

south east water

Board Assurance Statement

For wholesale charges 2018/19

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Board Assurance Statement

As Directors of South East Water we recognise that it is our responsibility to provide strategic leadership, and to promote good corporate governance within a framework of effective controls, enabling compliance with our obligations and the management of risks.

It is a core part of the Board's philosophy as well as enshrined in our governance that all customers are at the heart of our decision making and to ensure we provide help to any of our household customers who are experiencing financial difficulty. We do this through a range of support schemes managed by our specialist Customer Care Team, and by giving household customers advice on the tariff that is most suited to their circumstances.

In order to assess bill stability we have calculated the changes in bills between 2017/18 and 2018/19 over a wide range of bill types and confirmed all increases are below 5%. To achieve this, the Board has chosen to defer £3.7m of the revenue allowance from 2018/19 and has also deferred £5.7m relating to a revenue shortfall in previous years.

We have introduced a new methodology for the calculation of wholesale non-household assessed charges which relates primarily to the assessment of the consumption at the relevant premises. We have recognised that in certain cases, the revised assessment of consumption applying the new methodology may result in increases in charges to non-household customers for particular premises. Some of these increases could be in excess of 5% when compared with end-user bills based on the previous method of assessing consumption. We have designed and consulted on handling strategies that we will apply in such cases.

Our handling strategies are set out in our statements of significant changes relating to wholesale charges which was published in October 2017 and relating to our non-household end-user charges in January 2018.

In setting our charges we have engaged with the Consumer Council for Water and the Chair of our Customer Challenge Group to ensure that they have been able to fully comment on our charges schemes.

In this statement, we describe the systems of internal control we operate to ensure that we comply with our statutory, regulatory and licence obligations relating to our charges and our charges schemes.

In setting our charges we ensure that they comply with the price controls determined by Ofwat and their wholesale charging rules, that our charges are defined following consistent principles and methodologies, and that no undue preference is shown to, and that there is no undue discrimination against, any class of customers or potential customers or water supply licensees.

We have relied on comprehensive and transparent controls and assurance mechanisms which set out clear accountability for setting our charges. The data and assumptions used, our charging models and our control processes themselves have been thoroughly reviewed by external financial auditors and our independent assurance partner.

This enables us to have a high degree of confidence in the information presented in this statement and supporting data on which the declarations of compliance set out at the end of this statement are based.

This statement should be read in conjunction with our statement of significant change and the board assurance statement made pursuant to Ofwat's charges scheme rules.

Our internal controls and Board oversight

Board oversight

We have established a strong governance and management framework ensuring statutory requirements are met and that the data we publish is robust and of a high quality.

A specific governance and assurance process was put in place by the Board for the preparation of our charges supplementing the well-established systems of internal control already in place followed for all regulatory submissions and customer focused publications.

This process incorporated oversight by the Board, review and approval by Senior Management and the Executive Directors.

The Board, in September 2017, considered the overall approach for setting charges for 2018/19 (for both wholesale and retail charges) compared to the process adopted in 2017/18.

The Board approved the company's indicative wholesale charges and these were published on 11th October 2017. These charges and the associated Board assurance statement can be found using the following link:

<https://wholesale.southeastwater.co.uk/our-network/our-charges>

In December 2017 the Board approved the final approach for producing both wholesale and end user charges for 2018/19, including the external assurance to be undertaken and having regard in particular to the wholesale charging rules issued by Ofwat. It also prescribed that charges and relating documents should take due account of the consultation with the Consumer Council for Water and the Chair of the company's Customer Challenge Group. The Board also considered extensive bill scenarios which confirmed that there would not be any increase of 5% or more (other than as set out above in relation to the change of the assessment methodology for assessed charges).

The Chairman of the audit and risk committee and the Executive Directors were jointly authorised to finalise the charges and the Board assurance statements subject to strict conditions and in particular that no customer bill would increase by 5% or more or subject to appropriate handling strategies in the case of the non-household assessed charge. Further external assurance by Frontier Economics and Deloitte LLP was also carried out on the final charges based on the full year RPI that was published in December.

Internal control processes

The development of our charges for 2018/19 builds on the approach undertaken in previous years which included involvement in the UKWIR project into charging principles and adoption of best practice principles recommended in this research to develop our charging model, improving quality control, readability and auditability.

The key components of the charging model, namely properties and consumption, have specific owners within South East Water who are responsible for ensuring the data and any forecast are robust and reliable.

These key components are rigorously reviewed through a series of reviews with final approval by Senior Management reporting to an Executive Director.

Our external assurance

The Board focused on the process followed to prepare and review data, the clarity of the charges scheme for customers, and obtained additional information and analysis from the Executive Directors.

In addition to the internal control processes described above, the Board has also obtained certain assurance from our external auditors Deloitte LLP, covering inputs and outputs of the tariff model and from Frontier Economics as outlined below.

Specifically, Frontier Economics were asked to review the tariff model calculations and functionality, and to assess compliance against the determinations and charging rules. They produced a detailed assurance statement, which concluded:

“Frontier Economics has reviewed the calculations in the 2018/19 tariff models for both the indicative wholesale tariffs in September 2017 and the final proposed tariffs in December 2017. During both phases we reviewed the models in detail and received clarifications from the tariff team at South East Water. The review process has identified no material issues with the calculations or modelling. South East Water has produced a charges scheme model that enables tariffs to be calculated that are compliant with the wholesale revenue target set by Ofwat for 2018/19. The approach is transparent and reasonable. The methodology for calculating 2018/19 retail household tariffs is consistent with the form of the price control as set out by Ofwat. The non-household retail tariffs are consistent with the PR16 determination. The tariffs are compliant with other Ofwat’s charging requirements including bill impact assessment and consistency with competition law principles. In setting wholesale tariffs South East Water has applied a downward adjustment to the target revenue for the year to manage the bill impacts across customer groups, we consider that it is reasonable for South East Water to seek to balance the different objectives in this way. The final tariff proposals did not contain any material changes from the September indicative tariffs except to reflect updated RPI and the adjustment to achieve bill impact targets.”

Our external engagement

Charges and tariff documents

In developing our wholesale charges, wholesale charges schedule (and other tariff documents) for 2018/19 we have engaged with the Consumer Council for Water and the Chair of our Customer Challenge Group.

All recommendations have been included in the final wholesale charges schedule and no outstanding issues remain.

Bill impact assessment

In order to assess bill stability we have calculated the changes in bills between 2017/18 and 2018/19 over a wide range of bill types and confirmed all increases are below 5%. We have shared this analysis with the Consumer Council for Water.

All recommendations have been included in our impact assessment and no outstanding issues remain.

Board Statement

For the preparation of this statement we have considered compliance with our statutory, regulatory and licence obligations relating more particularly to setting charges and publishing our wholesale charges.

Our governance and oversight processes, our review of our wholesale charges, of our statement of significant changes and wholesale charges have not identified any material deviation from or non-compliance with these obligations and to the best of the Board’s knowledge after reasonable enquiries the company has complied in all material respects with these obligations and the company is taking appropriate steps to ensure compliance and manage and/or mitigate the relevant risks.

Based on the scope and outcome of the process review detailed in this statement and the engagement with the Customer Council for Water and the Chair of our Customer Challenge Group the Board is able to confirm that:

- a) The company complies with its legal obligations relating to the wholesale charges it has published;
- b) The Board has assessed the effects of the new wholesale charges on water supply licensees’ and customers’ bills for a range of different customer bill types, and approves the impact assessments and handling strategies developed in instances where bill increases for licensees and on customers occupying non-household premises exceed 5%;
- c) The company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its wholesale charges is accurate;
- d) The company has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges; and
- e) The final wholesale charges published are not significantly different from the indicative wholesale charges published for the same period.

Signed on behalf of the Board by:



Chris Girling
Chair of the Audit Committee



Paul Butler
Managing Director



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