

WONDERFUL ON TAP



SEVERN TRENT NEW CONNECTIONS CHARGES
2022/23 BOARD ASSURANCE STATEMENT

Statement of assurance

Severn Trent New Connections Charges 2022-23

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.



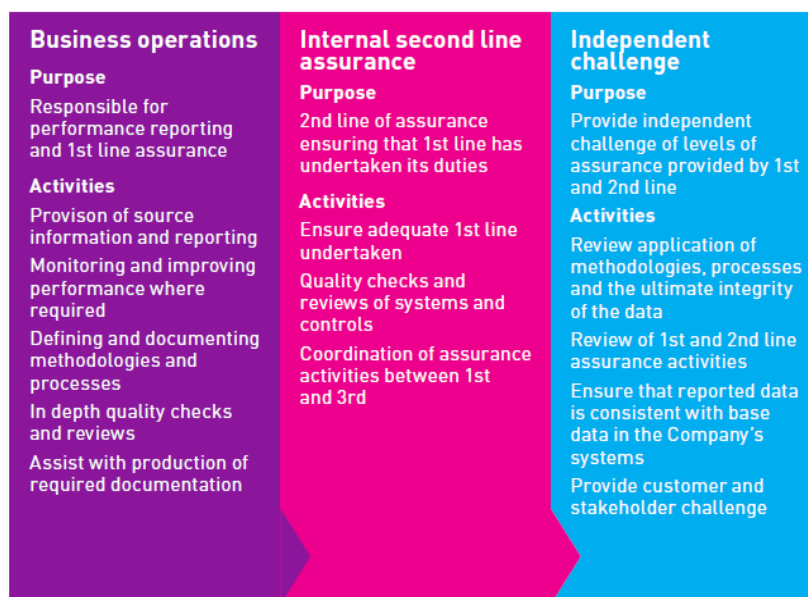
Three lines of assurance

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 website¹.

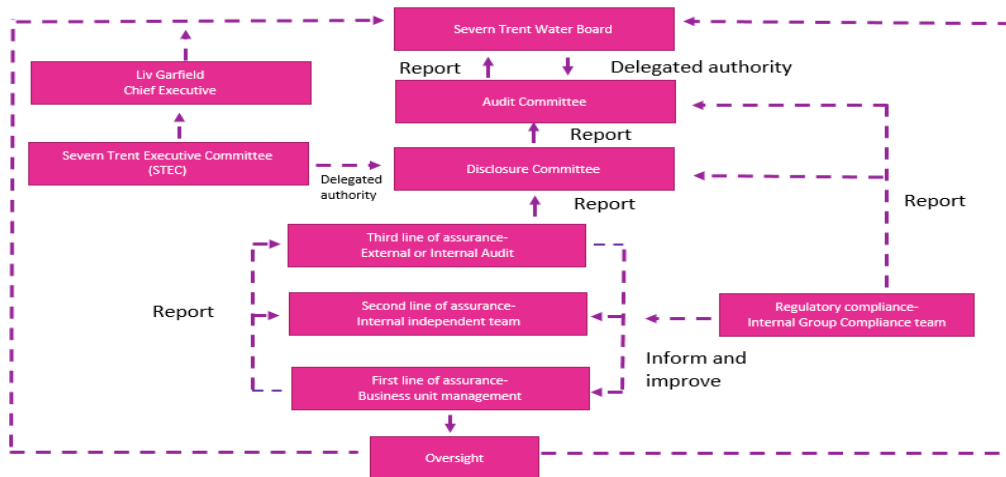
Governance and accountability

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.

¹ <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 2022-23 and will make some small changes to simplify things to enhance customer experience and further support effective markets.

We have proactively engaged with our customers on the minor changes we propose, also giving them the opportunity to feedback on the way charges are presented within our charging arrangement document. 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:

- New Appointment and Variations (NAV) forum 8 October
- Self-Lay forum 14 October
- Fair Water Connections session 1 November
- CCWater session 23 November
- Developer forum 3 December
- Developer forum 7 December
- Self-Lay forum 14 December
- New Appointment and Variation (NAV) forum 14 December

The feedback has largely been positive. Customers were pleased to receive an update on future charging rule changes as signalled by Ofwat earlier in the year as this greatly helps their planning processes. Customers also shared that they found our Charging Arrangement document clear and easy to use.

Feedback/observation	Severn Trent Action
<p>Ofwat removal of income offset from 2025 Interested to hear of Ofwat’s recent decision to remove income offset from 2025 and were interested to hear our views. They would like us to share more</p>	<p>We proactively update on key regulatory changes that could impact developer customer charges and wanted to share with our customers where they could see the recent Ofwat publications. We’ve</p>

information with them when available and support them through the transition.	committed to keeping customers informed as more information is published by Ofwat.
<p>Environmental discount scheme</p> <p>Their feedback regarding the Environmental Discount Scheme focused on three areas:</p> <ul style="list-style-type: none"> ➤ Interested to see our view on whether the environmental discount scheme has delivered what it was expected to do. ➤ SLPs and NAVs wished for more policing of the scheme to ensure it's being used as expected and the correct evidence is being provided. ➤ Interested to see if we will introduce a claw back option if the property hasn't been built to the specifications provided. 	<ul style="list-style-type: none"> ➤ We are completing some analysis on the environmental discount scheme and this will provide us with insight on what our scheme has delivered. ➤ We are currently reviewing the qualifying criteria for our scheme and have committed to continuing next year whilst we review ascertain if it is actually delivering longer term sustainable benefits. Depending on the outcome of the above analysis, the requirements may change for 2023-24. ➤ We don't currently plan on introducing a claw back process but this is something we are looking into further.

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, whilst also considering the Ofwat charging principles in the round.

The charges set out in our 'New Connections Charging Arrangement 2022/23' 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 reflect the costs reasonably 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 2022/23 based on the new Ofwat rules. As described within our Charging Arrangement document our per plot offset values for 2022/23 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 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 for bill stability. To support bill stability, developer customers will not see an annual charge change greater than 10% for typical development scenarios.

Where relevant, any significant changes are noted within our Statement of Significant Changes.

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 obligations².
- **Internal Audit** – provide data, process and completeness assurance.

Jacobs Using a range of evidence, we have 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 (including the general principles) and the additional requirements including worked examples set out in Common Terms and Worked Examples – English New Connection Rules'.

Overall, based on our scope we consider:

- the company complies with its legal obligations relating to the charges set out in its Charging Arrangements;
- the charges comply with the legal obligations relating to these rules;
- the company has appropriate systems and processes in place to make sure that the information contained in the Charging Arrangements, and the additional information covered by this annex 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 your statement of significant changes.

Internal Audit have carried out the following activity to confirm completion of the assurance process:

- Reviewed the Assurance Plan and Governance Framework. Confirmed these are complete and evidence has been provided.
- Reviewed the Action Tracker and confirmed all actions raised from the assurance process have been completed.
- Evidence of the first, second and third line assurance was provided and IA confirmed it to be complete.
- The reports provided by Jacobs were reviewed and IA confirmed one material issue was raised and addressed. All material actions have been completed.

- Confirmed the final tick and tie of the assured working files to the final document for submission has been carried out with the Group Assurance and Compliance team.
- Confirmed the data used for the charges has been signed off and approved by the Strategic Lead and STEC 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 Charging Arrangements;
- the charges comply with legal obligations relating to these charging rules;
- the company has appropriate systems and processes in place to make sure that the information contained in the charging arrangements, 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 types exceed 10% as set out in our statement of significant changes.

Accordingly, we believe that the 2022-23 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
February 2022



Christine Hodgson
Chair
Severn Trent Water Limited
and Severn Trent Plc
February 2022



John Coghlan
Chair Audit and Risk Committee
Severn Trent Plc
February 2022