

New Connections Charging

Board Assurance Statement

31 January 2020

WONDERFUL ON TAP



Introduction

At Severn Trent we're responsible for providing water and waste water services to over 4.4 million customers in the Midlands area. We strive to achieve the highest quality standards in everything we do. Whether it's the quality of our drinking water or the regulatory performance information we publish on our website, we want to make sure that our customers can trust us to deliver what matters to them most.

The quality of the regulatory information we publish is important because it helps to give our customers and other stakeholders confidence that we're being open and honest. To help to secure this confidence, we use assurance to thoroughly test information we publish in a manner that is independent and verifiable. Our Board oversees this process through our established governance and assurance framework.

As part of its 'Charging Rules for New Connections Services (English Undertakers)' Ofwat asked our Board to provide a signed assurance statement to give confidence to our customers and stakeholders that we have produced our charges in line with Ofwat's charging rules and engaged with our customers prior to publication.

To understand more about our governance and assurance framework and processes, you can find more information on our website (stwater.co.uk) and [our regulatory library](#).

Maintaining the balance between charges

In setting charges for new connections we need to ensure that the balance of charges between Developers and other customers prior to the implementation of the charging rules is broadly maintained.

The charges set out in our 'Charging Arrangement document for 2020/21' maintains the balance of charges between developer customers and other customers through a series of controls. We use our established risk-based three lines of assurance model to ensure we have appropriate systems and processes in place (including up to date models and data) to make sure that the charges we set are accurate reflections of the costs incurred in providing new connections services.

The main requirement of our charges scheme is to ensure that the developer charges only reflect the reasonably incurred costs to Severn Trent of carrying out new connections activity and thereby mitigate the risk that the charges paid by developers or other customers do not reflect the services that each receive. This ensures that we maintain an appropriate balance between the different groups of customers. There are however two instances, where the charges we calculate for developer customers and other customers may be different:

1. Calculating the income offset values to be applied against the infrastructure charges which reflects future income from connected properties (through bill paying customers).

We maintain the balance in our income offset values through the use of a robust methodology to arrive at final values which are accurate reflections of future income offset for each connected plot in 2020/21 based on the new Ofwat rules. As described within our Charging Arrangement document our per plot offset values for 2020/21 are built by firstly using historic data from hundreds of actual schemes dating back to 2014/2015 to produce an accurate baseline of total annual offset (and asset payments for water). This baseline is then inflated into the 20/21 price base and divided by all related connected properties based on a forecast which aligns to our PR19 planning principles.

2. Calculating infrastructure charges including an assessment of the network investment which developers should pay for and the investment which other customers should pay for. The assessment evaluates which infrastructure expenditure is attributable to new developments (payable by developer customers) and to other activities (paid by other customers).

We maintain the balance in our infrastructure charges through the use of a robust methodology which reflects the income required to fund network reinforcement activity which is catering for newly connected property demand. The calculation approach here involves dividing five years (20/21 to 24/25) of forecast network reinforcement investment by the equivalent number of connected properties. The forecasts include effective catchment planning and modelling approaches. The forecasts are also based on historic profiles of investment which are scrutinised to ensure this investment solely relates to offsite reinforcement related to development activity. Likewise the property forecasts are aligned to the principles used in our PR19 planning.

Another requirement of the charging rules is to assess the annual increases or decreases in developer charges and other charges ensuring that where the ratio between charges paid by each customer type changes this change is appropriate based on the service provided to those customers. Any significant changes are noted within a Statement of Significant changes and the developer charges statement can be found [here](#), which has been reviewed by our Board. We take all mitigating actions available to ensure developer charges remain stable.

Our approach to assurance

As part of our goal to become the most trusted water company, we have engaged with our customers and stakeholders to assess their levels of trust in us and the areas that matter to them. We recognise that developers and individual customers want assurance that our charges have been formed in a fair and transparent manner.

Using three lines of assurance

As explained in our annual assurance plans¹, we use an established three lines of assurance model for our regulatory submissions. We employ third line assurance in areas of greatest risk and where that assurance requires specialist engineering, financial or regulatory knowledge, we use external parties to undertake that assurance. This submission has been reviewed using our established governance and controls framework.

Given the importance of this submission we have employed third line assurance, delivered by Jacobs, our established independent technical assessor for Severn Trent Water. Jacobs have used their three stage approach to reviewing our charging arrangements.

Stage one provides a desktop review of our process documentation. Jacobs performs the second and third stages through a series of face-to-face meetings with the Severn Trent Developer Services team and other subject matter experts to review the processes and data used. The assurance of these stages focused on several areas which included:

Focus area	Objectives
Methodology	The process, basis and methodology for setting the Severn Trent England 2020/21 charges for new connection services, including data, are appropriate and reasonable. The present balance of charges between developers and other customers is broadly maintained.
Documentation	The methodology used to set charges is effectively and accurately documented with specific reference to document management; alignment to the charging rules; process methodology; input data; and control procedures.
Compliance with Ofwat rules	Severn Trent have complied with its obligations relating to the charging rules issued by Ofwat.

¹ <https://www.stwater.co.uk/regulatory-library/regulatory-library-documents/>

The third stage also includes reviewing the response to the recommendations from stage one and two including a review of the charging arrangement document to ensure inclusion of the required content and compliance with the Charging Rules issued by Ofwat.

Our assurance findings

We engaged Jacobs to review our proposed approach. Jacobs reported that their scope was *“to assure the process, basis and methodology including data for setting the 2020-21 charges for new connection services. In order to do this you asked us to review:*

- a) documentation, processes and data for a sample of new connection services charges including infrastructure charges and the income offset;*
- b) forecasts of the numbers of onsite connections, infrastructure charges and onsite charges; and,*
- c) the methodology for a sample of charges inputs and calculating charges;*
- d) proposed charges.”*

Jacobs also assured our *“compliance with legal obligations including whether the resultant charges will broadly maintain the present balance of charges between Developers and other customers.”* In order to do this Jacobs reviewed:

- “e) the Charging Arrangements document for compliance with the rules;*
- f) supporting documentation including your Board assurance statement, draft statement of significant changes, your compliance checklist and evidence of engagement;”*

Jacobs concluded that *“overall we consider: the company complies with its legal obligations relating to the Charging Rules for New Connection Services (English Undertakers) as reissued in July 2019; and the Company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by the assurance statement annex is accurate”*.

Our approach to customer engagement

We recognise that our charging arrangements are an important part of the experience our customers have with us and we are committed to maintaining an open dialogue so we can understand the views of our customers, and address any concerns they have.

This year we have made two primary changes to our new connections charges; we have complied with Ofwat’s new rules regarding income offset and we are instigating a change to our mains requisition charging approach. On both issues we have proactively engaged with our customers on these topics to give them the opportunity to view the impact on the cost of their developments. We have undertaken a number of customer engagement activities with different segments of our developer customer groups to understand their views on this year’s approach and how we can best manage our customers through the regulatory changes. This is alongside holding feedback sessions with the Consumer Council for Water (CCWater), Fair Water Connections (FWC) and the Home Builders Federations (HBF).

The meetings we have either organised or already attended are:

- FWC meeting on 3 May
- Consumer Council for Water on 10 May
- Water UK session on 24 July
- Developer Forum on 25 July
- HBF technical forum on 1 August
- Self Lay forum on 20 August

- Developer forum on 19 September
- Consumer Council for Water on 27 September
- HBF technical meeting on 2 October
- FWC meeting on 4 October
- NAV charges forum on 5 November
- Developer forum on 12 December
- Self Lay forum on 16 December

The feedback has largely been positive with customers and trade bodies reacting favourably to our engagement approach, the openness of our discussions and the session content.

We have received constructive feedback and observations regarding the specific themes shown below.

Feedback/observation theme	Severn Trent action
<p>Some customers and trade bodies were disappointed that we are moving from the 'per plot' structure for mains requisition charges to a menu of rates approach</p>	<p>We acknowledged the disappointment and the general support for per plot charges which was a key driver in using this structure for the past two years. During the engagement sessions we shared our reasoning for the move. Unfortunately the simplicity of the per plot structure has not provided the demonstrable benefit we expected and we are therefore moving to a structure which aligns more with the wider market to provide greater consistency for customers. We also acknowledged the point that the introduction of estimator tools and worked examples enable customers to estimate charges will relative ease regardless of the charge structure.</p>
<p>There was a general concern and curiosity regarding how the new income offset changes will work from 2020/21</p> <p>Specific asks centred on:</p> <ul style="list-style-type: none"> - Needing certainty of final figures for 2020/21 as early as possible - Worked examples including where the existing discount scheme is applied - Understanding what the criteria would be for charging on 2019/20 charges vs charging on 2020/21 charges e.g. is it the date of application which dictates charging approach? - Whether our Infrastructure Discount scheme would continue into 2020/21 and how the changes would work for schemes which satisfied the scheme criteria 	<p>Our engagement session content included:</p> <ul style="list-style-type: none"> ➤ An overview of the current rules and how offset/asset payments work ➤ A summary of the rule changes ➤ Worked examples to demonstrate the changes ➤ Consultation on how we should structure our offset in 2020/21 ➤ Consultation on how we should present our charges and offsets in 2020/21 ➤ Indicative figures for 2020/21 (sessions held prior to sign off of final charges) ➤ A discussion on key challenges and opportunities including: <ul style="list-style-type: none"> • Cash flow • Transitional arrangements • Our discount scheme • Commercial relationships/working practices between SLPs, developers and consultants. Company specific processes and policies such as the criteria for the charging year used <p>We also published a guide on the income offset changes which address a number of questions in December 2019</p>

In response to our consultation on the structure of our income offset in 2020/21 there was general support of a single per plot offset for water and waste	We have structured our offset in a single per plot value for water and the same for waste
In response to our consultation on how we should present our charges in 2020/21 with the changes in income offset there was general support for keeping the individual infrastructure charge, mains charge and offset displayed separately with a 'net' or 'total' view across all three	We will display our charges by laying out the individual infrastructure charge, mains charge and offset displayed separately with a 'net' or 'total' view across all three
There was a general question regarding what is included in key charges with a view to understanding: <ul style="list-style-type: none"> - The components parts which form each charge - The variability in charge values across the market 	We shared the components and the calculation approaches for key charges such as: <ul style="list-style-type: none"> ➤ Application fees; activity based costing assessments ➤ Service connection and new mains requisition charges; contract rates plus directly incurred costs of the teams directly involved or managing these work types ➤ Infrastructure charges; forecast investment costs for 2020/21 to 24/25 divided by corresponding connected property data built upon robust forecasts and accurate cost allocations ➤ Income offset; historic scheme data dating back to 2014/15 adjusted to reflect forecast activity in 2020/21.

Our 'Statement of Significant changes' includes the details of any work packages which are likely to increase by 10% or more. The only charges which are increasing by more than 10% are some of our service connection charges, however many of the customers paying this charge will see an overall decrease in charges in 2020/21 as they will now receive an income offset which outweighs any service connection increases.

Board Assurance Statement

Having considered the above, the Board confirms that:

- The Company complies with its obligations relating to the charging rules set out in Charging Rules for New Connections Services (English Undertakers) as reissued in July 2019.
- The company has appropriate systems and processes in place to make sure that the information contained in the charges scheme is accurate.
- The company has explained how the present balance of charges between Developers and other customers is broadly maintained.
- We have assessed the effects of the new charges on customers' bills for a range of different types of development, and approve the impact assessments and handling strategies developed in instances where bill increases for particular developer types exceed 10% as set out in our statement of significant changes.
- Charges are cost reflective and non-discriminatory i.e. these charges are applicable to all types of customers including developers and individual customers.
- Charging information has been presented in a suitable format consistent with regulatory and statutory obligations.

Accordingly, we believe that the 2020/21 New Connections Charges Scheme complies with our statutory and regulatory obligations in all material respects and are consistent with Ofwat's published guidance on charging principles.

Signed by, and on behalf on the Board:



Liv Garfield
Chief Executive
Severn Trent Water Ltd



Andrew Duff
Chairman
Severn Trent Water Ltd



John Coghlan
Chairman – Audit Committee
Severn Trent Plc