

south east water

Board Assurance Statement

For wholesale charges 2021/22

Pure know_how

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 order to assess bill stability we have calculated the changes in bills between 2020/21 and 2021/22 over a wide range of bill types and confirmed all increases are below 5%.

When introducing new non-household assessed charges in 2018/19, we 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 designed and consulted on handling strategies to be applied in such cases and which are set out in our statements of significant changes published in respect of our 2018/19 non-household wholesale charges and also explained in our wholesale tariff document for 2021/22. We will continue to apply these handling strategies including in cases where the new assessed charge is first applied on or after 1 April 2021.

Our charges for 2021/22 also incorporate the outcome of Ofwat's final decision of 13 November 2020 in relation to the adjustment of the revenues and RCV included in the PR19 final determination to reflect the actual performance of South East Water in 2019/20. This included Ofwat's final determination of the level of change to the price controls in respect of performance in that year against performance commitments and outcome delivery incentives (ODIs).

In setting our charges we have engaged with the Consumer Council for Water to ensure that they have been able to fully comment on our charges and charges schedule.

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 documents.

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 2020, considered the overall approach for setting charges for 2021/22 (for both wholesale and retail charges) compared to the process adopted in respect of the charges for 2020/21.

The Board also approved the company's indicative wholesale charges and these were published in October 2020. 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 2020 the Board approved the wholesale (and end user) charges for 2021/22 subject to finalisation using the relevant CPIH, Ofwat's final determination and the outcome of external engagement and assurance to be undertaken. In doing

so the Board had regard in particular to the wholesale charging rules. It also prescribed that charges and relating documents should take due account of the consultation with the Consumer Council for Water. The Board also considered extensive bill scenarios for a large number of customer groups, encompassing different types of charges (e.g. measured, unmeasured and assessed) and consumption 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, charges documents 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 the handling strategies referred to above 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 CPIH that was published in December.

Internal control processes

The development of our charges for 2021/22 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 validated 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 documents, 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 2021/22 final tariff model. The review did not identify any issues with the calculations or modelling, and the approach adopted by South East Water in the model is transparent and reasonable. South East Water has produced wholesale and retail charges that enables tariffs to be calculated that are compliant with the relevant retail and wholesale revenue target for the year. Our review of the tariffs across customer types does not identify any specific concerns in relation to the principle of no undue preference or discrimination. South East Water has undertaken a robust and comprehensive assessment of customer bill impacts, in line with Ofwat guidance.”

Our external engagement

Charges and tariff documents

In developing our wholesale charges and the wholesale charges schedule (and other tariff documents) for 2021/22 we have engaged with the Consumer Council for Water (CCW).

We consulted CCW in the process of drafting our charging proposals and provided our draft wholesale charges as well as our draft charges schedule for 2021/22 to CCW for comments.

Our non-household charges were discussed and CCW recommendations were taken into account in finalising the wholesale charges and charges documents.

CCW wrote to the Company on 11th January 2021 confirming the outcome of our engagement which did not raise any outstanding issue based on ensuring that no bill increase would be exceeding 5%.

Retailers operating in our supply area were consulted in respect of wholesale indicative charges which were presented to them at a virtual retailer open day which was also attended by MOSL and information on our charges was made available to them on our website. No issues were raised on charging structure or tariffs.

Bill impact assessment

In order to assess bill stability, and ensure increases do not exceed 5%, we have calculated the changes in charges between 2020/21 and 2021/22. We have assessed the impact of wholesale charges increases on retailers and their end-user customers. For this assessment we reviewed a large number of customer groups,

encompassing different types of charges (e.g. measured, unmeasured and assessed) and consumption.

We have shared this analysis with the Consumer Council for Water.

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 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 (as a whole or in groups) who are retailing wholesale services and on customers occupying eligible premises (as a whole or in groups), and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying eligible premises (as a whole or in group) 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
and Risk Committee



David Hinton
CEO



Andrew Farmer
Chief Financial
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