

Ref 6.4

PR19

Assurance and Governance

September 2018

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## 1. Introduction

We believe that we have developed an ambitious PR19 plan which offers great service and improved value for our customers. But we must also demonstrate that our customers and stakeholders can place their trust in the information contained in this document and in our ability to deliver this plan for them. Robust internal and external assurance has, therefore, been at the heart of the process of developing our plan.

The purpose of this document is to capture all of the different strands of assurance and governance in one place, so as to provide a single point of reference for stakeholders. It describes the governance framework within which the plan has been developed (section 2), it provides an overview of the PR19 assurance framework (Section 3), and it describes how that framework was applied (section 4). A final section provides some further information on the Board Assurance Statement.

## 2. Governance of the business plan

### 2.1. Board ownership

The Board has provided strategic leadership and direction to the preparation of the company's PR19 business plan from the outset of the process. Oversight of the development of the plan has run in parallel to the Board's ongoing governance role over the last two years. All the major strategic decisions that have shaped the plan have been made at Board level, reflecting the results of our extensive programme of customer research and engagement and having taken into account continuing input and challenge from the Customer Challenge Group (CCG), from the Members of Glas Cymru, and from our regulators and other stakeholders. As a result, the Board is able to provide comprehensive assurance that this is a high quality plan that delivers the optimal value to customers and the environment, today and in the future, balancing affordability, quality of service, and resilience.

### 2.2 Management of the business plan

The development of the business plan has been integrated, as far as possible, into the "business-as-usual" activities of all parts of the company. Accordingly, the governance of the business plan process has been substantially embedded within existing management structures. The main elements of the governance framework are as follows:

- Dŵr Cymru Executive (DCE). Chaired by the Chief Executive, this is the group that provides oversight of the running of the company. It is attended by the executive directors and the heads of the main departments including Water, Wastewater, and Retail. It approves Board submissions and is responsible for implementing Board decisions. It usually meets fortnightly: however, since the very beginning of the PR19 process separate "DCE PR19 Focus Sessions" have been held, initially every two months but more recently every month. They have provided dedicated oversight of the main strategic components of business plan preparation, including the customer

and stakeholder engagement process, the efficiency strategy and the formulation of our proposals for outcomes and performance commitments in AMP7 and beyond;

- PR19 Programme Team. Chaired by the Head of Regulatory Strategy this monthly group has provided the co-ordination function for all aspects of the business plan process, ranging from the early design and procurement of customer engagement activities through to the production and publication of the business plan itself. Notable elements of the processes that have been undertaken under the auspices of this group include:
  - liaison with the CCG;
  - preparation and assurance of early PR19 submissions, such as the Water Resources and Bioresources RCV submissions;
  - development and implementation of the PR19 Assurance Framework (see section 3 below); and
  - providing guidance and support to the Head of Regulatory Strategy, who has the primary responsibility for collating the plan including data tables and commentary, managing external assurance and organising transmission of the final submission to Ofwat (see section 4 below for more details).
- a range of individual department project groups, each responsible for specific components of the plan. These have included “Challenge and Approval” groups for each of Water, Wastewater, and Retail, as well as more *ad hoc* groups tasked with addressing specific issues such as:
  - the design of the National Environment Programme;
  - cost modelling; and
  - the design and calibration of Outcome Delivery Incentives for AMP7.

This general structure has been supported throughout by the ‘Triage’ Regulation Group, which provides an expert forum within the company for the consideration and resolution of any regulation-related issues. The Group is chaired by the Director of Regulation. Normally it meets monthly, but during the course of the business plan preparation process this frequency was increased to fortnightly and then weekly. In the final weeks of the process it met daily.

### 3. PR19 Assurance Framework

#### 3.1. Assurance Strategy

Given the tens of thousands of data items in the business plan tables, it would be inefficient and ineffective to subject every line item to the maximum level of assurance (i.e. external assurance). We therefore commissioned Jacobs to produce a best-practice Assurance Framework for PR19 that provided a systematic approach to categorising each PR19 plan ‘component’ into a high, medium or low assurance category, depending on the risk, impact and likelihood of errors in that component.

The following diagram summarises the evaluation process.

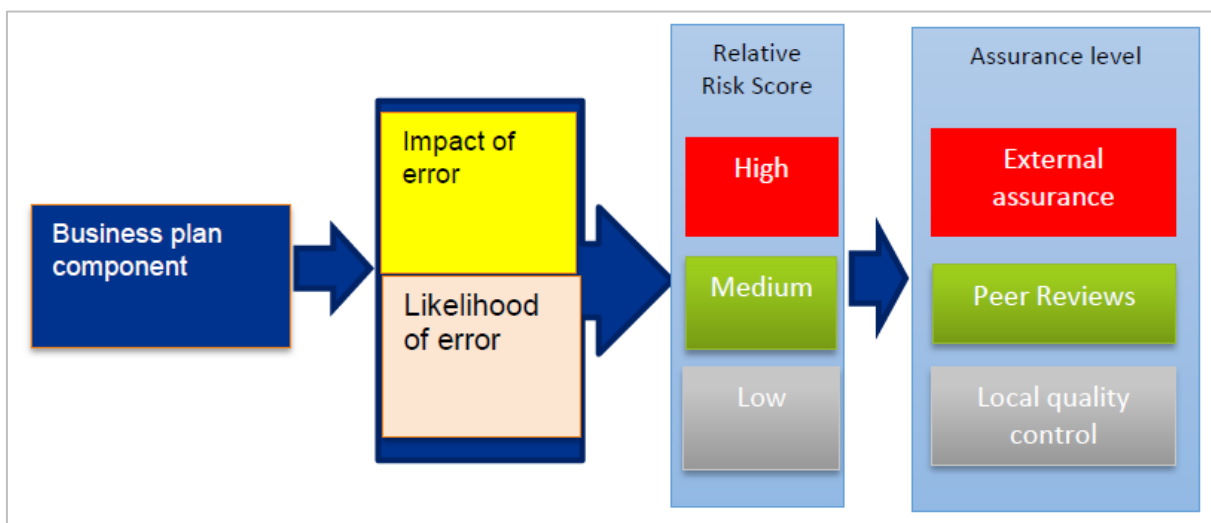


Figure 1; Assurance Framework – risk based application of assurance

The Assurance Framework was discussed and approved at the Board’s Audit Committee on 31 January 2018. We then applied the Framework to the PR19 list of components, which included (but was not limited to) the data tables, to determine which level of assurance would be appropriate for each, and in particular, which elements should be subjected to independent external assurance (level 3). The proposed PR19 Board Assurance Plan was approved by the Board on 2 May 2018.

Details of the implementation of the Assurance Framework are set out in section 4 below.

## 4. Data quality governance and assurance

### 4.1. Internal data governance

The preparation and completion of the data tables has been coordinated by a single point of contact, the Regulatory Programme Manager, in the Regulation team. When the draft data tables were issued by Ofwat in December 2017, each line of data was assigned to a data provider and each table has been assigned a level 1 assurance owner. Level 1 table assurance owners are either subject experts or heads of department. All data providers have produced a methodology statement to explain the process of preparation of the data, including any assumptions or judgements made.

For Level 1 assurance components, the table assurance owner has provided a written sign-off to confirm that the data has been challenged and checked, conforms to the methodology statement, and is accurate and consistent with other closely related data.

For Level 2 assurance components, the tables have been reviewed and signed off at the 'Triage' regulation group. This is the principal expert forum in the company for regulatory matters pertaining to Ofwat in general and PR19 in particular. The group normally meets monthly, but this was stepped up to fortnightly during the early stages of the PR19 process, and it has met weekly since May 2018.

The Triage role in data preparation was to provide an expert forum to resolve issues or questions identified by data providers (including raising queries with Ofwat where appropriate), and to undertake detailed scrutiny of the data and methodologies used to calculate the data as well as challenge of the data providers.

Between 16 May and 15 August, Triage sessions were held covering all of the data tables other than those already assured through the APR assurance process.

In addition, members of the Regulation team conducted due diligence on all of the data tables to verify correct entry of data into the tables, including units of measurement, number of decimal places and that the correct price bases have been used. The data entered was checked for completeness and commentaries were reviewed to ensure that Ofwat's reporting requirements had been met and that any anomalies were explained.

Finally, table review sessions were held at DCE level on 17 August (Non-financial data tables) and 20 August (financial tables) with Jacobs in attendance. Tables were reviewed on a risk prioritised basis, with any outstanding issues highlighted and resolved to the satisfaction of those present.

### 4.2. External data assurance (Jacobs)

A specialist team from Jacobs reviewed the following elements of our business plan table data:

1. Totex forecasts for 2018-19 to 2024-25 including the allocation between expenditure types and to price controls.

2. Leakage strategy and associated data tables (including forecast data for business plan table App2 - Leakage additional information and old definition reporting).
3. Non-financial data forecasts for 2018-19 to 2024-25 for selected PR19 input data.
4. PR19 Measure of Success (MoS) targets for 2018-19 and 2019-20 as the baseline for setting AMP7 targets.
5. PR14 reconciliation submission.
6. RCV submission and associated tables.

For all components Jacobs reviewed the forecast methodology and data, the alignment with Ofwat definitions and methodology, and the consistency with APR18 and other data within the PR19 business plan tables.

#### 4.3. External data assurance (KPMG)

In addition to the work carried out by Jacobs, external assurance in relation to two specific finance-related matters was obtained from KPMG. These are as follows:

- a review of certain matters relating to the use of Ofwat's financial model and related materials; and
- a review of specific aspects of our forecasts of doubtful debt costs.

## 5. Board Assurance Statement

The Board Assurance Statement, approved by the full Board at a specially convened meeting on 23 August 2018, is provided as document 0.5: PR19 Board Assurance Statement. This is the culmination of a process that began in September 2016 when the Board set the strategic approach to be applied for the development of the business plan. Since then the Board has considered business plan-related issues at almost all of its meetings, including at extended meetings on several occasions and at an additional meeting on 23 August 2018.

In order to be able to provide the Statement, the Board took into account a wide range of evidence, including:

- the views of the CCG and other stakeholders;
- the guidance of the Welsh Government, notably its Strategic Priorities and Objectives Statement;
- Ofwat requirements, both relating to the business plan itself and more generally;
- the data assurance process described in section 4 above, and in particular the external data assurance provided by Jacobs and KPMG;
- a checklist of legal and regulatory obligations to which the company is subject; and
- other company reports.

Specific details are presented in the Board Assurance Statement itself.

## 6. Supporting Documents

### 6.4.1: Jacobs assurance letter