

New Connections Charges

Board Assurance Statement

1 February 2018

Introduction

Severn Trent Water is one of the largest of the ten regulated water and sewerage companies in England and Wales and part of Severn Trent Plc, a FTSE100 company. We strive to provide high-quality services to more than 4.3 million households and businesses in the Midlands and mid-Wales. Our aim is to deliver outstanding customer experience, the best value service and provide environmental leadership in the industry.

This year Ofwat requires all companies operating in England to set out its charging arrangements for New Connections so that developers and customers can have clear visibility of all relevant charges, understand how charges are calculated and understand what each charge is paid for.

Assurance statement basis

As part of its 'Charging Rules for New Connections Services (English Undertakers)' Ofwat requires all companies to provide and publish an assurance statement alongside its charging arrangements. These rules relate to charges in place from 1 April 2018.

In developing the 2018/19 Severn Trent Water new connections charges scheme we have considered:

- The information requirements as set out in Charging Rules for New Connections Services (English Undertakers) as issued in August 2017
- Papers outlining the procedures for the production and assurance of the New Connections Scheme of Charges, and
- With respect to the production of the New Connections Scheme of Charges the Board has specifically considered the following:
 - The governance framework detailing the assurance approach adopted.
 - The scope of the assurance work undertaken by our independent technical assurance partner, and their findings as detailed in the final audit reports.
 - Confirmation of the degree of assurance undertaken on the data used in the charges calculations.
 - Confirmation from the management team that there are no material issues outstanding arising from the assurance work undertaken.
 - Confirmation that the charges have been calculated in a manner compliant with the Charging Rules for New Connections Services (English Undertakers)
 - Confirmation that the Charging Arrangement document has been created in a manner compliant with Water UK guidance.

This endorsement can only apply to data supplied from our own systems. Where we use data from other water and sewerage companies, we do so on the basis that other companies apply similar measures to ensure that their data meets Ofwat requirements.

As noted by Ofwat in their rules, where there is *'any conflict between the rules and any statutory provision, the latter shall prevail'*. It is also noted that the charging scheme arrangement template and the rules do not align in all instances. Where a conflict has occurred between rules we have stated our approach within the charging arrangement document.

At the time of finalising the charging arrangement we are applying for a change to the boundary of Severn Trent Water and Dee Valley Water to align with the national boundary for England and Wales respectively.

This charging arrangement has been prepared on the existing boundary and will be reviewed following any boundary change.

Our approach to customer engagement

We recognise that any change to charging arrangements can cause concern to our customers and so in order for us to consider the views of our customers, and address any concerns they have, we have undertaken a number of engagement activities.

We published a formal consultation note to our developer customers on our website and Water UK's website in September 2017, which included a feedback survey. Our charging proposals have also been shared with the House Builders Association (HBA), Home Builders Federation (HBF) and Fair Water Connections (FWC) to circulate among their members for response. In addition to the formal consultation, we held a number of informal face to face meetings with different segments of developer customer groups to share our proposals in detail with example scenarios. The meetings we have organised and attended are:

- HBF technical forum on 14th November
- Consumer Council for Water on 22nd November
- FWC informal meeting on 5th December
- Self-lay forum on 7th December
- Large developers forum on 12th December
- NAVs on 14th December
- Self Lay webex on 25th January
- And we have planned a forum in February for large developers

The feedback to our formal consultation was minimal with the majority of views received at our face to face meetings. The feedback has largely been positive with developers reacting favourably to our price per plot approach and the proposed charges. Where we have received concerns we have fully considered these and reviewed our charges design.

We recognise that the charging arrangements are changing throughout the industry and that our customers will continue to shape their views following 1 April 2018 when the new arrangements take force. To ensure that we continue to gain, and are able to reflect, the views of our customers we will continue our engagement meetings through 2018. We will continue to review our charging arrangement in light of any feedback.

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 defence

As explained in our annual assurance plans¹ and assurance summary, which accompanies our Annual Performance Report, we use an established three lines of defence model for our regulatory submissions. We employ third line assurance in areas of greatest risk. 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.

¹ <https://www.stwater.co.uk/about-us/responsibility/our-responsibilities-to-you/regulatory-performance/>

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 undertaken a three stage approach to the assurance.

Stage 1a consisted of a desktop review of the documentation. This was followed by a mixture of face-to-face and telephone meetings with the Severn Trent Developer Services team to review processes and data. The assurance of these stages focused on several areas which included:

Focus area	Objectives
Data integrity	The data lines selected are the appropriate data lines. The cost lines used are relevant for the charges. The connections lines used are relevant for the charges we are calculating. The management of data lines is appropriate to achieve the price per plot charge.
Methodology	The overall methodology to arrive at price per plot is reasonable. The present balance of charges between developers and other customers is broadly maintained. The assumptions and approach made to create additional charges for “non-standard” work is reasonable.
Compliance with Ofwat rules	STW have complied with its obligations relating to the Charging Rules issued by Ofwat.

The third stage reviewed the response to the recommendations from stage 1 and 2 including a review of the charging arrangement document to ensure inclusion of the required content and the format is in line with the Water UK template.

Our assurance findings

We engaged Jacobs to review our proposed approach. Jacobs reported that *‘Our scope is the process, basis and methodology for setting the 2018-19 charges for new connection services including forecasts of the numbers of onsite connections, infrastructure charges and on site charges, and that the resulting charges will broadly maintain the present balance of charges between Developers and other customers. We have also reviewed the process for ensuring compliance with Ofwat’s new charging rules for new connection services and other relevant legislation. The focus of our assurance has been on systems and process in the context of the assurance statement set out in the charging rules for new connection services.’*

Following stages 1 and 2, Jacobs identified a some areas of improvement to be included in our charging arrangements document recommended areas for improvement in our processes. These recommendations were considered and changes were made prior to Jacobs reviewing at their stage 3 audit.

Overall, following completion of all three stages of their assurance, Jacobs found that *‘we consider that you have taken account of our feedback and we observed that this has been reflected in your final proposals. We consider that your teams have taken steps to address all the material actions that we identified during our review.’* Further, Jacobs noted *‘we observed that you had taken account of recent customer engagement and that the proposed new charging methodology will mean that there will be more fixed upfront charges for connection services and this achieves a key objective of provide Developers with more certainty on the cost they are likely to incur. We also consider the draft worked examples and additional scenarios will aid transparency*

and help enable Developers to work out themselves, with reasonable certainty, what charges they will need to pay for new developments.'

Jacobs concluded that *'overall we consider: the company complies with its legal obligations relating to these Charging Rules; and the Company has appropriate systems and processes in place (including up to date models and data) to make sure that the information published contained in the charges scheme, and the additional information covered by the assurance statement annex is accurate'*.

We set ourselves the highest standards and our vision is to be the most trusted water company by 2020. We wholeheartedly support the aims of the new guidance and the changes that it is driving. We recognise that the new charging scheme is a significant change and we anticipate that opportunities for improvement will be identified as the new approach is used in practice. We will continue to work with customers to improve our charging scheme and make improvements as required. In this regard, we note that Jacobs recommended some areas where additional analysis could potentially deliver further improvements to our charging scheme. We will complete this work before 1st April 2018 and implement any changes that may be warranted. We will keep our customers and stakeholders informed of our improvements through our planned continued engagement activities.

Board Assurance Statement

Having considered the above, the Board confirms that:

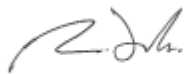
- the company complies with its obligations relating to these Charging Rules
- the company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information covered by this annex is accurate
- the company has explained, in the charging arrangement document, how the present balance of charges between Developers and other customers is broadly maintained.

Accordingly, we believe that the 2018/19 New Connections Charges Scheme comply 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