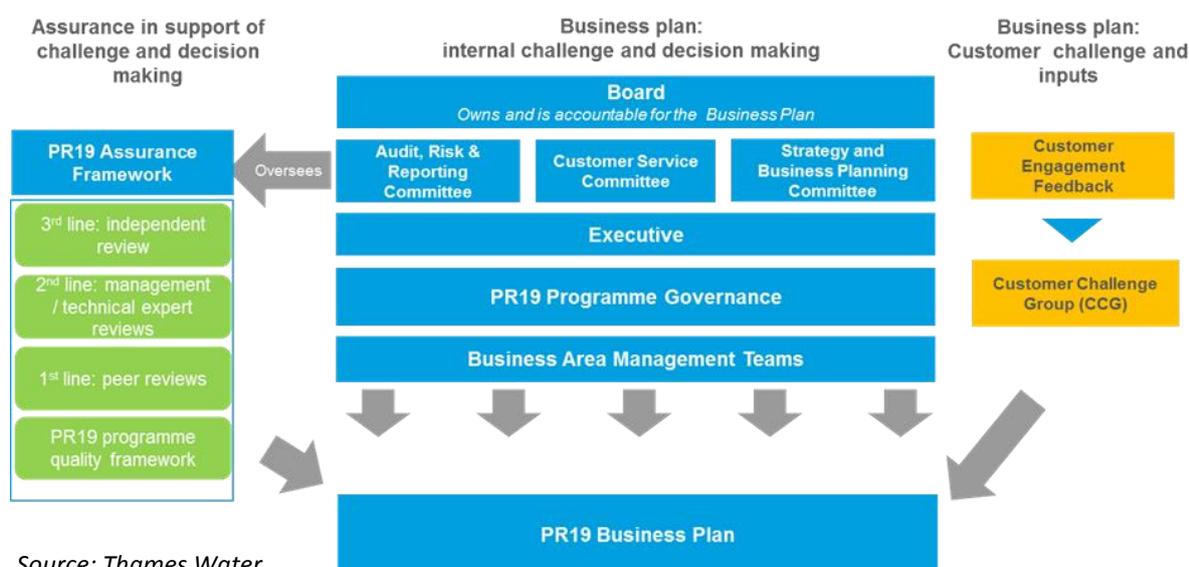


## 6. Our governance structure for PR19

Our PR19 governance structure sits within our existing governance framework. It has been designed to produce a high quality and deliverable Plan.

Our full Board own the overall strategy and direction of our business in the long term and are taking collective responsibility for assuring our Plan. They are responsible for providing Ofwat with a 'Board Assurance Statement' that outlines how they have made sure our Plan is high quality and deliverable, providing strong evidence of where and how they have challenged company management.

The diagram below shows the specific governance structure for PR19:



Source: Thames Water

To support the Board with ensuring the strategic direction and development of our Plan, we have the following Board sub-committees:

- Strategy and Business Planning Committee, created specifically for supporting production of the Plan;
- Customer Service Committee, who along with the independent Customer Challenge Group, ensure that we are delivering outcomes for customers; and
- Audit, Risk & Reporting Committee, who are responsible for our assurance approach and plan.

The full Board and each sub-committee receive regular reports and updates enabling them to ensure the strategic direction of our Plan, maintain oversight and provide timely challenge.

In addition, we have established a programme of detailed engagement areas where specific Board members - a mix of executive and non-executive directors - cover topics such as what customers want, Performance Commitment definitions and our assurance approach and plan.

To drive quality we have segregated operational activities for preparation and oversight of our Plan between two Executive Directors. Our Director of Strategy & Regulation is responsible for the production of our Plan with our Chief Financial Officer responsible for Assurance.



## 7. Our PR19 Assurance framework

Our company wide assurance approach is defined in the [Statement of Risks, Strengths and Weaknesses for 2017/18](#) and [Final Assurance Plans](#).

The PR19 assurance framework uses this assurance approach and addresses reporting and data accuracy risks, as well as ensuring that the Plan is independently challenged. Our PR19 Assurance Plan specifically covers both the IAP test areas and business plan characteristics to give our customers, Board and Ofwat confidence in our Plan.

We have summarised our key PR19 programme delivery submissions in the table below, along with their associated reporting risks. We will tell you more about what we are doing to manage these risks in section 8.

**Table 1: PR19 submissions and reporting risk areas**

The '✓'s in the table show the areas that we consider to have the greatest underlying risks and therefore where we have the most checks and balances in place.

Submission	Risk Assessment	Delivery Date	Risk category					
			Accessibility	Timeliness	Accuracy	Reliability	Completeness	Transparency
1	Performance Commitment definitions	High			✓	✓		✓
2	Special cost factors	High			✓	✓		✓
3	Annual Performance Report	High	✓	✓	✓	✓	✓	✓
4	PR14 reconciliation tables	High			✓	✓	✓	✓
5	Cost assessment	High		✓	✓	✓	✓	✓
6	Bioresources market information	High			✓	✓	✓	✓
7	Shadow reporting	High			✓	✓	✓	✓
8	PR19 Data tables and table commentary	Critical	✓	✓	✓	✓	✓	✓
9	PR19 business plan narrative	Critical	✓	✓	✓	✓	✓	✓
10	Water Resource Management Plan (WRMP)	High	✓	✓	✓	✓		✓
11	Water resources market information (WRMI)	Medium*			✓	✓	✓	✓

Source: Thames Water

\* The WRMI sources high levels of information from the WRMP



Dependent on the level of underlying risk, we are providing assurance through:

- Internal review;
- Expert consultants;
- Third party assurance providers; and
- Third party Independent challenge.

For example, we are obtaining third party external advice on our PR19 Programme Management from Ernst & Young and on our PR19 Assurance Plan from PwC.

The following section provides details of our identified risks and assurance plans for specific submissions.



## 8. Our assurance plans for each PR19 programme delivery submission

The following tables set out our Specific Assurance Plans to reduce or eliminate reporting risks identified in section 4. An explanation of what the core assurance activities contain is included in Appendix 1.

**Figure 1 - Performance Commitments definitions**

1) Performance Commitment definitions						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility					✓	
Timeliness	✓	✓	✓		✓	
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓			✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We are carrying out internal review by peers, managers and senior managers.						
To give added confidence to our Board on our submission we have appointed Mott McDonald and KPMG to support us.						
<ul style="list-style-type: none"> <li>Mott McDonald have undertaken a technical review of our submission covering:               <ul style="list-style-type: none"> <li>- Checking bespoke Performance Commitment measures against customer priorities and Ofwat requirements; and</li> <li>- Considering the appropriateness and strength of our submission in the round.</li> </ul> </li> <li>KPMG have undertaken a data and process audit.</li> </ul>						



Figure 2 - Special cost factors

2) Special cost factors						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility					✓	
Timeliness	✓	✓	✓		✓	
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓			✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We are carrying out internal review by peers, managers and senior managers.						
To give added confidence to our Board on our submission we have appointed Mott McDonald and KPMG to support us.						
<ul style="list-style-type: none"> <li>Mott McDonald have undertaken a technical review of our submission to check each claim against Ofwat guidance.</li> <li>KPMG have undertaken a data audit.</li> </ul>						



Figure 3 - Annual Performance Report

3) Annual Performance Report						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility			✓	✓	✓	
Timeliness	✓	✓	✓	✓	✓	
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓	✓		✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
KPMG will audit sections 1 and 2 of the Annual Performance Report, as mandated by Ofwat. In addition to this, KPMG will undertake specific procedures on sections 3 and 4, as well as enhanced assurance over our F6A* statement.						
We will carry out internal review by peers, managers and senior managers.						
KPMG have performed a detailed review our methodologies and calculations in 2016/17 and will continue to do so in 2017/18.						
Assumptions made in calculating Performance Commitments are documented in the methodologies. These have been subject to external review by KPMG as detailed above.						
We will include open and clear communication with our customers regarding our performance against our Performance Commitments in 2017/18.						

\*The Thames Water Annual Performance Report includes a Directors Certificate under Condition F6A of the Company's appointment ('our F6A statement') requiring confirmation that we have everything we need to continue the business for the coming 12 month period.



Figure 4 - PR14 reconciliation

4) PR14 reconciliation						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility					✓	
Timeliness	✓	✓	✓		✓	
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓	✓		✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We will carry out internal review by peers, managers and senior managers.						
We are obtaining external assurance from our external assurance providers, KPMG.						
KPMG will perform a detailed review of our methodologies.						



Figure 5 - Cost assessment

5) Cost assessment						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility					✓	
Timeliness	✓	✓	✓		✓	
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓	✓		✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
KPMG will give external assurance of the higher risk cost assessment lines whilst other lines are subject to internal assurance. We have applied the same assurance processes for certain cost assessment financial data lines, as was applied to section 4 of the APR (through specific procedures agreed with our external auditor, KPMG).						
We will carry out internal review by peers, managers and senior managers.						
KPMG have performed a detailed review our methodologies and calculations in 2016/17 and will continue to do so in 2017/18.						
Assumptions made in calculating Performance Commitments are documented in the methodologies. These have been subject to external review by KPMG as detailed above.						
We will include open and clear communication with our customers regarding the inclusion of cost assessment tables within our year end reporting.						



Figure 6 - Bioresources market information

6) Bioresources market information						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility			✓		✓	
Timeliness	✓	✓	✓		✓	
Accuracy	✓	✓	✓	✓	✓	✓
Reliability	✓	✓	✓	✓	✓	✓
Completeness	✓	✓	✓		✓	✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We have created methodologies explaining how we have determined our figures, any assumptions made and any manual adjustments made. These methodologies are reviewed by our external assurance provider, KPMG.						
Regular training updates to management to ensure that allocation assumptions are consistent and in line with Ofwat guidance. Management assumptions are then formally recorded when they submit allocation information to the central finance team.						
Our external assurance provider, KPMG, will carry out a detailed review of cost allocations.						



Figure 7 - Shadow reporting

7) Shadow reporting						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility					✓	
Timeliness	✓	✓	✓		✓	
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓	✓		✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We have prepared detailed methodology statements in line with Ofwat guidance. These have been subject to internal review and challenge. KPMG have been engaged to review the quality of the method statements and ensure that accuracy and reliability of reported numbers.						
Representatives from across the business have attended workshops in order to get a more detailed understanding of requirements and practice from across the industry. A 'horizontal' audit was performed by Jacobs and KPMG to determine whether consistent approaches were being used across the industry.						



Figure 8 - PR19 data tables and table commentary

8) PR19 data tables and table commentary						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility	✓	✓	✓	✓	✓	
Timeliness	✓	✓	✓		✓	✓
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓	✓		✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We have created methodologies explaining how we have determined our figures, any assumptions made and any manual adjustments made. These methodologies have been subject to internal review and challenge.						
We will carry out internal review by peers, managers and senior managers.						
To give added confidence to our Board on our submission we are partnering with KPMG to initially review our method statements followed by a data and process review before submission.						



Figure 9 - PR19 Business Plan narrative

9) PR19 Business Plan narrative						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility	✓	✓	✓	✓	✓	
Timeliness	✓	✓	✓		✓	✓
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓	✓		✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We will carry out internal review by peers, managers and senior managers.						
To give added confidence to our Board on our submission we are partnering with PwC to provide independent challenge and support as we continuously evolve our PR19 business plan narrative through to submission.						



Figure 10 - Water Resource Management Plan

10) Water Resource Management Plan						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility			✓	✓	✓	
Timeliness	✓	✓	✓		✓	
Accuracy	✓	✓	✓	✓		✓
Reliability	✓	✓	✓	✓		✓
Completeness	✓	✓	✓			✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We will carry out internal review by peers, managers and senior managers.						
We asked KPMG to undertake a review of our method statements for the water resources management plan tables and also the data collection, calculation and controls processes around this to comply with the regulatory guidelines.						



Figure 11 - Water resources market information

11) Water resources market information						
Core assurance activities						
Risk category	Check on quality of information	Internal review	Executive and senior manager review	Oversight functions	Customer and stakeholder involvement	External assurance
Accessibility					✓	
Timeliness					✓	
Accuracy	✓	✓	✓	✓	✓	✓
Reliability	✓	✓	✓	✓	✓	✓
Completeness	✓	✓	✓		✓	✓
Transparency	✓	✓	✓	✓	✓	✓
Assurance activities						
We have created methodologies explaining how we have determined our figures, any assumptions made and any manual adjustments made. These methodologies have been subject to internal review and challenge.						
We will carry out internal review by peers, managers and senior managers.						
The majority of information included in the water resources management information early submission is obtained directly from the water resources management plan which was externally assured by KPMG. The remaining data which was not assured by KPMG was subject to independent internal assurance by our internal Audit team.						
Regular training updates to management to ensure that allocation assumptions are consistent and in line with Ofwat guidance. Management assumptions are then formally recorded when they submit allocation information to the central finance team.						
To give added confidence to our Board on our September submission we will obtain further external assurance.						



## 9. Sharing our Plan as it develops

Our Plan has been developed in consultation with customers and we will continue to engage with customers throughout the business planning process. More information can be found at <https://www.thameswater.co.uk/yourwaterfuture>

## 10. Closing thoughts

Our annual Statement of Risks, Strengths and Weaknesses ('Statement') highlights areas of "targeted" risk which we believe are of most interest to our customers and stakeholders.

Our Statement for 2017/18, published in January 2018, covered all our key reporting risks relating to 2017/18, and also shows you everything we are doing to manage our risks and make sure we report to you in an accurate and timely way.

Our 2018/19 Statement, which will be published in advance of November 2018 will also include the risks detailed within this document.



## 11. Appendix 1: Assurance activity descriptions

The following table is provided to give clarity on the terms and references used in the assurance activity descriptions:

Assurance term or reference	Description
Check on quality of information	The preparer (or responsible person) of a submission confirms the quality of the submission that it meet requirements, is prepared following the method statement and is supported by auditable evidence.
Customer and stakeholder involvement	External guidance, challenge and/or review of our submission from customers or customer groups (e.g. Customer Challenge Group).
Executive and senior manager review	This review challenges and assess the accuracy of the submission.
External assurance	A person or business independent of Thames Water team who may be a regulatory specialist to conduct an expert review, or an independent assurance provider (such as a Professional Services Firm) to conduct a data or process audit. They would ensure that submissions are complete, accurate, in accordance with regulatory guidance, accurate and reliable through verification of data and/or that there are adequate and effective controls ensuring timely, complete and accurate submissions.
Internal review	Usually a member of the Thames Water team who may be a regulatory specialist to conduct an expert review to ensure that submissions are complete, accurate, in accordance with regulatory guidance. They may, at times, also provide support, guidance and assistance with the production of the material.
Methodology statement	This explains the process to produce the submission and includes details of: systems, responsibilities, timings, additional methodologies to complete any calculations required etc.
Oversight functions	A team or individual within Thames Water who has some independence from the business area management teams (such as Internal Audit) to conduct a data or process audit. They would ensure accuracy and reliability of the submission through verification of data and/or that there are adequate and effective controls ensuring timely, complete and accurate submissions.
Peer review	A member of the Thames Water team who is separate from the person who completed the submission but has an understanding of the requirements. They check the submission in detail and any associated commentary to confirm adherence to and adequacy of the method statement. They will confirm accuracy through checking inputs, including any management assumptions and reviewing evidence to support entries/statements.

Source: *Ofgem Data Assurance Guidance version 1.3 and Thames Water*

