

WONDERFUL ON TAP



SEVERN TRENT NEW CONNECTIONS CHARGES
2023/24 BOARD ASSURANCE STATEMENT

Statement of assurance

Severn Trent New Connections Charges 2023/24

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.

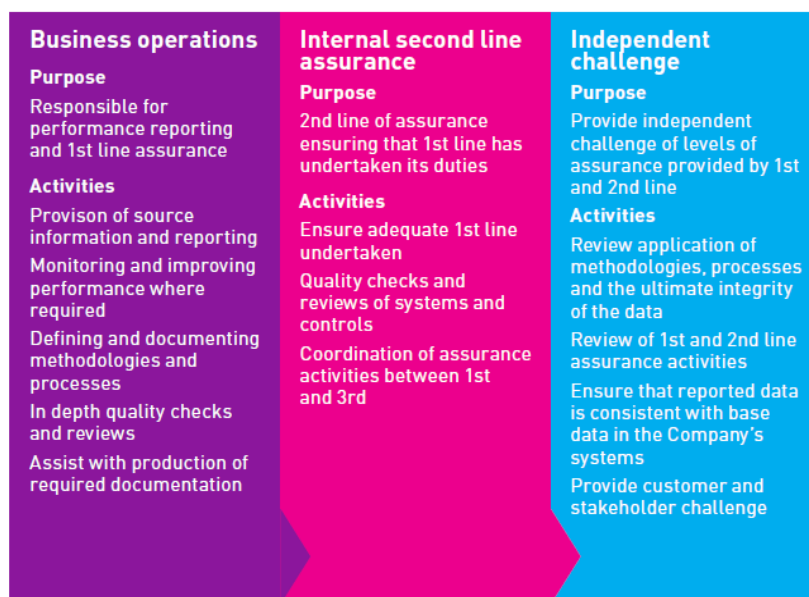
Three lines of assurance

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.

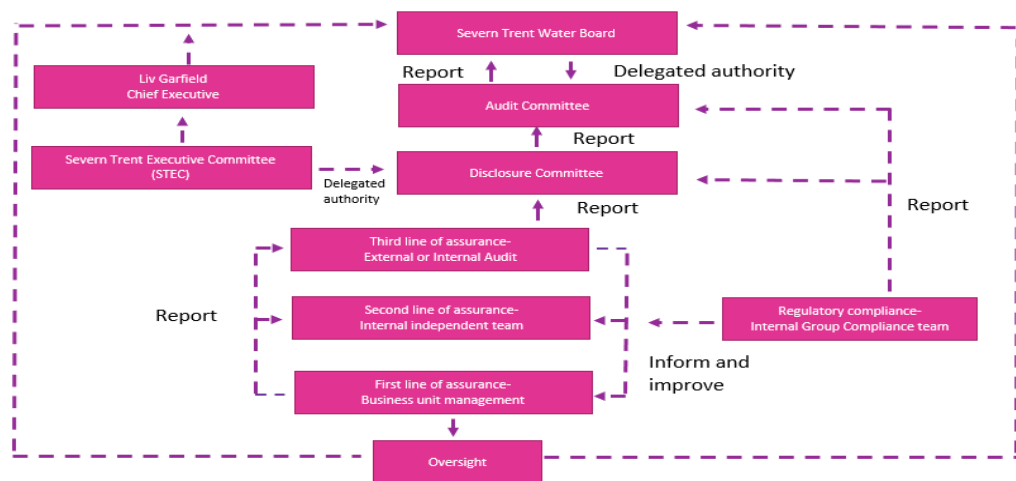
Governance and accountability

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 help address any concerns they have.

We have proactively engaged with our customers on developer charges and provided the opportunity to feedback on the way charges are presented within our charging arrangement document. To date, we have undertaken several customer engagement activities and tailored these to different developer groups to help us understand their views on our proposed approach. Further engagement has been scheduled to share our final charges during December and early January. We are also meeting with the Consumer Council for Water during December.

Our engagement enabled discussions around the following topics:

- the Ofwat charging rules and principles that shape our charges, to include cost reflectivity requirements
- the impact of the challenging economic environment with high inflation, unpredictability and the significantly increased costs of materials, fuel, and labour,
- views around existing and future environmental discount schemes, and
- timelines for sharing our indicative and final charges

The meetings dates are noted below:

- | | |
|--|---------------------------|
| Developer forum | 15 September |
| Developer forum | 21 September |
| Developer forum | 29 September |
| Self-Lay forum | 5 October |
| New Appointment and Variations (NAV) - one to one engagement | 27 October and 8 November |

We also have the following scheduled:

- | | |
|--|--------------|
| CCWater | December |
| Developer forum | 4 January |
| Developer forum | 5 January |
| Developer forum | 11 January |
| Self-Lay forum | December |
| New Appointment and Variations (NAV) - one to one engagement | 5-9 December |

The feedback received was largely positive and related to service experience as well as our charging arrangements. Customers shared they were pleased with the service they received, our ongoing proactive communication, the ease of contacting someone who could help and our agile response times. Customers welcomed the updates on charges, the reminder of future charging rule changes such as the removal of Income Offset from 2025, and the focus on environmental incentivisation, as this greatly helps their planning processes. Customers also shared that they found our Charging Arrangement document clear and easy to use.

The three key areas of discussion and commitment:

Feedback/observation	Severn Trent Action
Ofwat removal of income offset from 2025 Good to be reminded of Ofwats decision to remove income offset from 2025. They would like us to share more information with them when available and continue to support them through the transition.	<ul style="list-style-type: none"> ➤ We proactively update on key regulatory changes that could impact developer customer charges and, also share where they can view recent Ofwat publications. ➤ We've committed to keeping customers informed as more information is published by Ofwat ➤ We will hold further engagement sessions to confirm our final charges in December and January prior to coming into effect in April 2023
Environmental discount scheme We sought their views in continuation of our existing scheme and sought their ideas for alternatives. Their feedback regarding the Environmental Discount Scheme was focused on two key areas: <ul style="list-style-type: none"> ➤ A wish for us to retain the existing scheme at the current value i.e., no reduction in values against current qualifying criteria ➤ Unsure about a new innovative environment incentive introduced by another WASC asking that we don't follow suit 	<ul style="list-style-type: none"> ➤ We have confirmed that we will continue to offer our environmental scheme in 2023/24 using the current qualifying criteria and discount values ➤ We will continue to support industry wide collaborative working groups looking at potential environmental and social incentivisation
Likely increases in charges There was recognition that charges are likely to increase, and they are keen to see final charges rather than indicative charges in the coming weeks	<ul style="list-style-type: none"> ➤ We have committed to further tailored engagement during December and January where we will be able to confirm the final charges applicable from April 2024, whilst also explaining the reasons for year-on-year changes ➤ We have considered handing strategies and will progress with these and share where appropriate

Maintaining the balance between charges

In setting charges for new connections, there is a requirement to ensure that the balance of charges between Developers and other customers prior to the implementation of the charging rules is broadly maintained. This reflects the concept of fairness; ensuring contributions to costs by developers and bill payers are fair. Importantly, the general customer base should not bear costs in relation to new development and developers should not bear costs associated with enhancements to the existing network that are not a consequence of their new connections.

The charges set out in our 'New Connections Charging Arrangement 2023/24' document are fair and maintains the balance of charges between developer customers and other customers through a series of controls. The overarching control is to ensure that developer charges only reflect the reasonably incurred costs to Severn Trent of carrying out new connection activity, i.e., they are cost reflective, and thereby mitigate the risk that the charges paid by developers or other customers do not reflect the services that each receives. 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.

Two instances where the relationship between the charges paid by Developer customers and other customers are particularly visible is when calculating the infrastructure charge and Income offset:

1. **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.

2. **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 2023/24 based on the Ofwat rules. As described within our Charging Arrangement document our per plot offset values for 2023/24 are built by firstly using data from historical actual schemes to reflect expected 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.

In terms of mains requisitions we simply pass through the rates agreed with our contract partners, appointed following a competitive tender process, reflecting the costs to provide the relevant service.

As the majority of our charges have increased, because of the challenging economic climate where underlying costs have gone up, we have moderated the income offset value. The outcome is that although there is an overall reduction in the water income offset value for 2023/24, compared to 2022/23, it is a lesser reduction than originally calculated to provide a higher offset value for customers. For sewerage we have maintained the current value. A further consideration related to Ofwat no longer allowing for incumbent companies to provide for an income offset from 2025 therefore, a reduction in the value next year will help smooth the transition to its removal by the end of this AMP, a change we began signalling to our customers last year.

We have committed to continuing to provide the opportunity for all developers to significantly reduce their charges through our Environmental Discount Scheme, offering the same discount values in 2023/24 as in 2022/23.

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'.

Jacobs confirmed: Overall, based on our scope we consider:

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 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 approved the impact assessments and handling strategies developed in instances where bill increases for particular developer types exceed 10% as set out in your statement of significant changes

Accordingly, we believe that the 2023-24 new connections charges comply with your statutory and regulatory obligations in all material respects and are consistent with Ofwat's published guidance.

Internal confirmed: 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 1st, 2nd and 3rd line assurance was provided and IA confirmed it to be complete.
- The reports provided by Jacobs were reviewed and there are no outstanding material actions.
- 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.

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 approved the impact assessments and handling strategies developed in instances where bill increases for particular types of new developments exceed 10% as set out in our statement of significant changes

Accordingly, we believe that the 2023-24 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
and Severn Trent Plc
31 January 2023



Christine Hodgson
Chair
Severn Trent Water
and Severn Trent Plc
31 January 2023



John Coghlan
Chair Audit and Risk Committee
Severn Trent Plc
31 January 2023