

AffinityWater

Taking care of your water

**Certificates of compliance
for the year ended 31 March 2022**

Affinity Water Limited
[Registered Number 02546950]



Statement on direction and performance

We are pleased to introduce our regulatory Annual Performance Report for the year ended 31 March 2022, the second year of AMP7. In this regulatory period, we agreed challenging commitments and we recognise the importance of meeting these.

These commitments are in response to the significant environmental, social and governance challenges we face from rising population and increased demand for water, as well as a reduction in the availability of water in years ahead. We recognise how crucial our business activities are to the wider environment and understand the need to become even more agile as we need to deliver more for the environment and our customers, for an affordable price. We know we can adjust rapidly and transform our ways of working and we have continued this transformation in 2021/22, for example launching our Green Finance framework to align our funding and financial strategy with our strategic and sustainability priorities.

As a Board, we spend a significant amount of time aligning our company plans to the interests of customers, employees and wider stakeholders. Our Section 172 statement on page 86 of our Annual Report and Financial Statements 2021/22 shows how we have engaged with our key stakeholders to make key decisions in 2021/22. We have re-invigorated the business considerably over the last few years, with a new executive team, a strengthened Board, committed long-term investors, an excellent team of colleagues, and a clear purpose to help us move forwards. Our Customer Challenge Group, consisting of representatives with experience representing household customers, holds us to account on how we are performing against our performance commitments, all of which can be read on pages 4 and 5.

How the company has set its aspirations and performed for all those it serves

Our ambition is reflected in our purpose "to provide high quality drinking water for our customers and take care of the environment, for our communities now and in the future". The Board was heavily involved in forming the company purpose and has continued to work with the leadership team to monitor our performance throughout 2021/22. As a Board, we are responsible for fostering the right culture, and we work with senior leadership to reinforce the right behaviours to allow all members of our workforce to bring their true selves to work, to enable them to reach their full potential and deliver on our purpose. By committing to inclusivity, we ensure that our company and its values best reflect the communities we serve and allow us to strive to be world class in what we do. For more details on our purpose and culture, see page 12 of our Annual Report and Financial Statements 2021/22.

Our shareholders are highly regarded and have experience of long-term asset ownership. They support our plans to invest and enhance our infrastructure to ensure future resilience, as demonstrated by their agreement to restrict dividends paid in AMP7. See details of our finances on page 40 of our Annual Report and Financial Statements 2021/22, including details on our investment plans and funding of these programmes. Our Board approved dividend and executive remuneration policies that ensure dividends and executive

remuneration are proportionate with performance of the company, while not impairing its longer term financeability. The dividend policy states that dividends paid by the appointed business must consider an assessment of our performance against the Final Determination for AMP7 for the following areas: financial performance, operational performance, customer and community performance, and safety and health performance.

Our salary and benefit pay policy for executives is based on the market median. Executive annual bonuses are linked to in year delivery of financial, operational, customer and community and health and safety measures, which are linked to our AMP7 commitments where applicable, detailed in our Remuneration Report on pages 164 to 183 of our Annual Report and Financial Statements 2021/22. The Board is reassured that the pay structure incentivises executives to deliver long-term sustainable performance for customers and communities, employees and shareholders.

This annual report and financial statements include full and transparent disclosure of our performance in 2021/22 and the Board is confident that the plans put in place ensure a stable future for our company.

On behalf of the Board:

Ian Tyler
Company Chair

Board statement on the completeness and accuracy of information

We want to be open with our customers and other stakeholders about our performance against our commitments. We want them all to have trust in our service and confidence in the information we publish about our performance. We encourage customers and other stakeholders to provide feedback at any time about how we are performing.

We regularly publish information on our performance to demonstrate to customers, stakeholders and our regulators the extent to which we are delivering the services expected of us.

Our Assurance Plan sets out the main assurance activities that we either carry out ourselves or engage third-party providers to carry out independently, so that the information we report to customers, stakeholders and regulators is accurate, transparent, reliable, relevant, complete and up to date. We consider it essential to demonstrate that we report information on our performance that meets these criteria. This is part of our commitment to demonstrate that we take ownership of the information we report. Our Assurance Plan also describes the main categories of information which we report, and the main assurance controls we have in place for each category.



Our plan is published on our website at affinitywater.co.uk/corporate/about/governance-assurance

On behalf of the Board, our Audit, Risk and Assurance Committee has:

- Reviewed and challenged our Assurance Plan prior to publication;
- Received, reviewed and challenged reports from various assurance providers, including our external Auditor, in respect of key reports and publications including our Annual Report and Financial Statements and our Annual Performance Report;
- Received, reviewed and challenged reports from the Head of Internal Audit on the effectiveness of the company's systems of internal control and risk management systems; and
- Received, reviewed and challenged individual internal audit reports, in particular with regards to risks to the provision of accurate and complete data and information and how those risks are being mitigated.

The Chair of the Audit, Risk and Assurance Committee reported to the Board in respect of the outcomes of the above reviews.

The activities referred to above and detailed in full in the Assurance Plan led the Board to conclude that all data and information which the company has provided to Ofwat during 2021/22 and which we have published in our Annual Report and Financial Statements and Annual Performance Report in our role as water undertaker was accurate and complete with no material exceptions to report.

On behalf of the Board

Ian Tyler
Company Chair

12 July 2022

Certificates of compliance

To: **Water Services Regulation Authority**
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Ring-Fencing Certificate

This is to certify that on 12 July 2022 the Board of Affinity Water Limited (the Appointee) resolved that in its opinion, in accordance with the company's Condition P licence requirements:

- 1) the Appointee will have available to it sufficient financial resources and 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
- 2) the Appointee will, for at least the next 12 months, have available to it
 - (a) sufficient management resources and systems of planning and internal control; and
 - (b) rights and resources other than financial resources

which are sufficient to enable it to carry out the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and

- 3) all contracts entered into with any Associated Company include all necessary provisions and requirements in respect of the standard of service to be supplied to the Appointee, to ensure that it is able to carry out the Regulated Activities.

In giving this certificate the main factors which the Board has taken into account are:

Financial resources and facilities:

- the net worth of the company as shown in the financial statements and the budget for the forthcoming year supported by long-term plans and performance against the Final Determination set at the most recent price review, for both operating and investment expenditure;

- the financing arrangements available to the company and management of associated risks (refer to notes 16 and A4 of the company's Annual Report and Financial Statements 2021/22 and the principal risks and uncertainties section of the company's strategic report beginning on page 98 of the company's Annual Report and Financial Statements 2021/22 for further details), including details of the company's credit rating; and
- the results of the stress-testing performed in relation to the company's viability statement for the year ended 31 March 2022 (refer to page 112 of the company's Annual Report and Financial Statements 2021/22) which is subject to external assurance (refer to our Board statement on the completeness and accuracy on information on page 18 for details on controls and the levels of assurance obtained during 2021/22).

The Board concludes that the budget for the forthcoming year adequately supports our commitments set in the Final Determination and provides sufficient resources to meet our operating and investment expenditure needs for at least the next 12 months. The company has sufficient financing arrangements available to it to meet these commitments, taking into account the impact of any potential principal risks and uncertainties and the results of stress-testing performed on the base case forecasts and budgets. Therefore, the Board concludes the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities.

Management resources:

- the Board and its Committees have the resources available to them and the fact that they have sufficient independent membership to ensure they can make high-quality decisions that address diverse customer and stakeholder needs; and
- the review of succession planning being performed by the Nomination Committee along with the company's HR Team, as well as the recruitment process, including that of the permanent CEO and CFO following interim recruitment

for these roles, staff engagement and diversity, the quality of training and development programmes and the company's purpose and principles.

The Board concludes that directors have sufficient time to engage with the company and to discharge their responsibilities effectively. The Board concludes that there is an appropriate mix of skills and experience on the Board and the individual Committees, including sufficient independent membership on Committees for the individual directors to constructively challenge and appropriate division of responsibilities, see the skills matrix in the Corporate Governance Statement on page 137 of our Annual Report and Financial Statements 2021/22. The Board concludes that there are appropriate steps in place to ensure good succession planning that allows for orderly succession to both the Board and senior management positions, ensuring there is a diverse pipeline for succession that reflects the communities that we serve.

Systems of planning and internal control:

- the comprehensive suite of internal control procedures across both operational and financial matters to ensure maintenance of supply, supported by governance procedures, risk management frameworks, segregation of duties matrices and detailed delegated levels of authority, as well as policies to prevent fraud and other unethical behaviour (including but not limited to the company's whistleblowing policy);
- an Internal Audit team reporting to the Audit, Risk and Assurance Committee, and the availability of specialist planning teams who are deployed to major projects and utilise the resources of acknowledged external specialists in such matters;
- the fact that the company's output is subject to considerable external assurance, both financial and operational (refer to our Board statement on the completeness and accuracy on information on page 18 for details on controls and the levels of assurance obtained during 2021/22).

Certificates of compliance

continued

The Board concludes that the internal control procedures are working effectively and that the Internal Audit team has the appropriate skills and qualifications it requires to monitor and improve controls across the company. The Board concludes that the work of the Audit, Risk and Assurance Committee [detailed on pages 146 to 155 of our Annual Report and Financial Statements 2021/22] overseeing the systems of planning and internal control is sufficient.

Rights and resources other than financial resources:

- the company principles, which are the values of the company that underpin how it delivers its underlying purpose and encourages an integrated approach to working; and
- the assets available to the company, including ensuring that it has effective operational systems, and resourcing plans and schedules in the operational business, that enable a continued supply of water, the maintenance and insurance of these systems, and sufficient physical resources through our abstraction licences and water levels.

The Board concludes that the company principles and clearly defined purpose drive the company and conclude that this and the assets available are sufficient to enable it to carry out the Regulated Activities.

Contracting:

- the work of the Contracts Committee, attended by the CFO, which operates to review and award significant contracts with suppliers; and
- no guarantees or cross-default obligations given without Ofwat's written consent.

The Board concludes that the position and status of key contracts in place contain all necessary provisions and requirements in respect of the standard of service to be supplied to the Appointee, to ensure that it is able to carry out its Regulated Activities and it is compliant with cross subsidy obligations.

Material issues or circumstances:

- there are no other material issues or other circumstances that have been taken into account when assessing the sufficiency of financial resources.

In giving this certificate the main factors which the directors have taken into account in relation to contracts entered into with any Associated Company are:

- an examination of the contracts with Associated Companies;
- considerations made by the company's Market Oversight Committee; and
- leaving aside the company's contract to supply wholesale water to and the service agreement with its former associated company Castle

Water (Southern) Limited (formerly Affinity for Business (Retail) Limited) until its sale from the Affinity Water group in April 2020, the limited contractual arrangements with Associated Companies.

Any transactions with Associated Companies are disclosed in the Non-audited regulatory information section of the company's regulatory Annual Performance Report for the year ended 31 March 2022 [refer to page 128], which is subject to external assurance under Regulatory Accounting Guideline 5.07; Guideline for transfer pricing in the water and sewerage sectors [refer to our Board statement on the completeness and accuracy on information on page 22 for details on controls and the levels of assurance obtained during 2021/22].

In this certificate, the terms 'Appointment', 'Associated Company' and 'Regulated Activities' have the meanings given in the Appointee's Instrument of Appointment, also referred to as the company's licence.

The Board obtained third-party assurance from the company's external Auditor in relation to the sufficiency of financial resources. A full report of the external Auditor's work on the ring-fencing certificate has been provided to Ofwat with no issues noted.

The Board confirms that it will inform Ofwat in writing if it becomes aware of any circumstances which would change the opinion such that it would not give the opinion contained in this certificate.

This certificate was approved unanimously at the Board meeting on 12 July 2022 by

Ian Tyler
Chair

Mark Horsley
Independent Non-Executive

Jaroslava Korpanec
Non-Executive

Roxana Tataru
Non-Executive

Ann Bishop
Independent Non-Executive

Chris Newsome
Independent Non-Executive

Michael Osbourne
Non-Executive

Stuart Ledger
Executive Director, Interim CEO

Trevor Didcock
Independent Non-Executive

Justin Read
Independent Non-Executive

Angela Roshier
Non-Executive

Signed on behalf of the Board members listed above,

Ian Tyler
Chair

Certificates of compliance continued

Compliance with Condition P, paragraph P14

Paragraph P14 of Condition P of the company's licence requires the company to ensure at all times, so far as reasonably practicable, that, if at any time, a special administration order were made in relation to it, it has available to it sufficient rights and resources (other than financial resources) so that a special administrator would be able to manage the affairs, business and property of the appointed business of the company in accordance with the purposes of the special administration order.

The company hereby certifies that at 31 March 2022 it was in compliance with paragraph P14 of Condition P.

Statement of disclosure of transactions with Associated Companies

With respect to the disclosure of transactions with Associated Companies, the directors declare that to the best of their knowledge:

- all appropriate transactions with Associated Companies have been disclosed;
- transactions with Associated Companies are at arm's length (except where agreed with Ofwat) with no cross-subsidy occurring; and
- no directors have acted as both purchaser and supplier in any transaction with an Associate Company.

Statement of directors' responsibilities

In addition to their responsibilities to prepare financial statements in accordance with the Companies Act 2006, Condition F of the Instrument of Appointment requires the company to prepare a set of regulatory accounting statements records which are in accordance with the Regulatory Accounting Guidelines (RAGs) published by Ofwat under Condition F.

In the case of each of the persons who are directors of the company at the date when this report was approved, so far as each of the directors is aware there is no relevant audit information of which the company's Auditor is unaware; and each of the directors has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant information and to establish that the company's Auditor is aware of that information.

Relevant audit information means information needed by the company's Auditor in connection with preparing its report. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Statement of risk and compliance

Purpose of this statement

The purpose of this statement is:

- to confirm that we have a full understanding of, and are meeting, our relevant statutory, licence and regulatory obligations;
- to confirm that we have taken steps to understand and meet customer expectations;
- to confirm that the company is taking appropriate steps to manage or mitigate the material risks it faces; and
- to explain any significant matters relevant to the company's performance in 2021/22, as presented in section 3 of the regulatory Annual Performance Report.

The statement explains the company's approach to regulatory compliance and assurance and sets out its statement of compliance. It should be read alongside the company's Annual Report and Financial Statements for the year ended 31 March 2022, which include a summary of the company's operational performance for 2021/22 from page 66 of our Annual Report and Financial Statements 2021/22 and set out how the company manages risk and uncertainty from page 98 of our Annual Report and Financial Statements 2021/22.

Regulatory compliance and assurance

The company's approach to achieving and assuring compliance with its licence and regulatory obligations is based on a sound system of internal controls and governance. To inform themselves about the company's compliance, the company's Board and Audit, Risk and Assurance Committee members carried out a range of activities throughout 2021/22 to satisfy themselves as to the proper functioning of those systems. The company's Director of Regulation and Strategy is responsible for monitoring regulatory compliance and is supported in discharging this

responsibility by employees in the Regulation, Assurance, Legal and Internal Audit teams.

The company continues to employ an external reporter (the 'Reporter') to scrutinise, challenge and give independent advice on the procedures the company uses to collect and report the information underpinning this compliance statement. The Reporter has highlighted that the company has full understanding of and has sufficient processes and internal systems of controls to meet its reporting obligations. The Reporter also highlighted that the majority of reporting processes continue to demonstrate either consistent good practice or improvements from previous years, and in the few cases where areas of inadequacy in reporting procedures were noted in previous years, these have now been addressed, and clear written procedures are in place for all the 2020–2025 Performance Commitments.

The Reporter's report is available on the company's website: affinitywater.co.uk/reports-publications.

Understanding and meeting customers' expectations

The company supplies a diverse customer base with a range of expectations for service. It undertakes appropriate activities to inform itself about customers' expectations including customer research, consultation with consumer representatives and proactive communication with customers to seek feedback. It aims to provide services that it judges will best fulfil those expectations, remaining mindful of the need to balance customers' expectations with those of its other stakeholders, its environmental protection objectives and considering customers' acceptability and ability to pay water bills.

Regulatory outputs

The Board has reviewed the performance of the company against its regulatory outputs set at the Final Determination 2019. This regulatory Annual Performance Report identifies differences between the outputs that the company has delivered in 2021/22 and those that were assumed in its Final Determination 2019.

Compliance statement

As a Board, we confirm that:

- we have a full understanding of, and are meeting, our relevant material statutory, licence and regulatory obligations;
- we have taken steps to understand and meet customers' expectations;
- we are satisfied that we have sufficient processes and internal systems of control to meet our obligations; and
- we have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our material risks.

On behalf of the Board

Stuart Ledger
Interim CEO

Justin Read
Independent Non-Executive Director

Statement of risk and compliance continued

Exceptions

The following exceptions to achieving our obligations have been shared with Ofwat:

Duty/Obligation	Disclosure	Actions being taken to improve
Performance Commitments	<p>For 2021/22, out of our 28 performance commitments, we have not met the following targets:</p> <ul style="list-style-type: none"> • Water quality compliance • Leakage • Per capita consumption • Properties at risk of receiving low pressure • Unplanned interruptions to supply • Customer contacts about water quality taste, odour and appearance • Risk of severe restrictions in drought • Value for Money Survey. 	Details of our performance and the actions we are taking are detailed in section 3 of our Annual Performance Report.
Leakage and Per Capita Consumption reporting	For 2021/22, we have not achieved full compliance with the Leakage and Per Capita Consumption reporting checklist. Details of our reporting can be found in the performance commitment commentary checklist on pages 64 to 66.	We are implementing improvements in reporting for 2022/23, including improving the representativeness of our sample size to reflect our overall population.
Utilities Contract Regulations 2016	Following an internal review of our procurement process, historic compliance issues were identified in connection with two procurements.	We have addressed the issues and corrective action has been taken to ensure ongoing compliance in the future.
GDPR	We identified some breaches of GDPR with one of our suppliers. There had been no breach of security or loss of personal data and the events were not notifiable to the Information Commissioner's Office.	We have reviewed our controls and measures and are making improvements to reduce the risk in future.

AffinityWater

Affinity Water Limited

Tamblin Way
Hatfield
Hertfordshire AL10 9EZ

Tel: 0345 878 0900

[affinitywater.co.uk](https://www.affinitywater.co.uk)