

RAPID Gate Three Strategic Resource Option – Hampshire Water Transfer and Water Recycling Project

Supporting Annex 10: Board Statement and Assurance

July 2024

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10. Board Statement and Assurance

This annex provides an overview of the governance and assurance processes that have been implemented to provide due diligence and challenge to the Gate Three submission for the Hampshire Water Transfer Water Recycling Project (HWTWRP). This includes the Board statements that have been provided by both Southern Water (SW) and Portsmouth Water (PW) Boards and the statement of support for the submission provided by the external assurer, Jacobs.

10.1 Southern Water (SW) Governance Process

Since Gate Two, the internal SW governance process has been developed into a more mature process which reflects and aligns the concurrent statutory processes of PR24, WRMP24 in addition to the Water for Life Hampshire (WfLH) programme to ensure alignment in statutory reporting and costing.

The Executive Programme Board (EPB) described at Gate Two has evolved to align with other parallel programmes (such as WRMP and PR24) and has retained the routine oversight of the Water for Life programme, including the HWTWRP SRO. Regular updates and discussions with the Executive members who attend the EPB have taken place to request decisions on critical aspects (such as DPC progress, Funding challenges (such as the variance to Gate Three allowance etc) and provide challenge on change requests (such as the Combined Tunnel opportunity with PW).

Various members of the Executive have attended external working sessions and discussions with RAPID, EA, DWI and Ofwat on subjects such as Commercial Agreements and Funding allowances, demonstrating their understanding and involvement in the SRO project and the wider WfLH programme.

Examples of challenges from the SW Executive and Board members include:

- Land purchase plans for the WRP site were presented to the Executive Investment Committee when site costs were escalating following a challenge to look at alternatives. The Executive team reviewed options and confirmed the requirements, allowing for an earlier purchase approach leading to improved negotiation position and a reduced purchase price;
- Tunnel options were reviewed with the Executive through both normal governance and in specific reviews (including the SW CEO) resulting in direction to progress the Preferred Tunnel Option with PW (described in Chapter 2: Solution Design);
- Alternative funding routes for the Preferred Tunnel Option and HTR alignment works were challenged with EPB resulting in recommendations to Ofwat for a cost adjustment mechanism rather than SW capital contribution approach; and
- Board update review in May 2023 included discussion and challenge of key project risks and QSRA outputs.

As part of seeking ongoing SW Board support, various papers were submitted and discussed with the two forums that feed into the SW Board. Both the Executive Committee (ExCom) and the PR24 Sub-Committee (where all capital programmes are reviewed and challenged) were engaged to review and endorse the progress of delivery, overall alignment to the RAPID gated process, Gate Three findings and review external assurance findings.

Following their reviews, a recommendation was made to the SW Board whereby they approved the Board Statement and delegated authority to the Chief Financial Officer to sign off on their behalf.

10.2 Joint SW and PW Governance Process

Following Gate Two the joint governance process continues as per the collaboration strategy, with technical working groups covering delivery aspects of the Havant Thicket Reservoir (HTR) and the HWTWRP including subjects such as water resource planning, water quality modelling, alignment of schedules, funding forecasts, and risk and opportunity reviews etc.

The Joint Planning and Assurance Group (JPAG) meets regularly where Executive members from both SW and PW focus on the development of the joint PW and SW solutions with focus on strategic updates, key decisions etc. Challenges have been made and resolved, such as the Preferred Tunnel Option, alignment of the two WRMP24 data sets (related to the HWTWRP and HTR) and key delivery milestones to ensure alignment between the two projects.

This group provide updates into the Board governance processes for their respective company to align understanding and expectations.

10.3 External Assurance

10.3.1 Jacobs Scope and Approach

Jacobs has been appointed by Southern Water Services (and on behalf of Portsmouth Water) to provide independent technical assurance of the Hampshire Water Transfer and Water Recycling Project Strategic Resource Option (SRO) gate 3 submission to the Regulators Alliance for Progressing Infrastructure Development (RAPID).

The assurance included separate strategic reviews of chapters 2 through 10 for the RAPID gate 3 submission as prepared by Southern Water and, where input required, Portsmouth Water. Assurance was completed against test criteria based upon the RAPID gate 3 guidance document (published August 2023 and updated January 2024) and the gate 2 decision actions (non-priority actions and recommendations). In addition, technical assurance was completed on chapters 6 (Programme and Planning) and 8 (Solution Costs and Benefits) checking source documents and evidence behind statements and figures presented within these chapters. These technical assurance activities were completed where a higher degree of risk had been identified by Southern Water and Portsmouth Water and cross-checked a sample selection of information and data within the two chapters. Assurance of individual chapters took place between November 2023 and February 2024, including the supporting annexes to the submission. The assurance reviewed the completeness, consistency and content against the requirements. In addition, reviews against the breadth and comprehensiveness of activities were incorporated with consideration of progress towards completion. The assurance also considered the appropriateness of specific activities to address risks or issues associated with the solution development. An assurance review of the whole submission was completed in March 2024 with project completion on the 20 March 2024.

The assurance included liaison with both Southern Water and Portsmouth Water as the delivery of this SRO involves both parties and Board statements are required from each company for the gate 3 submission. Both Southern Water and Portsmouth Water received feedback on the assurance findings in order to support the Board statements made.

10.3.2 Jacobs Conclusions

Jacobs concludes that Southern Water and Portsmouth Water have taken appropriate steps towards meeting the RAPID guidance requirements across all chapters submitted. There is evidence of effective collaboration between Southern Water and Portsmouth Water in the progression of this strategic resource scheme. By the end of the assurance review Jacobs concludes that there were low to medium risk actions remaining that were considered modest and opportunities for improvement. There was limited evidence to show that these remaining actions would negatively affect the alignment of works between Southern Water and Portsmouth Water. We observed that the two companies were sufficiently engaged to maintain alignment.

For the overall conclusion on the gate 3 submission chapters and associated annexes reviewed, Jacobs consider for our third line assurance:

- The submission by Southern Water and Portsmouth Water demonstrates that the companies have developed and put in place a challenging but realistic and achievable programme for the solution.
- There are no insurmountable obstacles to the delivery of the solution identified at the time of the assurance review, based on submission contents assessed as part of the assurance. Jacobs note that there are a number of planning steps and third parties which could influence delivery going forward.
- Progress on the solution at gate three is evidenced and in accordance with the solution programme and commensurate with the solution being 'construction ready' for the 2025- 2030 period.
- The companies have evidenced that, where appropriate, they have identified significant risks to the delivery of the solution in accordance with the programme and within current cost projections. Mitigating actions to manage risks have generally been included within the programme for the solution delivery.
- The submission assured at gate three gives evidence that work ongoing under the programme is of sufficient scope, detail and quality to be able to support applications made for development consent orders, planning applications and other necessary statutory consents and permits.
- Based on evidence viewed as part of the gate three submission assurance, expenditure is being monitored and has been incurred only on activities that are appropriate for gate three.

10.4 Joint Board Statements

It should be noted that the partnering arrangements between PW and SW from Gate Two to Gate Three have remained the same and with this in mind, RAPID advised in September 2023 that the Board statements should

reflect that position. This varies slightly from the version 3 guidance (January 2024) however, is a reflection of the unique partnership arrangements between SW and PW when compared to other SRO partnerships.

Both Boards have confirmed in their statement that they support the solution progression to Gate Four and the programme for the solution and quality of work completed during Gate Three. The efficiency of expenditure is restricted to the SW Board Statement due to the funding arrangements in place for this SRO whereby SW receive 100% of the funding from RAPID for the gated process and refund PW for monies expended relating to the gated activities.

10.5 Board Statement - SW

Through the JPAG, EPB, ExCom and sub-Board working groups, the SW Board has reviewed and discussed the overall strategy for the approach to Gate Three RAPID submission and is satisfied that both the submission and data assurance are appropriate to meet the RAPID Gate Three requirements. Table 10-1 contains the SW Board statement and the assurance process activities used by the Board to support the submission. The SW Board have delegated their authority to the Chief Financial Officer to sign the submission on the Boards behalf.

The SW Board supports the continued joint working groups with PW on the HWTWRP SRO and continues to work closely with PW Board to satisfy both parties that an appropriate strategy has been implemented to challenge and assure the submission approach and data verification. PW supported the creation of the HWTWRP SRO documentation and co-reviewed the documents during the assurance process prior to submission approval from the PW Board.

Table 10-1 - SW Board statement and supporting assurance steps to be taken.

Board Statements	Assurance activities undertaken to support Board statement
<p>The Board supports the recommendations for solution progression made in the submission at Gate Three and the recommendations for which option within the solution should be progressed.</p>	<ul style="list-style-type: none"> • The recommendations regarding scheme progress has been agreed with the scheme partners PW and discussed with RAPID and other regulators ahead of the gate. • The SW Executive Leadership team, ExCom and sub-Board working group have been briefed on the progress to Gate Three and approval for the recommendation to Gate Four has been sought. • The SW Board have reviewed the assurance outputs from Jacobs and the recommendation to Gate Four • The PW Board have reviewed the relevant conclusions to approve the appropriate recommendations relevant to PWs interaction with the SRO. • Third party assurance has been conducted by Jacobs, an external assurance provider.
<p>The Board is satisfied that a realistic and achievable programme for the solution is in place, there are no insurmountable obstacles to the delivery of the solution in accordance with that programme and that progress on the solution at Gate Three in accordance with that programme is commensurate with the solution being "construction ready" for 2025-2030 and "operational ready" for 2030-2035;</p>	<ul style="list-style-type: none"> • Each supporting annex sets out the data used to carry out the assessment. • A detailed project plan has been prepared and reviewed. • SW will be "operational ready" in line with the requirements identified as part of revised draft WRMP24. • Third party assurance has been conducted by Jacobs, an external assurance provider. • All documents to be included as part of the Gate Three submission have undergone legal review prior to finalisation.
<p>The Board is satisfied that all significant risks to the delivery of the solution in accordance with the programme and within current cost projections have been identified and that those risks are managed well.</p>	<ul style="list-style-type: none"> • All submission documents have been peer reviewed by Subject Matter Experts. • The documents relevant to PWs interaction with the SRO have been peer reviewed by PW and been subject to input where required. • Third party assurance has been conducted by Jacobs, an external assurance provider. • All documents to be included as part of the Gate Three submission have undergone legal review prior to finalisation.

<p>The Board is satisfied that the work carried out at Gate Three is of sufficient scope, detail and quality to ensure that applications can be made for development consent orders, planning applications and other necessary statutory consents and permits in accordance with the programme and the work carried out at Gate Three is commensurate with the solution being “construction ready” for 2025-2030 and “operational ready” for 2030-2035;</p>	<ul style="list-style-type: none"> • Annex 6: Programme and Planning sets out the detail and provides evidence that this is the case. • A detailed project plan has been prepared and reviewed. • All submission documents have been peer reviewed by Subject Matter Experts • SW will be “operational ready” in line with the requirements identified as part of revised draft WRMP24. • The documents relevant to PWs interaction with the SRO have been peer reviewed by PW and been subject to input where required. • Third party assurance has been conducted by Jacobs, an external assurance provider. • All documents to be included as part of the Gate Three submission have undergone legal review prior to finalisation.
<p>The Board is satisfied that expenditure has been incurred only on activities that are appropriate for Gate Three and is efficient and cost effective.</p>	<ul style="list-style-type: none"> • A separate document providing evidence of efficient cost expenditure has been provided in addition to the supporting tables.
<p>The Board is satisfied that the solution will be delivered to meet the needs of the region as set out in the revised draft WRMP24.</p>	<ul style="list-style-type: none"> • All submission documents have been peer reviewed by Subject Matter Experts • The solution described within the Gate Three submission meets the needs of both SW and PW revised draft WRMP24 • Third party assurance has been conducted by Jacobs, an external assurance provider.
<p>In addition to the RAPID Gate Three requirements above, the SW Board acknowledges that further work is required to complete the DPC Stage 2 deliverables and provides assurance that this task will be given due attention to expedite completion.</p>	

For Security purposes, the name and signature of the Chief Financial Officer (member of the Board) has been removed for publication purposes.

10.6 Board Statement – PW

PW's team of relevant SME's, supported by consultants, have reviewed the overall strategy for the approach to the RAPID Gate Three submission in relation to the aspects of the scheme as they affect PW's existing and planned assets. The PW Board have been informed of this strategy and have received feedback from the teams via appropriate governance forums such as the internal PW Steering Committee and JPAG. On the basis of information presently available to the Board, the overall strategy is appropriate and consistent with the existing plans to develop and build HTR.

Table 10-2 of this document contains the PW Board statement, as delegated by the Board to the PW CEO who has signed the statement. It has been agreed with RAPID (October 2023) that PW will only assure works which are required to enable the integration of the HWTWRP and HTR. These cover any changes required to PW's existing and planned assets and any works or agreements required to meet PW's statutory obligations and the expectations of its customers and wider stakeholders. For Security purposes, the name and signature of the CEO (member of the Board) has been removed for publication purposes.

Table 10-2 - PW Board statement and supporting assurance steps to be taken.

Board Statements	Assurance activities undertaken to support Board statement
<p>The Board supports the recommendations for solution progression made in the submission at Gate Three and the recommendations for which option within the solution should be progressed.</p>	<ul style="list-style-type: none"> • The recommendations regarding scheme progress have been agreed with the scheme partners SWS and discussed with RAPID and other regulators ahead of the Gate. • The PW Board has been briefed on the progress, relevant to PW's interaction with HWTWRP, to Gate Three, and the recommendations for progressing the solution, as relevant to PW's interaction with HWTWRP. • Third party assurance has been conducted by Jacobs, an external assurance provider.
<p>The Board is satisfied that a realistic and achievable programme for the solution, with regards to the interface between HWTWRP and HTR, is in place. There are no insurmountable obstacles to the delivery of the HWTWRP and HTR interface aspects of the solution in accordance with that programme and that progress on the interface aspects of the solution at Gate Three in accordance with that programme is commensurate with facilitating the overall solution being "construction ready" for 2025-2030 and "operational ready" for 2030-2035;</p>	<ul style="list-style-type: none"> • Each supporting annex sets out the data used to carry out the assessment and these have been reviewed by PW where appropriate to PW's interaction with HWTWRP. • A detailed project plan has been prepared and reviewed by SWS and PW Subject Matter Experts. • Third party assurance has been conducted by Jacobs, an external assurance provider.
<p>The Board is satisfied that all significant risks to the delivery of the solution, with regards to the interface between HWTWRP and HTR, in accordance with the programme and within current cost projections have been identified and that those risks are managed well.</p>	<ul style="list-style-type: none"> • Documents relevant to PW's interaction with HWTWRP have been peer reviewed by PW Subject Matter Experts. • Third party assurance has been conducted by Jacobs, an external assurance provider.
<p>The Board is satisfied that the work carried out at Gate Three, with regards to the interface between HWTWRP and HTR, is of sufficient scope, detail and quality to ensure that applications can be made for development consent orders, planning applications and other necessary statutory consents and permits in accordance with the programme and the work carried out at the interface between HWTWRP and HTR is commensurate with the solution being "construction ready" for 2025-2030.</p>	<ul style="list-style-type: none"> • Supporting Annex 6: Programme and Planning sets out the detail and provides evidence that this is the case as agreed with SWS. • A detailed project plan has been prepared and reviewed. • Documents relevant to PW's interaction with HWTWRP have been peer reviewed by PW and SWS Subject Matter Experts. • Third party assurance has been conducted by Jacobs, an external assurance provider.

The Board is satisfied that expenditure with regards to the interface between HWTWRP and HTR, has been incurred only on activities that are appropriate for Gate Three and is efficient and cost effective.

- A separate document providing evidence of efficient cost expenditure has been provided by SWS in addition to supporting tables.
- Compliance with the Collaboration Agreement between PW and SWS, including provision of forecasts and detailed invoices to SWS.

For information only, PW's Board Statements above are made in the context of the current, and evolving, commercial agreements between PW and SWS. Currently, PW is working with SWS within the scope and spirit of Clause 37 of the Bulk Supply Agreement and is engaged in negotiations to agree a further bulk supply agreement that will set out the basis on which the two water companies can deliver (and fund) changes to the HTR project. For the PW Board, the key areas to agree relate to satisfactory agreement of the operational arrangements of the reservoir, including water quality, safety and ensuring PW maintain control of the reservoir, and an appropriate risk/reward balance in those negotiations.

PW CEO Signature has been redacted for security reasons prior to publication.