

Terms of Reference derived from the Project Initiation Document Severn Trent Water Whistleblower Investigation

1. Background

- 1.1 In May 2004 Mr Donnelly, an employee of Severn Trent Water (SVT), made a number of allegations which centred on the handling of accounting and regulatory returns to Ofwat.
- 1.2 The Board of Severn Trent Plc (the holding company) (SVT plc) appointed external forensic accountants from PricewaterhouseCoopers (PwC). Ofwat was informed at the time of this action and was subsequently provided with a summary report from PwC at the end of September.
- 1.3 The Board of SVT plc has concluded in the light of PwC's work that water customers have not been overcharged. However, it is conducting a disciplinary investigation into the behaviour of some of its employees.
- 1.4 Ofwat has committed publicly to conducting its own investigation into the issues raised on behalf of customers.
- 1.5 The purpose of this Project Initiation Document is to outline in detail how this work will be taken forward.

2. Objectives

- 2.1 The key objectives are:
 - To reach a conclusion as to whether:
 - (i) there was a deliberate attempt by the company to mislead Ofwat; and
 - (ii) customers have been overcharged as a result of any misstatements
 - To carry out a full and thorough investigation to reach a robust conclusion.
 - To expedite the investigation.
 - To publish our conclusions in a clear and transparent way which is understood by key stakeholders.
 - To ensure that, should we conclude that customers have been overcharged, SVT meets its commitment to refund them.

3. Approach

3.1 The project will be carried out in 2 phases.

3.2 Phase 1 will:

- recap on the relevant information provided to us by SVT in the past through June returns, regulatory accounts, the IDoK submissions and the business plans;
- consider the material provided by Mr Donnelly to support his allegations; and
- consider the material and conclusions set out in the PwC reports (to the extent we secure access to them).

3.3 Phase 1 will be carried out by an internal project team. We will review our preliminary findings to see if it helps to commission an external expert consultant to inform our final conclusions on Phase 2.

3.4 We will review our conclusions from Phase 1 to determine what further work is required and how this should be resourced. The nature of work undertaken in Phase 2 therefore directly depends on the outcome of Phase 1.

3.5 We will consider whether Phase 2 should be resourced internally.

4. Deliverables

4.1 The main outputs are:

- A paper to Management Committee setting out conclusions on Phase 1 and recommendations for approach in Phase 2.
- A paper to Ofwat Board in February 2005 setting out progress to date.
- A paper to Project Board setting out our conclusions on Phase 2 as to whether:
 - (i) there was a deliberate attempt to mislead us; and
 - (ii) as a result of any misstatement customers have been overcharged at our determination in 2002 or 2004.
- A paper to Project Board setting out lessons learnt from our investigation and proposals for any changes to our processes or approach as a result.
- A public document setting out and explaining our conclusions and lessons learnt.
- A press notice announcing the results of our investigation.

5. Project Plan

- 5.1 [A plan is attached at Annex 1.]¹ This has been split into the following stages
- Phase 1
 - Phase 2
- 5.2 This timetable is not fixed, particularly for phase 2. It will be reviewed week to week in light of developments in the investigation. The current timetable for phase 2 assumes this will be resourced internally.

6. Scope

- 6.1 The project concentrates on the allegations made by the Whistleblower and implications for our determinations in 2002 and 2004.
- 6.2 In respect of the 2002 IDoK, the conclusion will be does the IDoK as a whole stand or fall. The focus for this relates to allegations in respect of bad debt.
- 6.3 For the 2004 determination we will consider whether price limits have been overstated and if so, by how much. The focus for this relates to allegations in respect of bad debt and income.
- 6.4 The project does not consider any other elements of our determinations.
- 6.5 The project also deals with the issue of whether there was intent to mislead us. This aspect will consider who any manipulation of data was carried out by or known to. And will take into account all the evidence we see as part of our investigation.

¹ Annex 1 has not been released under the Freedom of Information Act 2000