

New Connections Charging

Board Assurance Statement

1 February 2019

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 2019/20 maintains the balance of charges between Developer Customers and other customers through a series of controls.

The overarching control 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 receives (and hence maintain an appropriate balance). We use our established 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.

Two instances where the relationship between the charges paid by Developer customers and other customers are particularly visible are when:

- Calculating the site-specific developer contributions and asset value payments which includes an assessment of future income from connected properties (through bill paying customers).
- Calculating Infrastructure charges which includes an assessment of the network investment which developers should pay for and the investment which other customers should pay for. The assessment here evaluates which infrastructure expenditure is attributable to new developments (payable by Developer customers) and which to other activities (paid by other customers).

Our final control 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](#).

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 2019-20 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.

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 review newly produced documentation for various new connection services charges processes, and review the process, basis and methodology for setting the Severn Trent England 2019-20 charges for new connection services, including data, forecasts of the numbers of onsite connections, infrastructure charges and onsite charges; and, whether the resulting charges will broadly maintain the present balance of charges between Developers and other customers'*. Jacobs also reviewed *'the methodology for charges inputs and calculating charges, the Charging Arrangements document for compliance with the rules, supporting documentation including evidence of*

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

engagement; and, final charges’, noting that the ‘focus of our assurance has been on systems and processes in the context of the assurance statements’.

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’.

Our approach to customer engagement

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 guidance and the changes that it is driving. We will continue to work with customers to improve our charging scheme and make improvements as required.

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.

We are now in the second year of the new charging arrangement rules and there are no significant changes in our charging approach from 2018/2019. We have one charge which is increasing by more than 5% this year and that is our Waste Infrastructure charge which is noted in our Statement of Significant Changes. 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. This is alongside holding feedback sessions with the Consumer Council for Water (CCWater) and Ofwat.

The meetings we have either organised or already attended are:

- Self Lay Forum on 4 July.
- Consumer Council for Water on 9 October.
- Ofwat on 18 October.
- HBF technical forum on 21 November.
- Self Lay Forum on 14 December.
- Waste Forum on 18 December.
- FWC informal meeting on 20 December.
- Developer Forums on 16 January and 13 February.
- Consumer Council for Water on 21 January.

We also plan to hold the following sessions over the coming weeks:

- House Builders Association.
- Home Builders Federation.

The feedback has largely been positive with developers reacting favourably to our per plot approach. We have also received positive feedback regarding the clarity and accessibility of our Charging Arrangement document.

We have received constructive feedback from a number of customers, regulators and trade bodies regarding the specific themes shown below.

Feedback theme	Severn Trent action
Understanding why our Requisitions charge standard and non-standard thresholds are set out the way they are.	Within our engagement sessions we have included specific content on how our Requisitions charges are constructed and invited open conversation and feedback on our approach. These sessions include the Self Lay Forum in December and Developer Days in January and February.
Transparency of how charges have been derived and what services are included within our charges with specific reference to income offset/asset value payments and Infrastructure charges.	Within our Charging Arrangement document we have reviewed the explanations and descriptions of our charges to improve the granularity and transparency of this content. We have also explained how we calculate our charges during our engagement sessions with specific focus on income offset/asset value payments and Infrastructure charges.
Whilst the Charging Arrangement document is extensive and transparent it would be helpful to have a greater selection of online tools and worked examples to understand the charges that apply to a given scheme in a simpler fashion.	We acknowledge that a greater selection of online tools (for example quoting calculators and shorter customer specific guides) and worked examples would help our customers to understand the specific charges that apply to their schemes and we will be looking to include more options on our website in the 2019/2020 charging year.

Board Assurance Statement

Having considered the above, the Board confirms that:

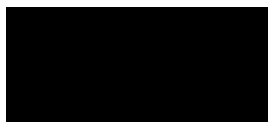
- The Company complies with its obligations relating to the charging rules set out in Charging Rules for New Connections Services (English Undertakers) as reissued in July 2018.
- The company has appropriate systems and processes in place to make sure that the information contained in the charges scheme is accurate.
- Charges are cost reflective and non-discriminatory i.e. these charges are applicable to all types of customers including developers and individual customers.
- The company has explained how the present balance of charges between Developers and other customers is broadly maintained.
- Charging information has been presented in a suitable format consistent with regulatory and statutory obligations.

Accordingly, we believe that the 2019/20 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