

south east water

Board Assurance Statement

For Charges Schemes 2021/22

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Board Assurance Statement

This statement relates to the household charges scheme 2021/22 and the infrastructure charge and miscellaneous services charges scheme 2021/22 of South East Water.

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. This includes the Watersure tariff and our Social Tariff which was introduced in 2015.

Our charges for 2021/22 also incorporate the outcome of Ofwat's final decision of 13 November 2020 in relation to the blind year adjustments to reflect the actual performance of South East Water in 2019/20.

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

In setting our charges we have engaged with the Consumer Council for Water.

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 the charges scheme rules they issued, 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.

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 water supply charging models and our control processes themselves have been thoroughly reviewed by external financial auditors and our assurance partner. Our new connection charges models were also reviewed by our 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 Board assurance statement made pursuant to the wholesale charging rules, together with our Board assurance statement pursuant to the charging rules for new connection services in respect of the infrastructure charges and the statement of significant changes set out in our charging arrangements for new connection services.

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 wholesale charges for 2021/22 compared to the process adopted for 2020/21.

In December 2020 the Board approved the final approach for producing household end user charges and the new connection charges for 2021/22, including the external assurance to be undertaken. In doing so the Board had regard in particular to the charges scheme rules. It also prescribed that charges and relevant documents should take due account of the consultation with the Consumer Council for Water.

Household water supply charges

In respect of household water supply charges, 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.

The Chair 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 and that no outstanding issues that may be raised by our external assurance partners remain outstanding.

Infrastructure charges

In respect of infrastructure charges (and new connection charges) the Board considered the methodology for setting out charges for new connection services for 2021/22, the application of the income offset to the infrastructure charges and the requirement to include a statement of significant changes where charges for typical developments would increase by more than 10%. It also prescribed that charges and relevant documents should take due account of the consultation with the Consumer Council for Water.

The Chair of the audit and risk committee and the Executive Directors were jointly authorised to finalise the new connection charges for 2021/22 and the “charging arrangements for new connection services” and the “infrastructure charges and miscellaneous services charges scheme” for publication in accordance with the relevant charging rules and to finalise, sign, publish and submit to Ofwat the Board assurance statements relating to charges for new connection services on behalf of the Board in accordance with the relevant charging rules.

Internal control processes

Household water supply charges

The development of our charges for 2021/22 in respect of household water supply charges 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.

Infrastructure charges

The infrastructure charges for 2021/22 were based on the models designed for the implementation of the new method of charging from April 2018 and were updated using relevant actual data and revised assumptions based on actual data collected in the first years of operating the new method of charging. This continued collection of data ensured comparability with historic data and supported the assessment required to broadly maintain the balance of charges between developers and other customers. Internal assurance was provided by data owners for the key inputs to the models.

This year relevant costs of our zonal strategy were included in the calculation of infrastructure charges which would have increased the levels of contribution recovered from developers. In order to rebalance the charges and ensure that the percentage of contribution by developers is broadly maintained, we have increased the percentage of income offset that is applied against infrastructure charges.

Further information on new connection charges is set out in the Board assurance statement published pursuant to the charging rules for new connection services ensuring that all information relating to infrastructure charges and the balance of charges between developers and other customers is presented together with the information on new connection charges. To the extent that such information relate to the infrastructure charge and the income offset it is incorporated into this statement.

Our external assurance

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

Household water supply charges

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 for household end user charges and from Frontier Economics on the charging model including the household end user charges model 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.”

Infrastructure charges

Frontier Economics provided assurance of the data and model used for the calculation of the infrastructure charges as set out in more detail in the Board assurance statement published pursuant to the charging rules for new connection services. They produced a detailed assurance statement, which concluded:

“We have reviewed SEW’s draft developer charges for 2021/22. Ultimately, we believe that they reflect Ofwat’s guidance, taking into account Ofwat’s charging rules, as well as some more recent guidance (e.g. in a recent consultation on on-site connection charges, Ofwat set out some concerns with connection charges across the industry, which SEW has reflected in this year’s charges). We believe that SEW is also unlikely to be exposed to the risk of competition issues.”

Our external engagement

Charges Schemes

In developing our household charges schemes and information about our household charges 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 household end user charges (and wholesale charges) as well as our draft household charges scheme for 2021/22 to CCW for comments.

Our household charges were discussed and CCW recommendations were taken into account in finalising the charges scheme.

CCW wrote to the Company in early 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%.

We also provided CCW with information on the revisions to our infrastructure charges using the same methodology as for the previous year and provided a copy of our draft infrastructure charge and miscellaneous services charges scheme.

Bill impact assessment

In order to assess household bill stability, and ensure increases do not exceed 5%, we have calculated the changes in bills between 2020/21 and 2021/22.

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. Details on these scenarios are also included in the appendices to the household charges scheme 2021/22.

Infrastructure charges Assessment of Increases

We have carried out an assessment of the costs of new connection through worked examples for typical developments following the methodology defined by Ofwat to ensure that charges did not increase by more than 10%.

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 charges schemes.

Our governance and oversight processes, our review of our charges, of our statement of significant changes and charges schemes 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 charges set out in its charges schemes;
- b. The Board has assessed the effects of the new charges on 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 particular customer types exceed 5%;
- c. The company has appropriate systems and processes in place to make sure that the information contained in the charges schemes and the additional information covered by the annex of the charging scheme rules is accurate; and
- d. The company has consulted with the Consumer Council for Water in a timely and effective manner on its charges schemes.

Signed on behalf of the Board by:



Chris Girling Chair of the Audit and Risk Committee



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