

WSX-M05 – Quality and ambition assessment

Response to
Ofwat's PR24 draft
determination



Wessex Water
YTL GROUP

FOR YOU. FOR LIFE.

WSX-M05 – Quality and ambition assessment

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This document is part of Wessex Water's response to Ofwat's PR24 draft determination.

More information can be found at wessexwater.co.uk

1. Introduction

An 'inadequate' rating in the quality and ambition assessment (QAA) does not recognise the quality or ambition of our business plan. Whilst we firmly disagree with this assessment, we have addressed each of the concerns fully. This document sets out how we have met the six conditions Ofwat has set for us to move out of that category; and indeed, how we have addressed each of Ofwat's further seven concerns that were not material in their assessment.

2. Conditions for improvement

Ofwat has set six conditions for Wessex Water to improve the rating of its plan ahead of final determinations. These are set out in the following table, alongside our approach to meeting each. We consider we have met each condition fully.

Ofwat condition	How our response meets this condition
The company should provide Board assurance that its plan is deliverable. If the company considers that it requires a delivery mechanism to make its plan deliverable, it should propose a mechanism alongside a delivery action plan and a commitment to accept increased monitoring on its delivery plan and delivery action plan.	This assurance is provided in the Board Assurance statement that accompanies our response (WSX-A01). This is supported by a statement from our independent technical assurer Mott MacDonald. Our plan is compliant with all statutory requirements to 2030. Following engagement with Ofwat, we do not consider a delivery mechanism is appropriate or required for Wessex Water.
The company should accept our approach to the draft determination allowed return or provide compelling evidence for an alternative approach.	Our revised data tables use Ofwat's view of the allowed return as set out in the draft determination. At this level, our Business Plan is financeable under the traditional credit metrics that Ofwat uses for financeability. This is only the case after applying mitigations, including an equity injection which is required under both the notional and actual structure. However, we are concerned that the view of the appropriate return will be insufficient to attract the necessary equity financing, a view that was also confirmed by our independent advisors, Economic Insight. We therefore set out an 'alternative return' in WSX-R01, which we believe would be sufficient to attract equity.
The company should provide additional Board assurance, supported by a financial resilience plan and investor support, where appropriate, to demonstrate how it will maintain financial resilience in the control period and beyond in the context of our draft determinations.	This assurance is provided in the Board Assurance statement that accompanies our response (WSX-A01). Our financial resilience plan and supporting analysis is provided in WSX-R05 and demonstrates how we will maintain financial resilience.

Ofwat condition	How our response meets this condition
<p>The company should submit an updated long-term delivery strategy (LTDS) consistent with our guidelines.</p>	<p>We have updated our LTDS. Our revision of this document has been overseen and quality assured by an independent expert who has also provided independent assurance to our Board. We have taken full account of:</p> <ul style="list-style-type: none"> • Ofwat’s final guidance on long term delivery strategies issued in April 2022 (‘the Ofwat guidance’). • Feedback from Ofwat on our emerging strategy in spring 2023. • Further specific feedback from Ofwat following our business plan submission. • Revisions to our Water Resources Management Plan (WRMP), another long-term strategic planning framework which fully aligns with our revised LTDS. <p>Our updated LTDS fully aligns with the changes made to our PR24 business plan and reflects these and more recent developments in the industry.</p> <p>Our Board are clear that our LTDS is an important plan that complements our Strategic Direction Statement, setting a long-term vision of how our company will sustain resilient services that deliver for customers and the environment in the long term. We have also engaged with the Chair and members of our Customer Challenge Group on our LTDS revision who have been able to comment.</p>
<p>The company should review the drivers for its cost gap (across base and enhancement expenditure) and determine what is causing inefficiencies or reasons for company specific factors. It should revisit the scale and efficiency of its cost requests or provide significantly improved evidence to demonstrate why the cost requests are needed, efficient and reasonable.</p>	<p>Since submitting our plan, we have considered new information (including clarity on requirements from regulators, the input of several independent external experts, and other companies). In some areas, we have partially or fully closed the gap between the Company’s view and Ofwat’s view of efficient costs by applying further challenge to areas of new investment (e.g. to our nutrients programme); and to our capital maintenance programme – reducing our cost request by more than £500 million in total. In other areas, we provide additional evidence to support a variance to Ofwat’s models that is needed, efficient, and reasonable.</p>
<p>The company should propose improved levels of stretch from enhancement expenditure in relation to meeting government targets for water companies, in particular around leakage and per capita consumption.</p>	<p>Having reviewed the leakage reduction ambition of other companies awarded ‘standard’ or higher in the QAA (see Annex 1), we have proposed a new leakage reduction profile that is at least as stretching as these companies. The new profile proposed in our response achieves 19.8% 3-year average leakage reduction from our 2019-20 baseline, compared to 16.6% in our original submission. We have also challenged ourselves to deliver this stretch for the cost set out in our original business plan.</p> <p>Our combined demand management strategy will place us on a trajectory to achieve a 21.1% reduction in distribution input by 2037/38. This includes an absolute PCC reduction of 7.6l/p/d over AMP8. We plan to exceed the EIP and Plan for water PCC targets in 2038 and 2050.</p> <p>Our proposed approach in the business plan regarding demand reductions, when combined with other supply-side options, meets the Water Resources Management Plan (WRMP) requirements to deliver a secure supply of water to customers, meet the national statutory long-term targets for demand (distribution input) reduction, and in achieving this, importantly meets the requirement to reduce abstraction from sensitive environments.</p>

3. Quality concerns without material impact

In the following table we set out all 13 of the areas where our plan did not meet Ofwat's minimum expectation including those that did not have a material impact, and how we have addressed those concerns.

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat's concern
<p>The company's PR24 business plan is fully consistent with the long-term delivery strategy and the company presents a single adaptive strategy, rather than multiple alternate plans.</p>	<p>The company presented multiple different plans under each investment area. Each subsection had a separate 'core' pathway with decision and trigger points that led to different alternative pathways. It was unclear how the different pathways interacted as a whole strategy. However as this didn't affect the overall deliverability of the plan, the impact was not material.</p>	<p>We have undertaken a significant revision of our LTDS which, as agreed with Ofwat, is resubmitted as part of this DD response. The resubmission presents a single pathway, and our business plan is fully consistent with the LTDS.</p> <p>We commissioned an external expert to review our LTDS and resubmission against other plans that were deemed by Ofwat as satisfactory. Our revision is benchmarked against these assessment standards as well as the original Ofwat guidance.</p>
<p>The company provides the data and information as requested in our methodology and business plan tables. This data and information is consistent, accurate and assured using effective internal systems, controls and processes.</p>	<p>The company provided appropriate supporting evidence of external assurance regarding effective controls, systems and processes at the point of submission. However we sent one of the highest volumes of higher impact queries (across all companies) to Wessex Water. As a result, there were instances where we could not continue with a specific area of work until issues were resolved through a query. While this caused some delays and required reallocation of resource, it did not materially impact our ability to assess the business plan.</p>	<p>There is no further action to take on this point and, as stated, we provided appropriate supporting evidence of external assurance regarding effective controls, systems and processes at the point of submission.</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
<p>The long-term delivery strategy has been developed in line with our guidance and has taken account of any feedback.</p>	<p>The company provided insufficient detail on its proposed core and alternative pathways, scenarios, and base expenditures. It did not present a clear coherent plan with a single core pathway and there was no detail on the key strategic investments that make up the core pathway outside of the numbers provided in the data tables.</p> <p>It did not include any information on what activities are being done to meet short-term requirements, keep future options open or minimise the cost of future options.</p> <p>Its alternative pathways were poorly presented. It was difficult to ascertain under what circumstances it would need to move to an alternative pathway, when this decision would be made or how these circumstances will be assessed and monitored.</p> <p>The company outlined scenarios but the impact of each common reference scenario across the whole strategy was not clearly laid out.</p> <p>The company provided some detail on the impact of base expenditure on the strategy but there was no detail on the methodology it used to prioritise spending, so it was difficult to know how or if it followed our guidance on developing long-term forecasts. The company did not provide a clear narrative on how the base or enhancement expenditure will contribute to meeting long-term outcomes.</p> <p>These minimum expectations are the basic requirements necessary for an adaptive strategy. Without an adequate long-term strategy, a company is likely to struggle to deliver resilient services in the future or ensure improved environmental outcomes. The lack of an adequate long-term delivery strategy is likely to have a material impact on the company’s ability to deliver for customers and the environment over the long term.</p>	<p>As set out above, we have revised our LTDS to align with Ofwat’s guidance and requirements. Our revised LTDS has been published alongside our response to Ofwat’s Draft Determination with assurance from an independent expert.</p> <p>Chapter 6 of the LTDS sets out in detail how we have taken account of Ofwat’s QAA feedback.</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
<p>The business plan sets out the benefits of the company’s proposals, specifically:</p> <ul style="list-style-type: none"> • the performance levels delivered through base for all performance commitments (PCs); • impacts of enhancement expenditure on performance commitments for 2025-30 and the longer term (to at least 2050); • the primary benefits of its proposals. Wherever appropriate it reflects these benefits in performance commitments and price control deliverables (PCDs); and • the additional benefits of its proposals. Wherever appropriate it reflects these benefits in performance commitments and price control deliverables. 	<p>The company set out the performance levels it considered can be delivered from base expenditure. We did not identify any material concerns with the base performance data that would prevent us from completing our draft determination assessment of performance levels to be delivered from base expenditure. Where we determine company proposals to be insufficiently stretching or ambitious, we are proposing performance commitment levels based on a more stretching and ambitious improvement from base than those proposed by companies. However, there are issues with elements of the company’s submission as the company identified performance benefit impacts of enhancement expenditure across some, but not all, material enhancement lines. The company did not identify the performance benefits for phosphorus removal enhancement expenditure. We expect phosphorus removal to impact river water quality. Most other companies identified benefits from this enhancement line. The company did not propose PCDs in some material enhancement areas such as river water quality monitoring and sludge. The amount of investment for which the company did not propose a PCD is not material (less than 10% of the company wholesale totex).</p>	<p>We use a phosphorus removal benefit in our decision-making process that aligns with the Environment Agency methodology, is based on financial year reporting, includes all sites and is based on design/permitted flows. This benefit is updated in the benefits table, CWW15.</p> <p>We have also identified the performance benefits for phosphorus removal enhancement expenditure in CWW15. However, there is a marginal difference to the OUT tables. The difference is due to the reporting years being in financial, not calendar year and the benefit in CWW15 is only accounted for once the EA has signed off the site. However, the River Water Quality performance commitment captures the benefit following successful commissioning.</p> <p>Ofwat also noted that our plan did not propose PCDs in some material enhancement areas such as river water quality monitoring and sludge, though the amount of investment this related to is not material. We noted in our business plan that we did not propose a PCD on river water quality monitoring due to late confirmation of guidance in this area. We have since accepted Ofwat’s proposed PCD for this investment area. We also note that the proportion of total investment covered by PCDs is one of the highest of all companies.</p>
<p>The business plan and long-term delivery strategy are consistent with the achievement of statutory requirements and relevant government targets. For Welsh water companies this includes demonstrating how they have taken into account the outputs of the collaborative approach.</p>	<p>The business plan and long-term delivery strategy were consistent with the achievement of statutory requirements and relevant government targets for per capita consumption, distribution input per population, net zero carbon emissions and phosphorus. We have minor concerns over consistency with government targets on storm overflows as the company proposes to deliver fewer storm overflows in PR24, so creating a higher risk on meeting the long-term target. We have concerns about the presented performance trends in the business plan and long term delivery strategy not achieving the government targets for leakage (both the interim deliverable of 30% reduction by 2031-32 and 50% reduction target by 2050). This did not have a material impact on our ability to assess the company’s business plan and deliver the draft determinations.</p>	<p>The business plan and long-term delivery strategy have been amended to clearly demonstrate consistency with the delivery of statutory requirements and relevant government targets. This also forms part of our Board assurance statement (WSX-A01).</p> <p>We have proposed further stretch in our performance commitments on storm overflows, and leakage. We can confirm our plan meets the 50% leakage reduction target by 2050. We further note Defra has confirmed the interim leakage target is not statutory, and other companies graded as standard in Ofwat’s assessment do not meet this.</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
<p>The business plan and long-term delivery strategy include investment options which are consistent with the company's finalised water resources management plan (WRMP), final Water Industry National Environment Programme (WINEP)/National Environment Programme (NEP) submission and, if applicable, drainage and wastewater management plan (DWMP), having adequately addressed any feedback previously provided on these. We expect compelling evidence on the need for variations from final plans, if relevant. We will take into account the reasons for any variations in assessing whether minimum expectations have been met.</p>	<p>The business plan is only partially consistent with the latest WRMP. The company presentation of water efficiency activities aligned between the latest WRMP and business plan. However, there are unexplained differences for the company's proposed supply schemes, leakage and metering activities.</p> <p>For supply schemes and metering, the differences are not explained with sufficient and convincing evidence and in general business plan costs increase when compared to the latest WRMP. However, some differences can be explained by the company seeming to misinterpret table guidance for presentation of costs. The differences for metering and leakage can be explained by a change in strategy by the company between the revised draft WRMP and business plan submission. This change has not been explained with sufficient and convincing evidence.</p> <p>The majority of draft WRMP feedback raised by us has been adequately addressed by the company in the latest version of its WRMP. However, due to misalignment with the business plan, less of these feedback points are likely to be reflected in the business plan proposals.</p> <p>The business plan is consistent with many areas of the September 2023 WINEP. However, it is not fully aligned with all PR24 statutory requirements. After querying, the company provided an alternative compliant set of tables together with a full explanation of differences.</p> <p>The company stated that these tables did not constitute a revision to its business plan. And also stated that the deliverability, financeability and affordability of a plan including this work was not covered by its Board assurance statement. We therefore have material concerns that the company will not be able to deliver a statutory compliant plan. There is a clear WINEP link to adaptive plans in the long-term delivery strategy, as well as good consideration of alternative options, catchment and nature-based solutions and phasing.</p> <p>The business plan was not consistent with the DWMP due to a 78% difference in expenditure. Justification was provided for most but not all of the variation. There were strong links between the long-term delivery strategy and DWMP. It was difficult to see if final DWMP feedback has been addressed as the statement of response only referred to the draft DWMP.</p>	<p>The long-term delivery strategy and business plan are both consistent with long-term planning frameworks on water resources (WRMP), drainage and wastewater (DWMP) and environment programme (WINEP). In the case of the WRMP, we had amended our draft BP to be consistent with our draft WRMP submitted to Defra in May 2024. We have responded to Ofwat's feedback on our draft business plan that it lacked ambition in the areas of leakage reduction and PCC. We have accepted these points and increased the ambition in these areas, we will look to further amend our WRMP at an appropriate time if required to reflect this.</p> <p>The WINEP requirements have continued to be updated by the EA even as recently as 14/08/24. Our response to the DD reflects these changes – which in some areas, e.g., inland bathing waters, is significant. At the time of writing, we have about 1,400 actions, 375 improvements, 530 monitoring requirements, and 500 investigations.</p> <p>Our full Board assurance statement on financeability, deliverability, and affordability is available in WSX-A01.</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
	<p>We queried the company to better understand the information provided and how business plan submissions relate to the latest view of strategic planning frameworks (for example the WRMP). We expect the company to continue to address issues and consistency in these areas.</p>	
<p>The company proposes to use direct procurement for customers (DPC) to deliver eligible schemes, in line with our 'DPC by default' approach.</p>	<p>The company assessed one scheme for delivery via DPC. It provided little evidence of how it applied the size and programme scalability tests to its investment programme. As such we were not confident that it identified and assessed all potential candidate projects. With queries and further investigation, we established that there were no further projects. Therefore, the impact on our ability to conduct our price review was not material.</p>	<p>There is no further action to take on this point.</p>
<p>The company provides sufficient and convincing evidence that the investment proposals within its PR24 business plan are deliverable. This should take into account delivery in the 2020-2025 period and any measures the company has put in place.</p>	<p>The company has underspent its PR19 enhancement expenditure allocation by almost 30% to date. Its proposed PR24 enhancement expenditure is about three times higher than at PR19.</p> <p>The company provided evidence of extensive supply chain engagement. In addition, it stated that it has given consideration to opportunities to procure services from within YTL Group (Wessex Water's owners), although it does not provide any further details.</p>	<p>Our PR19 enhancement programme incurred some timing delays due to Covid-19, which have not materially impacted completion dates but have meant that expenditure has been compressed toward the latter half of the period. In addition, the natural profile of appraisal, design, arranging land and planning then construction with only a 1-year PR19 transition period, means most of the expenditure will be in the latter half of the AMP when programmes progress to construction.</p> <p>We also continue to see real price effects and timing delays through the supply chain, so our cost position will continue to develop. This is consistent with the wider sector and the UK economy overall.</p> <p>The potential scaling up of our enhancement programme has been a point of specific discussion and risk between ourselves, regulators, and Defra. The vast majority of our programme is mandatory due to requirements in the WINEP. At the time of our business plan submission, there remained material clarifications with regulators and Defra as to the scope of these mandatory programmes. However, we have been able to progress a number of initiatives to the point where we can now confirm that the investment plan is deliverable based on normal risks of third party, land, and planning.</p> <p>We have engaged several external specialists across procurement and programme management to support WWSL in its preparation for AMP8.</p> <p>Two major initiatives that have progressed significantly since we submitted our business plan and which now provide confidence in our ability to scale up to the deliver the significantly larger investment programme, are:</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
		<p><u>1.Capital Delivery Partners Award</u> Our CDP recommendation has been approved internally and we will enter into standstill and award in August. Our award to four Design and Build, seven Design, five M&E and four Civils partners compliments our internal teams and provides access to the resources needed to deliver the scale of AMP8. The introduction of the Design and Build opens up additional resources to delivery an additional £1bn of delivery not available in AMP7.</p> <p>Throughout the procurement process we have actively requested key information from the supply chain focusing on capacity and how they plan to grow capacity and resource availability in order to deliver the works. Our allocation approach will be aligned with these plans and their specific capabilities and capacity.</p> <p>Our procurement approach is designed to provide collaborative working across internal resources and external supply chain and following award we will commence with robust onboarding and allocation activities.</p> <p><u>2.Procuring services from within the YTLG Group to aid in deliverability</u> YTL is investing in the UK with the intention to consolidate skillsets across the wider construction activity and combine with the established skillset in our in-house delivery teams. This consolidation and launch of YTL Construction, will help enable a much wider reach for recruitment, training, development, secondments, and apprenticeships for AMP8 delivery. One example is our new iRecruit tool which provides full visibility to potential candidates of YTL roles available both internally and externally and enables pooling of candidates for future requirements across all business areas.</p> <p>YTL as an international organisation also provides opportunities to build upon existing and established supply chain options, in areas where capacity is a concern, and limited suppliers currently exist.</p> <p>YTL have formed an international procurement hub to drive these opportunities to the benefit of delivering the Wessex Water investment programme.</p>
	<p>Taking this into account, we have concerns about the following minor issues:</p> <ul style="list-style-type: none"> • The company provided the capacity increase required to deliver the programme at a high level. However, there does not appear to be any detailed resourcing plan included. 	<p>Our detailed resource planning has identified an additional 650 internal resources spread across the business to support the delivery of the AMP8 investment programme. This includes direct engineering, construction, and operations resources, through integrated teams from Procurement, HR, and IT, and to back-office functions such as legal, compliance, and finance.</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
		<p>These in-house teams will be supported by the Design and Build Capital Delivery Partners highlighted above, that we estimate will increase staff allocated to integrated, collaborative teams by between 800-1000 people. See Annex 2 for further details.</p>
	<p>• The company provided a high level of discussion of risk in its narrative. Its 2025-2030 capital delivery model appears to be informed by mitigative strategies. The plan also stated that the company has undertaken an analysis of key deliverability risks identified within the supply chain, regulators and third parties. However, the outputs of this exercise are not clearly provided in the business plan.</p>	<p>As part of our programme management approach, we identify risks and opportunities, as well as review and implement mitigation strategies at project, programme, and portfolio level.</p> <p>At the time of business plan submission, there were several substantial uncertainties impacting our delivery planning, including:</p> <ul style="list-style-type: none"> • Clarity of driver requirements from regulators/Defra • Scope uncertainty for solutions (partly from above) • Concerns over planning and land purchase delays • Delays due to constraints on deliverable biodiversity net gain • Supply chain availability • Material and critical product shortages • Supply chain due diligence <p>Since submission of the plan, we have been able to progress mitigations to these risks sufficiently for the overall programme to be manageable under normal conditions.</p> <p>Specific tasks (over above those highlighted in the above responses), include:</p> <ul style="list-style-type: none"> • Early market engagement with supply chain • Framework flexibility matched with delivery model • Advanced procurement and design increasing AMP8 transition • Development of alternative strategic suppliers via YTL group • Executive role focused on streamlining land and planning <p>See Annex 2 for further details.</p>
	<p>Wessex Water did not initially submit a statutory compliant plan. However, it subsequently submitted a set of tables that included the costs required to meet statutory requirements, but stated that the deliverability, financeability and affordability of a plan including this work was not covered by its Board assurance statement. We therefore have material concerns that the company will not be able to deliver a statutory compliant plan.</p>	<p>As a result of the outcome of discussions with regulators and DEFRA, we are now in a position to submit a statutory compliant plan as part of our Draft Determination response, that demonstrates that under normal conditions the plan is deliverable.</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
<p>The business plan uses our early view of the allowed return on capital or provides compelling evidence that another rate is more appropriate.</p>	<p>The plan's allowed return of 4.45% (real, CPIH) is materially higher than our published 'early view' of 3.29%. This is due in part to the company updating certain inputs using a June 2023 data cut-off. We signalled to the sector prior to submission of plans that we would be unlikely to penalise such updates if they were based on our methodology and a reasonable view of the data. We judge however that most of the discrepancy to our published 'early view' is as a result of departures from our approach. We consider that the plan does not provide compelling evidence for these departures. [further assessment is provided in Ofwat’s published document].</p>	<p>Our revised data tables use Ofwat’s view of the allowed return as set out in the draft determination. At this level, our Business Plan is financeable under the traditional credit metrics that Ofwat uses for financeability. This is only the case after applying mitigations, including an equity injection which is required under both the notional and actual structure. Full details are set out in WSX-R05.</p> <p>However, we are concerned that the view of the appropriate return will be insufficient to attract the necessary equity financing, a view that was also confirmed by our independent advisors, Economic Insight. We therefore set out an ‘alternative return’ in WSX-R01, which we believe would be sufficient to attract equity.</p>
<p>The company's plan provides sufficient and convincing evidence that the overall business plan provides an appropriate balance of risk and return.</p>	<p>The company has provided a plan (RoRE range +4.3% to -8.1%) that it considers is not balanced and has not presented its analysis on a notional basis. It has not provided sufficient and convincing evidence that its assumptions reflect a reasonable range for an efficient company. For example, for totex, it has built up assumptions bottom up and its underlying approach assumes greater downside than upside without clear justification that this is a fair assessment of an efficient water company. We assessed this does not have a material impact because we revisit the overall balance of risk and return as part of our determinations.</p>	<p>We present a full RoRE analysis for the notional company in WSX-R02. It evidences, with clear justification, the range of risks facing a notional company in delivering the draft determination.</p> <p>It also sets out where through our representations we are proposing mitigations to the package to set an overall balanced range of risk and return.</p>
<p>The company's Board provides assurance that its business plan is financeable on the basis of the notional structure and this is supported by sufficient and convincing evidence that demonstrates financeability and the steps taken to provide this assurance.</p>	<p>The company provided board assurance that its business plan is financeable based on the notional capital structure. However, the initial business plan was underpinned by an allowed return which is materially higher than a return based on our PR24 methodology. And the financeability assessment is based on a notional level of gearing above the level set out in the PR24 methodology. [further assessment is provided in Ofwat’s published document].</p>	<p>As set out in the proceeding section, this assurance is provided in the Board Assurance statement that accompanies our response (WSX-A01). Our financial resilience plan and supporting analysis is provided WSX-R05.</p>
<p>The company's Board has provided assurance that it will maintain financial resilience during 2025-30 and in the long-term, taking account of its business plan under its financing and capital structure. We also expect this to be supported by sufficient and convincing evidence of the steps taken to provide this assurance and of the steps to improve financial resilience where necessary.</p>	<p>The company's business plan did not provide sufficient and convincing evidence to support the Board's assurance that it will be financially resilient under its actual structure in 2025-30 and in the long term. Following a request for additional information the company provided data and additional supporting narrative to support its business plan. The information provided did not address the issues highlighted below and the assessment result remained unchanged. [further assessment is provided in Ofwat’s published document].</p>	<p>As set out in the proceeding section, this assurance is provided in the Board Assurance statement that accompanies our response (WSX-A01). Our financial resilience plan and supporting analysis is provided WSX-R05.</p>

Ofwat minimum expectation	Ofwat assessment	How we have addressed Ofwat’s concern
<p>The business plan sets out the company's dividend policy for 2025-30 and the policy is in line with our expectations.</p>	<p>The company's business plan set out its proposed dividend policy for 2025-30 but the policy is not in line with our expectations.</p>	<p>The Company has reviewed its dividend policy in line with Ofwat’s feedback and made amendments where necessary. In addition, the company has included an explanatory note on how the dividend policy and approach addresses Ofwat’s expectations regarding dividend policies. Annex 3</p>
<p>Companies should set out their policies for performance related executive pay in their business plans. We will assess the policies proposed by companies as part of the Quality and Ambition Assessment of business plans.</p>	<p>Provide more detail on exec pay policy</p>	<p>The Company's approach to executive pay is set out in Annex 4.</p>

Annex 1 – QAA leakage ambition review

We have reviewed AMP8 proposed leakage reduction ambition for all water companies and compared this to Ofwat's overall QAA rating, see Table 1. We have developed our revised leakage reduction profile to ensure our level of ambition to 2029-30 is in line with other companies who have overall QAA ratings of standard.

We have reviewed three main measures of leakage ambition:

- **Leakage PCL achieved from totex expenditure (3-year average % reduction from 2019-20).** Our updated proposal is for a reduction of 19.8% which is in line with other companies rated standard.
- **Total leakage reduction in AMP8 (annual average leakage % reduction).** Our updated proposal is for a reduction of 10% which represents almost an 100% increase from our original business plan proposal and is now in-line with other companies rated standard.
- **Leakage reduction from 2017-18 baseline (annual average leakage % reduction).** This measure tracks progress towards achieving the long-term industry wide target of 50% leakage reduction by 2050. Using this measure, our previous proposal was in-line with other companies rated standard. Our updated proposal improves our position.

As well as considering the overall QAA rating of each company, we have also reviewed qualitative assessments of companies' leakage ambition from company specific QAA appendices. In review of these documents, we found some inconsistencies compared to quantitative data, and have therefore not taken these into account when developing our revised leakage reduction profile. For example:

- SES were described as having '*sector leading*' leakage performance from enhancement when they're ranked 8th in this measure.¹
- Hafren Dyfrdwy were described as demonstrating '*moderately ambitious proposals on leakage*' from enhancement expenditure when they're ranked lowest in this measure.²
- Northumbrian Water were described as having '*moderately ambitious*' proposals on leakage reduction from enhancement expenditure despite being ranked third lowest in this measure.³

We have also reviewed the impact of our revised leakage reduction profile on normalised levels of leakage forecast in 2029-30 compared to other companies, see Figures 1-3. The greatest impact of this can be seen in our ranking of leakage normalised to property count where our rank improves from 3rd highest (below lower quartile performance) to 6th highest (between lower quartile and median performance). We remain between median and upper quartile performance for leakage normalised to mains length, and our rank in leakage normalised to distribution input remains unchanged although our value for this measure improves by over half a percentage point.

Figures 1-3 also provide a useful comparison to levels of ambition as summarised in Table 1, with some correlation between companies with lower levels of normalised leakage and lower levels of ambition for further reduction in AMP8.

¹ [PR24-draft-determinations-SES-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

² [PR24-draft-determinations-Hafren-Dyfrdwy-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

³ [PR24-draft-determinations-Northumbrian-Water-Quality-and-ambition-assessment-appendix.pdf \(ofwat.gov.uk\)](#)

Figure 1 – 2029/30 leakage normalised to property count

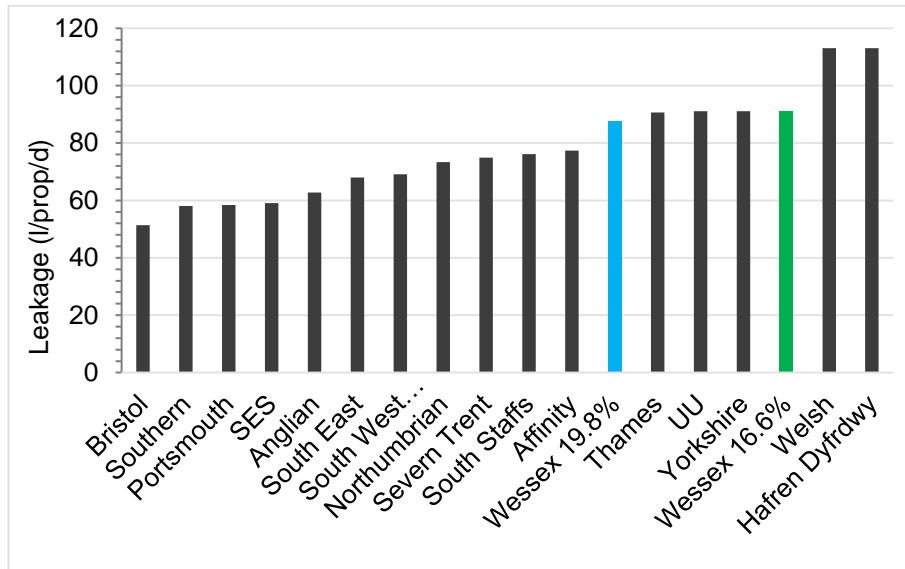


Figure 2 – 2029/30 leakage normalised to mains length

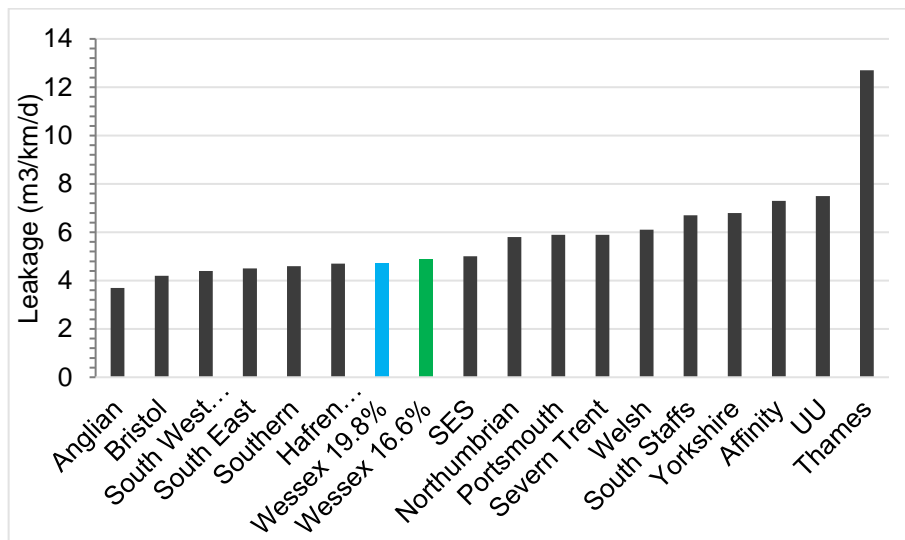


Figure 3 – 2029/30 leakage normalised to distribution input

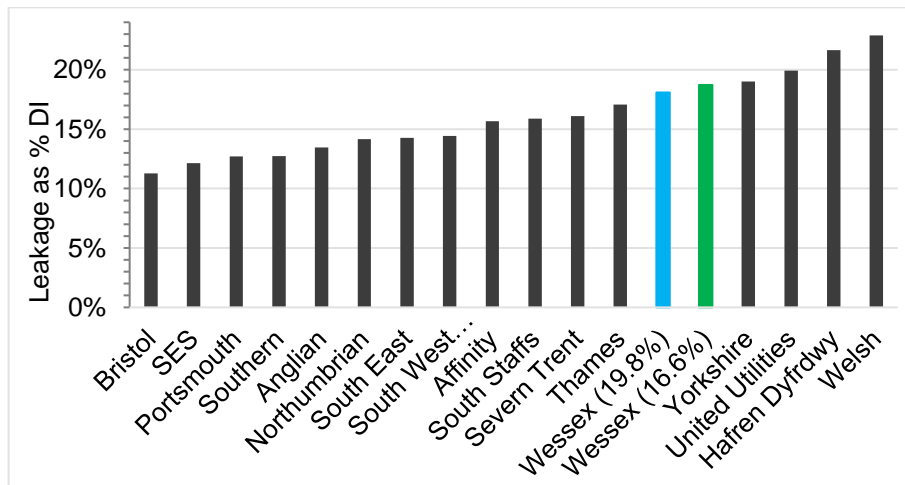


Table 1 – Summary of QAA and leakage ambition for all companies

Company	QAA	PCL 2029/30 (3-year avg. % reduction from 2019/20)			Total AMP8 annual average % reduction	Annual average % reduction 2029/30 from 2017/18 baseline
		From totex	From base	From enhancement		
Thames	Inadequate	37.1%	18.1%	19.0%	19.0%	41%
South West Bournemouth	Outstanding	31.6%	15.0%	16.6%	16.9%	36%
Severn Trent	Outstanding	31.6%	23.8%	7.8%	16.2%	36%
Southern	Inadequate	31.5%	21.3%	10.2%	13.3%	35%
Affinity	Standard	31.0%	28.4%	2.6%	15.1%	29%
South Staffs	Standard	28.8%	25.1%	3.7%	16.0%	33%
Yorkshire	Standard	27.2%	14.2%	13.0%	15.3%	31%
SES	Standard	26.6%	14.4%	12.2%	16.4%	31%
Bristol Water	See SWB	26.4%	10.6%	15.8%	8.1%	33%
Portsmouth	Standard	25.6%	20.6%	5.0%	15.4%	38%
South East Water	Lacking ambition	23.9%	0.0%	23.9%	13.0%	26%
United Utilities	Standard	23.8%	1.8%	22.0%	13.1%	26%
Hafren Dyfrdwy	Standard	20.8%	18.7%	2.1%	10.1%	31%
Northumbrian	Standard	20.7%	17.2%	3.5%	7.2%	23%
Anglian	Standard	20.3%	0.0%	20.3%	7.7%	21%
Welsh	Standard	18.4%	10.9%	7.5%	9.7%	17%
Wessex – October submission	Inadequate	16.6%	13.0%	3.6%	5.5%	21%
Wessex - DD proposal		19.8%	12.3%	7.5%	10.0%	24%

Annex 2 – Transition and deliverability – supporting information

Proven track record of delivery

We have a proven track-record for delivering enhancement programmes as well as investing all the maintenance expenditure included in each determination over multiple AMPs. We have been industry leading in managing delivery of programmes, including early start and overlap programmes of substantial scale such as our water supply grid; and complexity such as our North Bristol sewer project. We have used this experience to plan out the transition to the larger scale of enhancement programme in AMP8.

Transition planning

Our first activity was the creation of a company-wide transition group, to understand the risks and actions necessary to plan out the upscaling of the business for the delivery of a substantially larger enhancement programme. Every area of the business is impacted in some way, directly or indirectly. This group set out the focus activities that were managed by the appropriate departments.

These activities have subsequently enabled the progression of:

- Early mobilisation
- Accelerated procurement
- Expanding off-site build
- Increased AMP8 Transition investment

Resource planning

A specific area of focus was the development of a capability and capacity resource plan including forecast requirements. The internal resource plan is summarised below, and recruitment has been progressing to this plan through 2024-25.

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In addition to the above, we have engaged several external specialists across procurement and programme management to support WWSL in its preparation for AMP8.

The in-house teams will be supported by the Design and Build Capital Delivery Partners, that we estimate will increase staff allocated to the programme by between 800-1,000.

Business re-organisation

The business is in the final stages of a full re-organisation, focusing the business on managing the risks and creating opportunities, and in particular, creating the arrangements for successful delivery of the PR24 programme, including:

- Executive level role responsible for streamlining third party, land, and planning processes
- Executive level role responsible for deliverability of the plan, and the governance/assurance to the Board.
- Contract arrangements meeting regulatory and procurement rules for the delivery of the main elements of the enhancement programme by leveraging the capabilities of the wider YTL group.

This reorganisation will be concluded by the end of September 2024.

Contractual arrangements

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Overall position

While it is not possible for any company to entirely remove all risks, and acknowledging emergent risks will arise, our active risk management approach will continue. We therefore believe all the detailed progress summarised in relation to preparing for the forthcoming investment programme provides an on-going framework for credible delivery of our revised plan.

Annex 3 – Update on dividend policy

Dividend context

As a responsible, financially resilient company Wessex Water's Board always considers our long-term investment needs; our financial resilience (including pension obligations); and our service delivery for customers and the environment over time and in the round when deciding our dividends.

We are supportive of Ofwat's often-stated view that dividend policies and capital structures are the responsibility of company Boards, taking account of relevant legal obligations and licence conditions. Dividends are the means for companies to compensate equity investors for the use of their capital and our investors already expect our company Board to apply reasonable and appropriate judgement before making such distributions.

We have long considered the factors identified by Ofwat in its PR24 methodology when setting our dividend. For example, we share outperformance with our customers through lower bills and additional investment; with our employees through responsible incentive-based bonuses; and with investors through a sustainable dividend policy. And we've been able to do this while delivering our environmental performance, maintaining our gearing, and delivering strong financial resilience.

The Company has published its dividend policy for AMP7 and will publish its dividend policy for AMP8 after the Final Determination is published.

Early view of dividend policy for 2025-30

The dividend policy is to declare dividends consistent with our performance and prudent management of the economic risk of the business. Dividend payments are reviewed and approved on a quarterly basis by the Board after considering both current and projected business performance.

In particular, the Board takes into account:

1. Our current and projected performance in delivering the level of service customers expect from an efficient water and sewerage company and that where that level of service has not been delivered, that customers have been adequately compensated
2. that we are delivering the required quality and environmental outputs and making sufficient investment in our infrastructure to maintain and, where necessary, increase resilience
3. that the correct amount of tax has been paid
4. that we have met any unexpected additional expenditure needs that may have arisen during the year to date, as new operational risks emerge
5. the level of regulatory gearing and its comparison with Ofwat's expectations pertaining at the time
6. the sufficiency of distributable reserves
7. the benefits of inflation and whether they're clearly linked to outperformance or the prudent actions of management
8. maintaining a solid investment grade credit rating at all times.

Addressing modified licence conditions (P31)

P31 The Appointee shall declare or pay dividends only in accordance with a dividend policy which has been approved by the Board of the Appointee and which complies with the following principles:

P31.1 that dividends declared or paid will not impair the ability of the Appointee to finance the Appointed Business, taking account of current and future investment needs and financial resilience over the longer term;

P31.2 that dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligations; and

P31.3 that dividends declared or paid reward efficiency and the management of risks to the Appointed Business.

For the purpose of this licence condition, dividends refers to any distributions declared or paid in respect of any ordinary shares or preference shares.

P31.1 Financial Resilience

Preserving the Company's financial resilience is the principal responsibility of the board. This involves considering the Company's financial position and its prospects in the short term and for the foreseeable future.

The Company monitors its financial position through key metrics including RCV gearing, headroom on committed facilities, and the period for which committed facilities are sufficient to cover anticipated cash outflows, including dividends.

In calculating RCV gearing the Company takes account of expenditure that has already been incurred but is not included in the RCV based on the Final Determination. For example, in AMP7 we adjust our RCV in the gearing calculation to take account of AMP8 early start expenditure incurred that will not be formally included in the RCV until the start of the following AMP.

The Company also considers its published credit ratings and the outlook for the ratings and would seek to retain stable ratings in AMP8. The forecast outcomes for key metrics that form inputs to the ratings agencies' methodologies are considered as part of the viability review described below.

The Company assesses its prospects through an annual viability statement review, which currently considers a period of eleven years from the date that it is approved. This assessment takes into account any dividends planned and forecasts the outcome for key metrics over the period under review, including those that are key components of rating agencies' methodologies.

We recognise that funding material RCV growth requires an appropriate balance between equity and debt in order to maintain financial resilience. During AMP8 the board will consider how to achieve an appropriate balance of debt and equity for the anticipated significant investment programme.

P31.2 Service delivery for customers and the environment

Our main measures of service delivery for customers are Ofwat's final determination of our performance commitment (PC) levels and the associated Outcome Delivery Incentives (ODIs). We assess our performance in the round and over time.

Dividend decisions do not simply follow a formulaic outcome of performance measures but involve an assessment of "performance in the round" through several lenses. This assessment examines what is appropriate in the context of overall business performance for customers, the environment and wider stakeholders and considers several other factors, including regulatory investigations, environmental compliance and wider societal matters.

When assessing performance in the round we take account of performance across all PCs, and other relevant performance measures, taking a balanced view of performance. We give equal weight to both under performance and over performance by ensuring that any ODI penalties are covered by outperformance payments before considering the inclusion of any performance related element in dividend distributions. We also look at performance across the range of performance measures when considering a performance related element in the dividend.

In addition to our environmental PCs, we also take into account our annual EPA rating issued by the Environment Agency. This measures environmental performance across a range of water and wastewater measures and

therefore in itself assesses performance in the round. We also look at our EPA performance over time when considering dividend distributions.

Assessing performance over time means considering a number of periods in determining the level of dividend. Sustained delivery over more than one period of performance across the range of measures would support distribution of an enhanced dividend based on performance while less consistent delivery would require net rewards being retained until more consistent performance was established. By the same token, an isolated shortfall in performance after a sustained period of strong delivery might not result in a lower dividend, although the impact of the performance shortfall on customers would be carefully considered by the board before any decision to sustain the dividend at previous levels was taken.

We recognise that, as a monopoly provider of essential public services, we have an obligation to consider stakeholder concerns at an individual company and sector level. We will consider our performance on matters such as operational resilience in the face of climate change, river health, storm overflow (SO) spills and any other matters that become the subject of public scrutiny, including performance against our statutory and regulatory obligations, in determining the appropriate level of dividend in any year.

P31.3 rewarding efficiency and management of risks

Efficiency and effective risk management are key requisites for delivering sustainable returns for shareholders and other stakeholders. Efficient use and allocation of resources will lead to better outcomes for customers and the environment, lower costs and higher returns. Effective risk management will reduce the probability of risks occurring and reduce their impact if they do. This leads to more stable performance and sustainable returns.

Efficiency is reflected in RoRE either through totex or financing outperformance. Sustained outperformance over time in either of these areas would support an enhanced dividend. Likewise, sustained underperformance over time would lead to lower dividends for this element of performance.

As already suggested, when setting the dividend for a year the Board considers the Company's principal risks and how the proposed dividend would impact the Company's financial resilience. In performing this assessment, the Board considers the most recent reports that it has received in relation to the Principal Risks.

Principal Risks that are directly relevant to the consideration of dividends are: failure to fund the defined benefit pension scheme sustainably and failure to ensure sufficient liquidity to meet funding requirements. Each of these risks is specifically considered by the Board whenever a dividend is proposed.

Alignment to Ofwat's expectations on dividend policy

Taking account of performance

It is important for companies to demonstrate how dividend decisions take account of matters such as performance delivered to customers or environmental performance. This is reflected in P31.2 of the licence condition, which states companies should comply with the principle "that dividends declared or paid take account of service delivery for customers and the environment over time, including performance levels, and other obligations".

We support Ofwat's principle, and this is reflected in our dividend policy for 2025-30 in points i), ii) and iv).

Transparency

Company Law and Accounting Standards set out minimum disclosures that companies must make in relation to dividends paid and proposed. These disclosures are set out in the Company's Annual Report and Accounts, which is published on our website. In our Annual Performance Report we make further disclosures so that our dividend policy – and how decisions leading to the payment of a dividend align with that policy – are transparent to

customers and other stakeholders, including how delivery for customers and the environment has been taken into account.

Over a number of years we have developed an approach to reporting our cumulative returns, amounts distributed and amounts available for future distribution in a transparent manner.

Additional factors

The following table sets out how our dividend policy and approach addresses additional Ofwat expectations for dividend policies.

Ofwat expectation	Wessex Water response
How dividends declared or paid consider current and future investment needs	Please see points ii) and iv) of our dividend policy
How dividends declared or paid consider financial resilience over the longer term	Please see points v), vi) and viii) of our dividend policy together with section P31.1 - Financial Resilience
How dividends declared or paid take account of service delivery for customers and the environment	Please see points i) and ii)) of our dividend policy together with section P31.2 - Service delivery for customers and the environment
How dividends declared or paid are designed with the principle that dividends reward efficiency and the effective management of risks to the Appointed Business	Please see points iv) of our dividend policy together with section P31.1 - rewarding efficiency and management of risks
How past performance is factored in, to ensure investors are not rewarded more than once for each year's performance	Please see final paragraph of Transparency section

Annex 4 – Remuneration

Remuneration principles and policy

The Remuneration Committee monitors variable pay arrangements for Executive Directors and senior managers. The Committee believes the arrangements are appropriately managed and that the choice of performance measures and targets does not encourage undue risk-taking by the executives so that the long-term performance of the business is not put at risk by considerations of short-term value. The arrangements incorporate a range of internal and external performance metrics, measuring both operational and financial performance providing a rounded assessment of overall company performance to ensure that a significant portion of executive remuneration is performance related. More details on the remuneration policy for Executive Directors is shown later in this report.

Recruitment of Executive Directors

The base salary for any new Executive Director takes into account market data for the relevant role, relativity with the salaries of existing Executive Directors, the individual's previous experience, and current base salary. If an individual is recruited at below market level, their base salary may be aligned over a period of time to the median of the relevant market position, subject to their performance in the role.

Individual Executive Directors participate in a senior manager bonus scheme, governed by the Committee. Executive Directors have a target bonus set at 50% of base salary and their maximum bonus at 100% of base salary.

Policy for loss of office

There are no specific provisions for compensation on early termination (except for payment in lieu of accrued but untaken holidays) or loss of office due to a change of ownership of the Company. The Committee will review all contractual obligations and will seek legal advice, as and when necessary, on the Company's liability to pay compensation in such circumstances.

The Committee will seek to reduce the level of compensation payable taking into account, among other factors, the Company's and the individual's performance, the Executive Director's obligation to mitigate loss, and length of service.

Remuneration arrangements for Executive Directors

The following table sets out a summary of the Company's Executive Directors' remuneration package, which comprised the following elements:

- basic salary
- bonus (non-pensionable) subject to individual and company performance
- pension plan
- company car or allowance and private fuel allowance
- private health insurance and executive medical screening

The table below highlights the key elements of executive remuneration and the link to Company strategy, how executive remuneration is operated in practice and the link to relevant performance metrics.

Element of pay	Purpose and link to Company Strategy	How operated in practice	Maximum opportunity	Description of performance metrics
Base Salary	<p>To attract and retain the high calibre Executive Directors needed to implement the Company's strategy and maintain its leading position in the industry.</p> <p>To provide a competitive salary relative to comparable companies in terms of size and complexity.</p>	<p>Reviewed annually and takes effect from 1 April.</p> <p>The review takes into consideration: individual responsibilities salary levels for similar sized roles in the national utilities market the level of pay increases awarded across the Company economic and market conditions the performance of the Company</p> <p>Salaries are paid monthly</p>	There is no prescribed maximum increase. However, Executive Director salary increases are aligned to those provided to all Company employees. Such increases are negotiated by the joint staff council involving management and trade union representatives.	n/a
Taxable Benefits	To attract and retain high calibre Executive Directors and to remain competitive in the market.	<p>Benefits include:</p> <p>Company car or allowance and private fuel allowance</p> <p>Private medical insurance and executive health screening</p>	n/a	n/a
Pension	To attract and retain high calibre Executive Directors and to remain competitive in the market.	<p>The majority of current Executive Directors participate in the Company's defined benefit pension scheme. Other Executive Directors participate in the YTL UK Group section of the Aon MasterTrust.</p> <p>Executive Directors are also insured for a lump sum of up to four times their pensionable salary on death in service.</p>	Up to 15.5% of base salary	n/a
Annual Bonus	<p>To motivate and reward Executive Directors for the achievement of demanding objectives and key strategic measures (including measures of customer satisfaction, service quality, environmental performance, employee alignment and financial performance) over the financial year and five-year regulatory period.</p> <p>The performance measures set are stretching in the context of the nature, risk and profile of the Company and have regard to historical company performance, sector comparisons and the performance commitments made in the relevant business plan. The measures and the weightings of them ensure that bonuses are linked to stretching delivery for customers and the environment.</p>	<p>The Board of Directors sets annual performance targets for the Company prior to the commencement of each financial year. Company and individual performance against those targets are measured at the end of the financial year and the level of bonus payable is calculated at that point. Bonuses are paid in May.</p> <p>The committee has the discretion to, and does consider for effect of, corporate performance on environmental and governance risks when reviewing Executive Director bonuses to ensure variable remuneration incentivises and rewards appropriate behaviour. Part of the bonus may be forfeited for underperformance in respect of customer service, environmental, regulation and employee related performance targets. Annual bonus is not pensionable.</p>	Maximum bonus opportunity is 100% of base salary.	<p>Combination of key performance indicators relating to customer satisfaction, service quality, environmental performance, employee alignment and financial performance.</p> <p>The Remuneration Committee has absolute discretion in making bonus payments.</p>

The size of any bonus award is determined by Company financial performance, against targets set by the Board. This aligns with the shareholder's expectations and ensures that bonuses reflect the financial performance of the Company.

The Executive Directors Bonus structure is illustrated below together with examples of associated performance indicators:

	Weighting	Target bonus opportunity	Maximum bonus opportunity
Serving people and places	35%	17.5%	35%
Protecting and enhancing the environment	35%	17.5%	35%
Empowering our people	10%	5%	10%
Discretionary Award	10%	5%	10%
Personal objectives	10%	5%	10%
TOTAL		50%	100%

	Performance indicator
Serving people and places	C-Mex (Customer measure of experience) D-MeX (Developer measure of experience) Trust Pilot Water quality compliance (CRI) Water supply interruptions Sewer flooding (internal and external incidents)
Protecting and enhancing the environment	Environmental Performance Assessment (EPA) Pollutions (category 1-2 and category 3) Leakage Greenhouse gas emissions River with improved water quality (WINEP) Storm overflow and FPF progress – monitoring and improvement outputs
Empowering our people	Employees understanding Wessex Water's commitment to Health & safety and their own responsibility Employees rating company as a good employer Training plan compliance Employees recognising Wessex Water as inclusive and promoting diversity
Financial measures	Operational costs Net capex Cashflow before dividends Dividends declared

At the end of the financial year, the Remuneration Committee review company and individual performance, taking into account performance against the measures.

Only if the Committee judges that three quarters or more of the customer and environmental targets have been achieved, will Executive Directors be eligible for any bonus payment. The Committee would take account of any extenuating circumstances outside the control of the Company when determining the level of bonus payments.