

Board Assurance Statement

Charging arrangements for new
connection services 2019-2020

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.

In this statement we describe the systems of internal control we relied on to ensure that we comply with our statutory, regulatory and licence obligations relating to our charges for new connection services and in particular that our charges for new connection services and our charging arrangements for 2019-20 comply with the charging rules for new connection services issued by Ofwat. In making this statement we had also regard to the charges scheme rules as they apply to infrastructure charges for 2019-20 and have included in this statement relevant information on assurance relating to the infrastructure charges which was carried out together with the assurance of other new connection charges.

We have also paid particular attention to the issues related to the transition to a new method of charging which started last year in the context of legislative changes and to maintaining the balance of charges between developers and other customers. We have considered the interplay between the new approach to requisition charges and the revised infrastructure charges.

In setting our charges for new connection services we followed the principle that they should reflect fairness and affordability, environmental protection, stability and predictability and transparency and customer-focused service. We also ensured that no undue preference is shown to, and that there is no undue discrimination against, any class of customers or potential customers.

Governance 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 and a review and approval by Senior Management and the Executive Directors.

The Board finally reviewed and finally approved the infrastructure charges together with the other charges for new connection services on 30 January 2019 having considered the external assurance relating to these charges.

Internal control processes

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 and our charging model have been thoroughly reviewed internally and externally.

Maintaining the balance of charges between developers and other customers

The process we followed to ensure that the balance of charges between developers and other customers was broadly maintained was similar to the process started last year.

The models and methodology that were developed in 2017-18 to monitor the balance of charges were used again this year with updated data collected during the first year of operation of our new charges for new connection services and infrastructure charges in order to maintain a consistent approach to the assessment of the balance of charges.

This model had been externally assured last year by Reckon LLP who had reviewed our methodology and assumptions and concluded that we had taken the necessary steps to ensure the balance of charges was broadly maintained.

This year's review of the balance of charges was carried out against an update of the baseline which had been determined last year following a systematic review of developer related expenditure and of the company's expenditure, of contributions relating to requisitions (including on-site and off-site), asset payments, connections and infrastructure charges over a 5 year period.

We ran our models with our new charging methodology over a number of scenarios and used updated assumptions on the forecasted levels of development that were consistent with the levels of development recorded over the past 5 years and that underpinned the current charging balance in order to forecast contributions and expenditure levels moving forward.

We have tested the broad balance of charges for both the larger and smaller developers by running the new charges alongside our previous requisition and

connection charges. We did this across a number of schemes for different sizes and types of development. By carrying out this comparison between the methods of charging we ascertained that the new method of charging broadly maintained the balance between developers and other customers.

Infrastructure charges

When setting our infrastructure charges we ensured that they were in accordance with the principle that the amount of infrastructure charges will over a period of five consecutive charging years cover the costs of network reinforcement that we reasonably incur, less any other amounts we may receive for network reinforcement.

For the calculation of the infrastructure charges for 2019-20 we have considered the period to 31 March 2024.

The infrastructure charges for 2019-20 were based on the models designed for the implementation of the new method of charging from April 2018 and were updated using relevant data collected in the first year of operating the new method of charging and revised assumptions. Internal assurance was provided by data owners for the key inputs to the models.

When determining reinforcement costs used for calculating infrastructure charges, we considered in particular that only relevant costs relating to reinforcement required as a result of new connections and new development sites should be included.

We also considered the introduction of an eco-connection infrastructure charge which is designed to recognise the lower impact of these small diameter connections on our network.

External assurance and engagement

In addition to the internal assurance undertaken, the Board has also obtained assurance from Frontier Economics in respect of infrastructure charges.

We also provided the Consumer Council for Water with information on the revisions to our infrastructure charges and other new connection charges using the same methodology as in the previous year and with a copy of our draft infrastructure charges and other new connection charges. CCW did not raise any issue with our proposals.

Frontier Economics was commissioned to review our infrastructure charges and to comment on the extent to which our approach satisfies the guidance set out by Ofwat and Defra. This included a review of our charges scheme with respect to infrastructure charges and the approach followed to determine the standard infrastructure charges, the relevant multiplier and the reduced infrastructure charge

for smaller developments and the reasonableness of the discount in the context of the relevant charging rules. It also included a review of the model used to calculate the infrastructure charges.

They produced a detailed assurance statement, which concluded:

We have been commissioned by SEW to review its Infrastructure Charges and to comment on the extent to which SEW's approach satisfies the guidance set out by Ofwat and Defra.

The scope of this project was to focus on the design of the charges, and whether SEW has reflected all of the relevant guidance when setting them. We were not asked to review the accuracy of the input data that feeds into the analysis.

In summary, we believe that SEW's infrastructure charges are designed in line with Ofwat's guidance. We believe that they are presented in a clear way such that a developer or third party could reasonably be expected to read the document and come up with an estimate of how much they would need to pay for the services they require.

SEW has made effort to ensure that the charges are designed in a cost-reflective way. It has also taken account of the current balance of charges between developers and other customers in including a lower charge for smaller developments.

Board statement

For the preparation of this statement we have considered compliance with our statutory, regulatory and licence obligations relating to setting our charges for new connections, the requirements of the charging rules for new connection services and also those of the charges scheme rules relating to the infrastructure charges.

Our governance and oversight processes 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.

This enables us to have a high degree of confidence in the information presented in this statement and in our charges for new connection services and in our charging arrangements for 2019-20.

Based on the scope and outcome of the process review detailed in this statement the Board is able to confirm that:

- i The company complies with its obligations relating to the charging rules for new connection services;
- ii The company has appropriate systems and processes in place to make sure that the information contained in the charging arrangements and the additional information relating to our charges for new connection services is accurate.

We have provided in the previous sections of this statement explanations on how the company has ensured that the balance of charges between developers and other customers is broadly maintained.

Signed on behalf of the Board by:



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Chair of the Audit Committee



Paul Butler
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