

WONDERFUL ON TAP



SEVERN TRENT NEW CONNECTIONS CHARGES  
2021/22 BOARD ASSURANCE STATEMENT

# Statement of assurance

## Severn Trent New Connections Charges 2021-22

### Introduction

We're one of the largest of the 11 regulated water and sewerage companies in England and Wales. We provide high quality services to around 4.5 million households and businesses in the Midlands. Our region stretches across the heart of the UK, from the Bristol Channel to the Humber, and from Shropshire to the East Midlands. 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.

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.

### Our approach to assurance

We have an established, rigorous and robust assurance and performance reporting framework. The assurance approach we use comes from best practice identified across many organisations and industries ensuring that managers, senior managers and Directors are responsible for delivering high quality data through robust processes and methodologies.

Our established framework is underpinned by four main principles which provides consistency and clarity for our people, and allows flexibility for our assurance processes to build and evolve with our company and the environment we operate in.

- **Robust assurance** – we operate a three-lines of assurance model, targeted at areas of greatest risk.
- **Ownership and accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- **Effective governance** – provided by our Board, Audit Committee, Executive Disclosure Committee and Executive Committee.
- **Transparency and public accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.



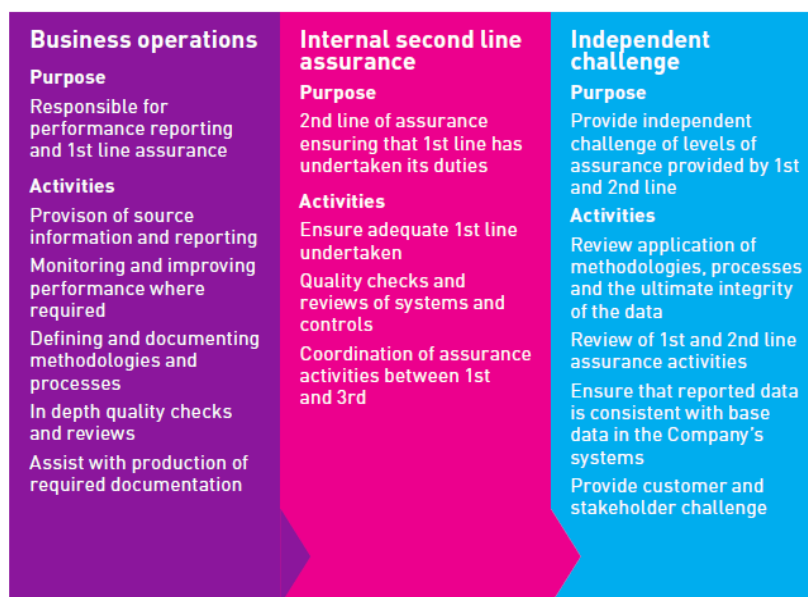
### Three lines of assurance

We operate a three lines of assurance model. Using a risk-based approach provides an effective programme of assurance which considers areas that we know are of prime importance to our customers and regulators; or may have a significant financial value, alongside the likelihood of reporting issues or regulatory change. Areas that are higher risk receive the full three lines of assurance while other areas, where the risk is lower, may be targeted with first or second line only. This approach ensures we can continually reassess our assurance activity as risk is reduced in certain areas, where mature and stable processes exist, and increased where new risks are emerging, ensuring customers receive value for money on assurance.

First line activities are embedded within the teams that are responsible for reporting the data so that colleagues, with the right expertise, conduct in-depth quality checks at the time the data is produced.

Second line activities are conducted by a separate team that does not report into the same senior manager to ensure a level of independent checking is conducted.

Third line activities are carried out by Internal Audit or external providers depending on the specialisation required.



More information on our governance and assurance framework can be found in our assurance plan on our website<sup>1</sup>.

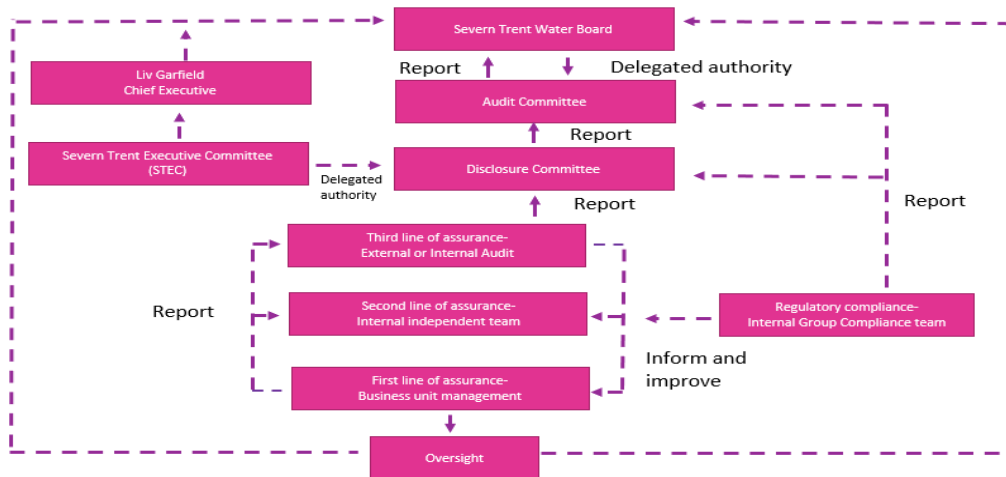
## Governance and accountability

We have a strong history of good governance and internal controls to meet our statutory requirements under the Companies Act 2006, the UK Corporate Governance Code, the UKLA Listing Rules, Disclosure Guidance and Transparency Rules, and the company's annual and ongoing regulatory reporting.

Our Board is supported by the Severn Trent Plc Governance Framework which comprises the Board, Executive Committee and their respective Committees. The Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with its Terms of Reference.

Our governance and assurance frameworks work together and are built on high standard processes to enable confidence in the information and data we report. The below provides an overview of how our frameworks interact to ensure that all levels of the business have an oversight and understanding of the assurance processes we implement. The effectiveness of the controls over reporting are monitored by the Audit Committee, which receives regular reports of the assurance conducted by the Internal and External Auditors.

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



### Our approach to customer engagement and transparency

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.

Developer customers have experienced significant regulatory driven change over recent years and have asked for stability. Accordingly, we will make minimal change to developer charges for 2021-22 and will make some small changes to simplify things to enhance customer experience.

We have proactively engaged with our customers on the minor changes we propose, also giving them the opportunity to view example bill stability scenarios for several typical developments, so that they can understand likely costs for their future developments. We have undertaken several customer engagement activities and tailored these to the different developer groups to help us understand their views on our proposed approach. We also met with the Consumer Council for Water who were supportive of our approach.

The meetings dates are noted below:

- Developer forum 3 November
- Self Lay forum 4 November
- Consumer Council for Water 6 November
- Self Lay forum 9 November
- Self Lay forum 13 November
- Developer forum 16 November
- Developer forum 9 December

The feedback has largely been positive. We have received some constructive feedback and suggestions that we have either responded to or have made a commitment to explore further and provide updates on progress. Some examples of the feedback and Severn Trent actions are summarised below:

Feedback/observation	Severn Trent action
<p><b>‘No excavation’ wording</b></p> <p>There was a request to change the “no excavation” description in the charging arrangement document to read “customer excavation”.</p> <p>This is because the former is perceived to be a company centric description. Excavation is always required – it’s just not the company doing it. We understand this request has been made to all companies.</p>	<p>We checked the Ofwat definitions that all companies are expected to use to aid harmonisation across the industry. On review we confirmed the May 2020 Ofwat consultation includes a glossary of terminology stating ‘no excavation’ along with a description of that definition. Therefore, we retained the ‘no excavation’ definition and added commentary to make clear this relates to instances where the customer is carrying out the excavation.</p>

<p><b>Environmental discount scheme</b></p> <p>The feedback regarding the Environmental Discount Scheme focused on three areas:</p> <ul style="list-style-type: none"> <li>➤ They wished for the Environmental Discount Scheme to be fixed for the period of the development (multiple years) as developers are making an investment to achieve this.</li> <li>➤ Our policy that the scheme can be withdrawn at any time and is only a 1 year commitment.</li> <li>➤ Disappointment that we are only able to confirm that the scheme will run next year and we were unable to confirm the associated discount values until January 2021 (rather than during the customer engagement sessions).</li> </ul>	<p>As a provider of an essential service we have to make the best use of our customers money, and the purpose of this scheme was never about rewarding or penalising developers, it was an attempt to try and encourage the building of water efficient homes which will save the occupier money on their bills by using less water and provide wider environmental benefits with having to treat less water and use fewer resources. We have a duty to ensure we use our customers money in the best way across a number of areas and this means we have to regularly review all schemes to ensure they are delivering the benefits to all our customers.</p> <p>We recalculate the environmental discount annually, and the funding available is established during our budgeting process. The funding available depends on how we perform across all aspects of Developer Services operations against Ofwat’s Final Determination. We complete the budgeting process in December/January. Completing this process too early in the year will not give us enough insight to establish a complete view of current performance and calculate the discount.</p>
<p><b>Infrastructure credits</b></p> <p>Could these be applicable from date of disconnection plus 5 years, because the obligation to provide the service is required until disconnection, bill payment is irrelevant.</p>	<p>Credits are awarded for measurable demand on our network, and demand is driven by a person/company being responsible for a property and requiring our services by registering with ST or a retailer. When we receive notification that the registered person/company is no longer responsible for a property, our obligation to provide services to the property ceases.</p>

## 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 is broadly maintained.

The charges set out in our ‘New Connections Charging Arrangement 2021/22’ document 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 of cross subsidy between developers and customers. 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 2021/22 based on the new Ofwat rules. As described within our Charging Arrangement document our per plot

offset values for 2021/22 are built by firstly using data from historical actual schemes to reflect bill-paying income over 12 years and is paid against infrastructure charges that are based on developer driven network reinforcement only - both of these elements will ensure we do not cross-subsidise.

**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.

Each year the annual increases or decreases in developer charges and other charges are assessed to ensure 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 our Statement of Significant Changes.

To support bill stability, no developer customer will see an annual charge change greater than 10% for typical development scenarios.

## Assurance Findings

Our new connections charges process has been identified as one of our key customer areas through both our internal review and externally by our customers and stakeholders. As such, the submission is reviewed by three lines of assurance, with the third line provided by:

- **Jacobs** – who review our methodologies and processes of how our charges are formed and ensure that we comply with our regulatory and statutory obligations<sup>2</sup>.
- **Internal Audit** – provide data, process and completeness assurance.

**Jacobs** used a range of evidence and assessed our compliance with our legal obligations relating to the new connection services charges, including compliance with Ofwat's Charging Rules for New Connection Services and the additional requirements including the worked examples set out in IN 20/07.

**Jacobs confirmed:** *'Using a range of evidence, we assessed your compliance with your legal obligations relating to the new connection services charges you intend to publish, including compliance with Ofwat's Charging Rules for New Connection Services and the additional requirements including the worked examples set out in IN 20/07. We found no material issues in this assessment.'*

*Overall, based on our scope we consider:*

- *the Company complies with its legal obligations relating to the Charging Rules for New Connection Services (English Undertakers) as reissued in March 2020;*
- *the Company has appropriate systems and processes in place (including up to date models, data and documentation) to make sure that the information contained in the charges scheme, and the additional information covered by the assurance statement is accurate; and*

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<sup>2</sup> Further information on Jacobs' role in our assurance can be found in the [ST assurance plan](#)

- *the Company has explained in its Board assurance statement how the present balance of charges between Developers and other customers is broadly maintained.*

*We also note that consistent with the statement above, charges are cost reflective and non-discriminatory and charging information has been presented in a suitable format consistent with regulatory and statutory obligations.'*

**Internal Audit (IA)** undertook a review focussed on the following objectives:

- the Assurance Plan and Governance Framework have been followed and completed, with evidence provided;
- evidence of the first, second and third line assurance was undertaken and IA confirmed it was completed;
- third line assurance reports provided by Jacobs were reviewed and IA confirmed no material issues were raised;
- all actions and recommendations from the assurance process have been completed; and
- confirmed the data used for the charges has been signed off and approved by the Strategic Leader and Executive member.

Following its review, Internal Audit confirmed the assurance level to be satisfactory.


## Board statement

Having considered the relevant information, the Board confirms that:

- the company complies with its legal obligations relating to the charges set out in its charges schemes;
- the charges comply with legal obligations and the relevant charging rules;
- 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 is accurate;
- the present balance of charges between developers and other customers is broadly maintained; and
- the company has assessed the effects of the new charges on customers' bills for a range of different types of development, and confirm there are no instances where bill increases for particular developer types exceed 10% as set out in our statement of significant changes.

Accordingly, we believe that the 2021-22 new connections charges comply with our statutory and regulatory obligations in all material respects and are consistent with Ofwat's published guidance.

Signed by, and on behalf of the Board:



**Liv Garfield**  
Chief Executive  
Severn Trent Water Limited  
2020



**Christine Hodgson**  
Chair  
Severn Trent Water Limited  
and Severn Trent Plc  
2020



**John Coghlan**  
Chair Audit Committee  
Severn Trent Plc  
2020