


AffinityWater

AFW134 KPMG - Assurance of financial data tables, reconciliation models and financial model





Review of PR24 data tables, reconciliation models and application of financial model

Private and confidential

Prepared for Affinity Water Limited

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27 August 2024



1. Executive summary

Executive summary

KPMG conducted a review of the following:

- **Workstream 1:** A review of 35 Data Tables due to be submitted to Ofwat.
- **Workstream 2:** A review of 11 reconciliation models – providing comment against Ofwat’s reconciliation rulebook guidance and tracing outputs to relevant data tables (PD4, PD5, PD9, PD11, PD12).
- **Workstream 3:** A review of Affinity Water’s application of the PR24 financial model and tracing outputs to relevant data tables (model functionality was not reviewed as part of this scope).

In completing its review KPMG identified findings where data sources were unclear and/or where potential issues had been identified. As at the time of writing this report, the status of these queries is as follows:

- **Workstream 1** – 40 findings were raised (mainly relating to KPMG being unable to recalculate the data and/or trace the data back to the sources specified) all findings were closed following responses from Affinity Water.
- **Workstream 2** – 29 findings were raised, all were clarified and resolved during the course of the review.
- **Workstream 3** – eight findings were raised, all were clarified and resolved during the course of the review.





2. Approach

Approach

KPMG's review comprised three workstreams:

- **Workstream 1:** A review of 35 PR24 Data Tables.
- **Workstream 2:** A review of 11 reconciliation models – providing comment against Ofwat's reconciliation rulebook guidance and tracing outputs to relevant data tables (PD4, PD5, PD9, PD11, PD12).
- **Workstream 3:** A review of Affinity Water's application of the PR24 financial model and tracing outputs to relevant data tables (KPMG will not be reviewing model functionality, but how Affinity has used the model).

Workstream 1

Affinity water assigned two categories to the 35 data tables under review (depending on the level of review that was required):

- 'Deep Dive' tables - requiring a walkthrough with table owners and recalculation of the data (RR2, RR7, RET2, RET1, PD1).
- 'Input' tables - requiring a transposition check against specified source data (RR25, RR8, RR26, DS1e, DS2e, DS5, PD8, RR5, RR6, RR29, RR1, RR3, RR4).
- 'Output' tables - requiring a transposition check against specified source data and confirmation of review/sign-off (SUM2, SUM3, RR10, RR11, RR12, RR13, RR14, RR15, RR16, RR17, RR18, RR19, RR20, RR21, RR24, RR27, RR28).

KPMG applied three sets of tests depending on the data table category:

Deep Dive Table Tests

- 1a)** Conduct walkthrough to understand how lines have been populated.
- 1b)** Recalculate data lines and confirm whether they have been populated as specified in the method statement.
- 1c)** Confirm that the sample lines tested above have been populated in line with Ofwat guidance.
- 1d)** Trend analysis check – query any unusual trends (e.g. non-linear spikes in data) and seek confirmation that they are correct.

Input Table Tests

- 2a)** Confirm source data for each line and check that it has been transposed correctly.
- 2b)** Trend analysis check – query any unusual trends (e.g. non-linear spikes in data) and seek confirmation that they are correct.

Output Table Tests

- 3a)** Confirm source data with data owner and confirm that data has been correctly transposed from source.
- 3b)** Trend analysis check – query any unusual trends (e.g. non-linear spikes in data) and seek confirmation that they are correct.

KPMG raised findings where data sources were unclear and/or where potential issues had been identified.

Approach

Workstream 2

KPMG reviewed the Affinity Water reconciliation models in line with Ofwat’s reconciliation rulebook guidance and Affinity Water’s methodology statement.

The reconciliation rulebook sets out Ofwat’s expectations of where different inputs for the models should be drawn from. Affinity Water’s methodology statement describes the data sources, and the assumptions used to populate the reconciliation models.

Where figures did not directly align, we raised Findings with Affinity Water, our findings are presented in terms of:

- Green – No exception (i.e.no Finding raised)
- Blue – No specific issue, but point to note
- Amber – Some issues identified
- Red – Potential problem identified / does not meet test

Workstream 3

KPMG was engaged to review AFW’s financial model and Project Splash model as well as the input links between the Mapping tool and Data Tables. The latest versions of the files are “PR24-financial-model-v21s-TEMPLATE” (AFW financial model) from 15 August 2028 and “Project Splash v6 DD” (Project Splash model), “PR24_Business_plan_tables_to_financial_model_mapping_tool_v4” (Mapping Tool) and “AFW-PR24-BP-tables-V7-Publish DD” (Data Tables).

Through our engagement we have reviewed the previous iteration of the Project Splash Model from 12 August 2024.

KPMG has undertaken a targeted review of specific aspects of the two models agreed upon by AFW and KPMG, not a comprehensive review of all sections of the models. Specifically KPMG has reviewed:

Consistency of the revenues and RCV between the Project Splash & Ofwat PR24 models which will not include the PR24 reconciliation mechanisms.

The linking of the Ofwat risk & return tables 1, 2, 4, 5, 6, 7, 8, 9 and the PD1 data table to the relevant inputs and outputs in the models to check if the Ofwat PR24 model and Project Splash model are consistent with the data tables.

A review of target areas of the model based on summary from you of where the changes have been made.

Consistency between the scenario specification and expected impact on key model outputs such as ratios, revenues and RCV.

The specification of the scenarios from a financial resilience and financeability perspective and whether the calculation dynamics are consistent with the Ofwat PR24 methodology.



3. Findings

Findings – Workstream 1

In completing Workstream 1 KPMG identified 40 findings where data sources/methodologies were unclear and/or where potential issues had been identified. All 40 findings have been closed following responses by Affinity Water. All closed findings are outlined in detail in our Management Report, they generally pertained to the following themes:

- KPMG not being able to reconcile values to the sources and/or approaches that had been specified by Affinity Water. In these instances KPMG requested that Affinity Water specify source data and/or to provide explanations for the derivation of a given value.
- Instances where data had changed when it was expected to have remained the same since the original data table submission. In such cases KPMG sought clarification from Affinity Water as to whether the data should have been updated (including provision of supporting evidence/sources).
- Unclear methodology, for example, reforecasting of housing numbers, deriving/calculating categories of asset classes and instances where it was unclear whether Ofwat methodology had been followed. IN these instances KPMG sought clarification and explanation of the methodology applied.
- Instances where values were derived from other tables that had not been reviewed by KPMG. In these cases KPMG requested evidence that these tables had been reviewed by other means.
- Unpopulated cells and/or cells returning error values. In these instances KPMG requested evidence of correct source data.

Findings – Workstream 2

The following 11 reconciliation models were reviewed:

- Revenue forecasting incentive (RFI)
- RPIH-CPIH wedge
- Developer services
- WINEP
- Residential retail
- ODI reconciliation
- Strategic resources
- Cost reconciliation
- Land sales
- Revenue feeder model
- RCV feeder model

In total, 29 findings (representing minor issues) were identified and discussed with the company, with Affinity Water determining them either to be non-material, or providing further explanation / source data to support the figures included within the models. These are detailed in our Management Report.

KPMG note that, in some cases the row numbers in Affinity Water's methodology statement were different to the row numbers in the model. However, the name and description matched, these were therefore used to identify inputs instead.

Findings – Workstream 3

Below are the key findings from our review, details are provided in our Management Report.

AFW financial model

Consistency between Project Splash model and AFW financial model RCV and revenues

- No inconsistencies were found in our review between the RCV and revenues in the Project Splash model and the AFW financial model. The detailed set of findings for the Project Splash model are set out in Appendix 1.

Accuracy of the links between the Mapping Tool inputs to the AFW financial model.

- We note a small adjustment has been made to the proportion of new capital expenditure qualifying for the main rate pool inputs for the water network and water resources controls in the AFW financial model “InpS” sheet. This does not have a material impact on the outputs from the financial model. No other inconsistencies were found in our review for the links between the Mapping Tool and AFW financial model.

Project Splash model

Consistency between the specification of Ofwat scenarios for financial resilience and the specification of scenarios in the Project Splash model.

- The scenario specification for totex overspend in the latest Project Splash model has been updated to reflect the specification per the Ofwat guidance.
- No misalignment was identified between AFW’s interpretation of the Ofwat guidance for scenarios A to H and the specification of the scenarios within the Project Splash model.
- AFW has provided supporting commentary setting out the rationale for the specification of the combined scenarios for financial resilience, required by Ofwat.

Consistency of the Project Splash model scenario outputs with expected impact on the following key model outputs; ratios, revenues and RCV for AMP8.

- No inconsistencies were found in our review between the expected impact on revenue, RCV and ratios and Project Splash model outputs for the financial resilience scenarios, in the final version of the Project Splash model, following discussion with AFW. The detailed set of findings for the Project Splash model are set out in the appendix.

Mapping Tool

Accuracy of the links between the Mapping tool and the Data Tables.

- No issues were identified with the links between the Mapping Tool and Data Tables.

Important notice

Basis of preparation

We have prepared this report in accordance with our Engagement Letter (dated 6 October 2022) and Associated Appendix (dated 8 August 2024).

Purpose of this report

This report has been made available to Affinity Water in order to communicate our findings from our review according to our agreed scope of work.

Restrictions on distribution

This report is for the benefit of Affinity Water only on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. Nothing in this report constitutes a valuation or legal advice and it is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than Affinity Water) for any purpose or in any context. Any party other than Affinity Water that obtains access to this report and chooses to rely on this (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than Affinity Water.

Limitations on work performed

Our work on the data has relied on management guidance and KPMG interpretation of those requirements.

The basis of this report is fieldwork completed until 21 August 2024. As part of our review, we have reviewed draft reconciliation models, data tables, and financial model outputs. The data tables and models are saved on the company's SharePoint. As such, there are still being edited, and are subject to change. The list of the documents/models reviewed so far (and the versions) are provided in Sections 2 and 3 of this report.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Statement of Work. We have indicated within this report the sources of the information provided. We have not sought to verify independently those sources unless otherwise stated within the report. The findings from this report do not amount to an audit performed in accordance with any standards applicable to auditing, a review performed in accordance with any standards applicable to reviews or an assurance engagement in accordance with any other assurance standards.

We reserve the right to amend our findings if further facts come to light.

Status of our work

This is a final version of our report.



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Our report has been prepared for Affinity Water solely to assist the Directors in their evaluation of the quality of a subset of data submission to be submitted to Ofwat. The document has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole or in part (save for the Company's own internal purposes) without the express written permission of KPMG LLP. This report is not a statutory audit report and it does not provide an additional opinion on the company's financial statements. Our report was designed to meet the agreed requirements of Affinity Water's needs at the time.

Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG LLP will accept no responsibility or liability in respect of our report to any other party.

Affinity Water management should consider this report and decide on an appropriate course of action.

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