

Wessex Water Services Limited (the Company / Appointee)

Requirements

Licence conditions I (ring-fencing) and K (ring-fencing and disposals of land) require the Company, at all times, to ensure that if a special administrator were appointed to manage the regulated activities, that administrator would have sufficient rights and assets (other than financial resources) to enable the administrator to manage the affairs, business and property of the Company. The Company is required to confirm that it is in compliance with these conditions and, in a certificate of adequacy, make suitable sufficiency statements to that effect.

The Company should also include a statement of the main factors that the Board has taken into account when approving the certificate of adequacy. The certificate should also be accompanied by a report prepared by the Company's auditors stating whether they are aware of any inconsistencies between the certificate and either the regulatory accounting statements or any information which they have obtained in the course of their work and, if so, what they are. The Company's auditors, EY, have conducted their audit and prepared a separate report as required by paragraph I24, which confirms that no inconsistencies were identified between the RFC and either the regulatory accounting statements or any information which the Auditors obtained in the course of their work as the company's Auditors. The Auditors' report is available on page 83 of the annual report and accounts.

Certificate of Adequacy under Conditions I and K of the Company's Appointment for the year ended 31 March 2021

In accordance with the requirements, this is to certify that on 7 July 2021, the Board of Wessex Water Services Limited resolved as follows:

1. That, in the opinion of the Board, the Appointee will:
 - (a) have available to it adequate resources, both financial and non-financial, together with the facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
 - (b) for at least the next 12 months have available to it management resources and systems of planning and internal control which are sufficient to enable it to carry out those functions as required by paragraph I13.
2. That, in the opinion of the Board, all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to carry out the Regulated Activities.

The Board has considered a wide range of factors in consideration of this certificate of adequacy to satisfy themselves that the evidence detailed here is sufficient for them to draw the conclusions they have. This includes the Auditors' statements regarding the Company's accounts, going concern statement, long term viability statement, risk and compliance statement, and the inputs and assurance processes associated with each. Each of these has been considered in detail by the Audit and Risk Committee, with appropriate challenge to directors and senior managers, before being recommended to the Board for approval.

The main factors the Board has taken into account in compliance with the licence requirements are:

- (a) **financial resources and facilities** and in particular consideration of:
- i. the Company's detailed budget for the year to March 2022;
 - ii. the Company's Final Determination for AMP7;
 - iii. the Company's long-term viability statement to March 2030;
 - iv. the Company's credit arrangements including its existing borrowing facilities, which include significant undrawn bank facilities of £225m;
 - v. the Company's cash position and financing strategy including refinancing bonds maturing in September 2021; and
 - vi. the Company's credit ratings and covenants;
- (b) **management resources** and in particular consideration of:
- i. the management skills, experience and relevant qualifications of key directors and managers, including succession planning for key management and staff;
 - ii. the Company's recruitment processes and staff engagement including the results and learning from the Company's people surveys and the People's Council;
 - iii. the quality of management and staff induction, including training and development;
 - iv. the work of the Company's diversity and inclusion working group;
 - v. the work of the Environment and Public Value Committee;
 - vi. Board reports, including the regular business performance updates; and
 - vii. the independence and functionality of the Board and its Committees;
- (c) **systems of planning and control** and in particular consideration of:
- i. the governance framework, delegated authority processes and procedures;
 - ii. the risk management framework as detailed in the annual report and accounts and associated reporting mechanisms;
 - iii. the internal and external audit policies, processes, activities and reports;
 - iv. the systems for maintaining supply, security and business continuity, including relevant action plans;
 - v. the restated business ethics and raising a concern policies;
 - vi. supply chain reviews for compliance with the Utilities Contracts Regulations, Modern Slavery Act and Bribery Act; and
 - vii. risk, compliance and other assurance statements;
- (d) **rights and non-financial resources** and in particular consideration of:
- i. the Company's social purpose and BEST values;
 - ii. the resources available from the Company's in-house engineering and sustainable development department who deliver the capital programme;
 - iii. technology and other systems for ensuring appropriate information security and access control, reconciliation, other checks and verifications such as within the Company's Bravo procurement system or the updated regulatory assurance manual;
 - iv. policies to encourage an integrated approach and 'systems thinking' including the Wessex Water Marketplace, business continuity, and resilience action plans; and
 - v. planning and asset maintenance systems;
- (e) **contracting** and in particular consideration of:
- i. the legal ownership of the Company's assets;
 - ii. the status of key contracts in place;

- iii. the billing and revenue collecting capability of the Company's Associated Company, Bristol Wessex Billing Services Limited who provides such services under contract;
 - iv. transactions between the Company and any Associated Company including the Company's annual RAG5 report;
 - v. compliance with licence provisions on cross-subsidies between the Company and any Associated Company;
 - vi. compliance with licence provisions on Guarantees and Cross-Default Obligations requiring Ofwat's written consent;
- (f) **material issues or circumstances** and in particular consideration of:
- i. the Company's response to and the financial impact of Covid-19.

Andy Pymer
Executive Director Finance and Regulation

Dated 7 July 2021