# Statement of Board Assurance provided to the Water Services Regulation Authority 2022-23 Charges 27 January 2022



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# Statement of Board Assurance provided to the Water Services Regulation Authority – 2022-23 Charges

The Company, under the direction of the Board, has undertaken a thorough process of internal and external assurance with regard to the setting of charges for the 2022-23 charging year. As a result of the assurances it has received, the Board has satisfied itself to the best of its ability that:

- a) the Company complies with its legal obligations relating to the charges set out in its charges schemes;
- b) the Board has assessed the effects of the new charges on customers' bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%;
- c) 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; and
- d) the Company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges schemes.

We provide information on our compliance with Ofwat's charges scheme rules in the Annex to this assurance statement.

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**Chief Executive Officer** 

Keith Lough Chairman

## Statement regarding the Board's assessment of bill increases where they exceed 5%

#### 1. Household customers

Assuming a constant level of consumption (or rateable value or number of bedrooms in the case of rateable value-based charges and assessed measured charges respectively), no class of household customer will experience an increase in their total charges (i.e. wholesale plus retail) of more than 5% from the previous year.

The tables below provide a summary of bill increases for each basis of charge (measured, assessed measured, rateable value) for a representative range of household customers.

Measured customers	Dual service		Water only		Waste only	
	Change	Change	Change	Change	Change	Change
	£	%	£	%	£	%
Usage m3/a						
50 m3/a	(6.52)	(2.6%)	0.44	0.5%	(6.96)	(4.6%)
100 m3/a	(6.56)	(1.6%)	3.58	2.1%	(10.14)	(4.1%)
150 m3/a	(6.61)	(1.1%)	6.71	2.7%	(13.32)	(3.9%)
200 m3/a	(6.65)	(0.9%)	9.85	3.1%	(16.50)	(3.8%)
250 m3/a	(6.69)	(0.7%)	12.98	3.3%	(19.67)	(3.7%)
300 m3/a	(6.73)	(0.6%)	16.12	3.4%	(22.85)	(3.7%)
350 m3/a	(6.78)	(0.5%)	19.26	3.6%	(26.03)	(3.6%)

Assessed measured	Dual service Change Change		Wate Change	r only Change	Waste Change	e only Change
customers	ž.	<b>%</b>	ž.	%	ž.	<b>%</b>
Basis of charge						
Single occupier	(6.37)	(2.2%)	1.39	1.2%	(7.75)	(4.5%)
1 bedroom	(6.36)	(1.8%)	2.64	1.8%	(8.99)	(4.3%)
2 bedrooms	(6.41)	(1.5%)	3.90	2.3%	(10.30)	(4.2%)
3 bedrooms	(6.45)	(1.4%)	4.83	2.5%	(11.27)	(4.1%)
4 bedrooms	(6.39)	(1.3%)	5.15	2.5%	(11.53)	(4.1%)
5 bedrooms	(6.44)	(1.3%)	5.59	2.6%	(12.02)	(4.0%)

Rateable Value (RV)	Dual service		Water only		Waste only	
	Change	Change	Change	Change	Change	Change
customers	£	%	£	%	£	%
Total RV						
£50	(6.43)	(3.6%)	(0.67)	(1.0%)	(5.75)	(5.1%)
£100	(6.53)	(2.3%)	1.28	1.0%	(7.80)	(4.4%)
£150	(6.63)	(1.7%)	3.23	2.0%	(9.85)	(4.1%)
£200	(6.73)	(1.3%)	5.18	2.5%	(11.90)	(4.0%)
£250	(6.83)	(1.1%)	7.13	2.8%	(13.95)	(3.9%)
£300	(6.93)	(1.0%)	9.08	3.0%	(16.00)	(3.8%)
£350	(7.03)	(0.9%)	11.03	3.2%	(18.05)	(3.7%)
£400	(7.13)	(0.8%)	12.98	3.3%	(20.10)	(3.7%)
£450	(7.23)	(0.7%)	14.93	3.4%	(22.15)	(3.6%)
£500	(7.33)	(0.6%)	16.88	3.5%	(24.20)	(3.6%)

We have a suite of tariffs and schemes that provide financial assistance to customers who find our charges to be unaffordable. Customers with affordability issues who have a meter and live in one of our water supply areas are pro-actively targeted by our water efficiency advice and retrofit programme. We also have a home visit programme, which provides customers with debt advice, and establishes whether they are eligible for one or more of our affordability tariffs and schemes.

#### 2. Business customers

This statement does not discuss the increase in total charges (i.e. wholesale charges plus retail charges) for business customers. This is because we exited the business customer retail market with effect from 1 April 2017, transferring our business customers to Business Stream.

With effect from 1 April 2017, we have set charges for wholesale services, which are paid by all retailers who wish to serve business customers in our region. Business Stream, and other retailers as applicable, are responsible for billing these business customers.

# Annex to retail charges assurance statement – compliance with Ofwat's charges scheme rules

Rule no.	Charges scheme rule	Compliance statement
1-6	Introduction and Interpretation	N/A
7	Consumer Council for Water	
		Compliant.
	Before making a charges scheme a relevant undertaker must consult the Consumer Council for Water about its proposed scheme in a timely and effective manner.	We commenced engagement with CCWater on our main charges for 2022-23 in July 2021.
		The engagement has taken a number of forms.
7		There has been an on-going exchange of emails with CCWater since June, including the provision of information to CCWater both proactively and in response to their queries.
		A summary log of our consultation with CCW is provided with this Annex.

Rule no.	Charges scheme rule	Compliance statement
8	Bill stability	
8	Undertakers should carry out a proportionate impact assessment whenever the nominal value of bills for a given customer type (assuming a constant level of consumption) is expected to increase by more than 5% from the previous year.	Compliant.  In accordance with our Statement of Significant Changes, which was published on 12 January 2022, no class of household customer will experience an increase in their total charges (i.e. wholesale plus retail) of more than 5% from the previous year. This assumes a constant level of consumption (or rateable value or number of bedrooms in the case of rateable value-based charges and assessed measured charges respectively).
9-11	Publication	
9	Charges schemes must be published no later than the first working day of the February immediately preceding the Charging Year in relation to which they have effect.	Compliant.  We have published our charges schemes on our website by the prescribed deadline of 1 February 2022.
10	Charges schemes must be published on a relevant undertaker's website and in such other manner as the undertaker considers appropriate for the purpose of bringing it to the attention of persons likely to be affected by it.	Compliant. As rule 9. We will also continue to publish customer-friendly versions of the formal charges schemes for household customers.
11	Where a relevant undertaker has published or fixed standard charges otherwise than under a charges scheme for any services provided by that undertaker, charges schemes must state how customers may obtain a copy of such charges and, if applicable, where on a relevant undertaker's website those charges may be found.	Compliant.  Our charges schemes signpost readers to where information on other types of charge can be found on our website.

Rule no.	Charges scheme rule	Compliance statement
12- 17	Principles for determining the amounts of charges	
	Consistent principles and approaches must be applied to the calculation of	Compliant.
12	charges for different classes of customers.	We apply consistent principles and methodologies to the calculation of charges for different classes of customer.
		Compliant.
		With the exception of a small number of properties that attract a fixed annual charge, our allowed wholesale water supply revenue in respect of household premises is recovered by variable charges.
13	Charging structures must reflect the long run costs associated with providing the relevant service.	The costs of providing surface water drainage and highway drainage are recovered by fixed annual charges.
		Otherwise, with the exception of a small number of properties that attract a fixed annual charge, our allowed wholesale sewerage revenue in respect of household properties is recovered by variable charges.
14	Charges for services provided to domestic premises must be fixed so that the average difference between metered charges and unmetered charges only reflects any differences in the costs of, and the additional benefits of, the provision of one service relative to the other;	Compliant. The difference between our metered and unmetered household retail charges reflects the difference in the efficient cost-to-serve revenue allowances for dual-service metered and unmetered household customers in our PR19 Final Determination.
15	Differences between charges for services provided to larger users of water and charges for services provided to smaller users of water must only be based on cost differences associated with differential use of network assets, differential peaking characteristics, different service levels and/or different service measurement accuracy.	Compliant. The difference in charges between our household standard charges and household large user charges are based on cost differences associated with differential use of network assets. The differences are supported by our cost model and are broadly in line with the rest of the industry.

Rule no.	Charges scheme rule	Compliance statement
16	Where cost differences associated with differential peaking characteristics are used as a basis for differences between charges for services provided to larger users of water and charges for services provided to smaller users of water, the charges fixed on that basis must be structured on an appropriate peak demand basis.	N/A. We do not have charges associated with differential peaking characteristics.
17	Charges for sewerage services must take into account the different pollutant loads associated with household foul sewage, non-household foul sewage, trade effluent, surface water draining from premises and surface water draining from highways.	Compliant. We have separate wholesale sewerage charges for foul drainage, surface water drainage, highway drainage, and trade effluent.

Rule no.	Charges scheme rule	Compliance statement
18	Assessed charges	
18	Charges schemes must allow a customer to choose to pay an assessed charge determined in accordance with this rule in the specified circumstances:	
(a)	The type and amount(s) of an assessed charge must be determined in accordance with the following principles:	
(i)	assessed charges should, as closely as practicable, reflect the metered charges that would apply in relation to the volume of water that is likely to be supplied; and	Compliant. Our assessed charges are based on the number of bedrooms in the customer's home. The average occupancy by bedroom count of household properties in our area has been established using Census data, and this average occupancy data has been applied to average consumption data to derive an assessed annual volume of water supplied for each bedroom count.
(ii)	the amount of an assessed charge payable by an individual who is the sole occupier of domestic premises (a single occupier assessed charge) should reflect the volume of water that is likely to be supplied to domestic premises occupied by one individual in the relevant area.	Compliant. We provide a single occupier assessed charge.
(b)	The specified circumstances for the purposes of this rule are where a water undertaker has received a measured charges notice in accordance with section 144A of the Water Industry Act 1991 but was not obliged to give effect to it because:	N/A Our area has been classed as water-stressed, and household
(i)	it is not reasonably practicable to fix charges in respect of the premises by reference to the volume of water supplied, or	properties in our area were subject to our Universal Metering Programme.
(ii)	to do so would involve the incurring by the undertaker of unreasonable expense.	

Rule no.	Charges scheme rule	Compliance statement
19	Unmetered charges	
19	Charges schemes that include any unmetered charges must clearly state the basis on which those charges are fixed or determined and, in the case of rateable value charges, state:  (a) which rating valuation list charges are fixed or determined by reference to; and  (b) if the undertaker uses a different value or other amount to that specified in such a list, the methodology or other basis on which that different value or other amount is calculated.	Compliant. Our three household charges schemes specify the Rating Valuation List that unmetered charges are fixed or determined by reference to. Additionally, the documents set out how we may apply a notional rateable value in certain circumstances.
20- 21	Wastewater charges	
20	Sewerage undertakers' charges schemes must provide for a cost reflective reduction in the charges payable for the provision of sewerage services to any premises where the sewerage undertaker knows, or should reasonably have known, that surface water does not drain to a public sewer from those premises.	Compliant.  We have provided customers with a rebate of the surface water drainage charge, upon successful application, since April 2000.  Where we make a rebate, we proactively apply the rebate to other properties in the immediate vicinity.  Prior to 2015-16, we only backdated the rebate to the start of the charging year in which the claim was made.  With effect from 2015-16, we make the rebate effective from 1 April 2015 or the customer's occupation date if this is later.
21	Sewerage undertakers must set out in their charges schemes how any reduction in the charges payable for the provision of sewerage services to any premises will be calculated if customers can demonstrate that they have significantly reduced the volume of surface water draining to a public sewer from their premises or explain why there is no such provision.	Compliant. Our charges schemes explicitly state that we do not offer partial reductions in the surface water drainage charge and explains the basis for this decision.

Rule no.	Charges scheme rule	Compliance statement
22	Trade effluent	
22	Charges to be paid in connection with the carrying out of a sewerage undertaker's trade effluent functions must be based on the Mogden formula, a reasonable variant of the Mogden formula or on a demonstrably more cost reflective basis.	Compliant.  Note that because we have exited the business customer retail market we no longer publish a charges scheme under the Water Industry Act 1991 in respect of business customers.  Our wholesale trade effluent charges are based principally on the Mogden formula, supplemented by our fixed annual consent monitoring charge structure, which better reflects the risk presented by the discharge and the associated monitoring requirements. A new charge for ammonia was introduced for 2021-22. This charge is designed to improve cost-reflectivity but will be phased in over a number of years to balance the competing demands of cost reflectivity and bill stability. We have continued to phase in this charge in 2022-23.
23	Social tariffs / Concessionary drainage charges	
23	Charges schemes must state:	
(a)	(a) whether or not undertakers have decided to include in the charges scheme:	
(i)	provision designed to reduce charges to community groups in respect of surface water drainage from their property (having had regard to any guidance issued by the Minister under section 43 of the Flood and Water Management Act 2010);	N/A We do not offer concessionary drainage charges, and this is explicitly stated in our household charges schemes. We note that these concessionary charges are principally offered by those water and sewerage companies that have implemented area-based charges for surface water drainage to mitigate the impacts of those charges on groups such as schools, churches, and community organisations.
(ii)	provision designed to reduce charges for individuals who would have difficulty paying in full (having had regard to any guidance issued by the Minister under section 44 of the Flood and Water Management Act 2010); and	Compliant. Our Household Charges Scheme includes provision for a social tariff made under the section 44 of the Flood and Water Management Act 2010 and having had regard to the associated guidance issued by the Minister.
(b)	if any such provision is included, how eligible customers can apply for such reduced charges.	Compliant. Our Household Charges Scheme sets out how eligible customers can apply for the social tariff. It also sets out how we have selected customers for participation in our pilot of a self-funded social tariff.

Rule no.	Charges scheme rule	Compliance statement
24	Times and methods of payment	
24	Charges schemes must include provisions giving customers a reasonable choice as to the times and methods of payment of the charges fixed by the scheme.	Compliant. Our charges schemes include provisions giving customers a reasonable choice as to the times and methods of payment of the charges fixed by the scheme.
25	New appointees	N/A

Rule no.	Charges scheme rule	Compliance statement
26-33	Infrastructure charges (English undertakers)	
26	Each relevant undertaker whose area is wholly or mainly in England must fix Infrastructure Charges in a charges scheme.	Compliant. Information on Infrastructure Charges is provided in our Charging Arrangements document so that, for customer convenience, all information relating to new connection charges is available in a single document.
27	Infrastructure Charges must be determined in accordance with the principle that the charges should reflect:	
(a)	fairness and affordability;	Compliant. Our gross Water Infrastructure Charge remains zero in line with low forecast network reinforcement expenditure planned within the AMP7 period and previous over recovery.  Our gross Wastewater Infrastructure Charge remains in line with our forecast expenditure over the next five years and accounts for previous under-recovery.  In 2020-21 we moved to a flat rate wastewater charge that is the same across all customers. The income offset applies to all customers ensuring a fairer distribution across all connections, not just being applied to the larger developments. This ensures that 'net' Infrastructure Charges are lower for all customers.

Rule no.	Charges scheme rule	Compliance statement	
(b)	environmental protection;	Compliant Our Water Infrastructure Charge includes an option for an increased Income Offset for developers who commit to water efficient development. This is an important incentive as we operate in a water stressed area. The discount forms part of our wider Target 100 strategy to promote efficient water usage from our customers and is applicable to those developments constructed with fixtures and fittings that promote consumption of lower than 100 litres per person per day on average.	
(c)	stability and predictability; and	Compliant The new mechanism for Infrastructure Charges has provided greater certainty for customers, particularly larger developers who previously had to fund site specific network reinforcement costs that were difficult to anticipate up-front. The income offset provided to developers for water connections has decreased this year, driven by a reduction in demand. To moderate this we have employed a handling strategy in which we have taken a phased approach to the changes in order to promote bill stability. The change is also moderated by the decrease in the net wastewater infrastructure charge.	
(d)	transparency and customer-focused service.	Compliant. The mechanism for the determination of Infrastructure Charges is transparent and the mechanism for calculating is communicated within our Charging Arrangements. This has been updated for 2022-23 giving greater detail into the basis of the calculation of the charges. Publishing fixed charges enables much greater certainty for customers.	

Rule no.	Charges scheme rule	Compliance statement
28	Infrastructure Charges must be determined in accordance with the principle that the amount of such charges will over each period of five consecutive Charging Years ending on 31 March 2023 and, thereafter, on 31 March in each subsequent year cover the costs of Network Reinforcement that the relevant undertaker reasonably incurs, less any other amounts that the relevant undertaker receives for Network Reinforcement, and before the application of any Income Offset.	Compliant. Our Wastewater Infrastructures Charges for 2022-23 have been calculated on the basis of our forecast costs and likely number of connections over the following five years (the "five-year rule"). For 2022-23, we have carried forward a small upward adjustment based upon our historic under-recovery.  Our Water Infrastructures Charges for 2022-23 are similarly calculated based on the "five year rule". For 2022-23, we have carried forward a small downward adjustment based upon our historic over-recovery.
29	Charges schemes must include a clear methodology explaining how Infrastructure Charges have been calculated.	Compliant. Our Infrastructure Charges Scheme makes it clear how the charges have been calculated. Further detail on the basis of the calculation has been provided in the 2022-23 Charging Arrangements document.
30	For the avoidance of doubt, Infrastructure Charges must not relate to the costs of reinforcing, upgrading or otherwise modifying existing network infrastructure in order to address pre-existing deficiencies in capacity or in capability unrelated:  a) to the provision of a new water main or public sewer pursuant to an agreement with, or a duty owed under the Water Industry Act 1991 to, a person other than a relevant undertaker (including, but not limited to, the provision of a new water main or public sewer pursuant to a requisition under sections 41(1) or 98(1), a section 66D agreement or a section 117E agreement); b) to the adoption of infrastructure under a section 51A or 104 agreement; or c) to connections described in section 146(2) of the Water Industry Act 1991.	Compliant. Our Infrastructure Charges do not relate to the costs of reinforcing, upgrading or otherwise modifying existing network infrastructure in order to address pre-existing deficiencies in capacity or in capability unrelated to these sections. The method of calculation does not include any of these types of investment.
31	Infrastructure Charges may be set as a fixed charge per connection or calculated in accordance with a formula. As long as the difference between amounts is cost-reflective, the amounts of Infrastructure Charges may vary to reflect different circumstances and, in particular, may be different for different geographical areas.	Compliant. Our Infrastructure Charges will be based on a fixed cost per connection.

Rule no.	Charges scheme rule	Compliance statement
32	In making charges schemes, each relevant undertaker must ensure that:	
(a)	Charges schemes clearly set out how Infrastructure Charges have been calculated;	Compliant. The method of calculation is detailed within our Infrastructure Charges Scheme. Further detail on the basis of the calculation has been provided in the 2022-23 version of our Charging Arrangements document.
(b)	The amount of Infrastructure Charges applied in respect of the modification or redevelopment of existing buildings or premises is determined in accordance with the principle that the amount must take due account of any previous usage in the 5 years before the modification or redevelopment began (including supplies of water that were not for domestic purposes and drainage that was not for domestic sewerage purposes) associated with the buildings and/or premises to which the charges are to be applied and be discounted accordingly; and	Compliant. Our approach to calculating Infrastructure Charges, in the case of modification or redevelopment of existing building or premises, includes for a mechanism to take due account of any previous usage in the 5 years before the modification or redevelopment began.
(c)	Charges schemes clearly explain the methodology to be applied for determining a discount to reflect previous usage.	Compliant. Our approach for determining the above discount will be clearly determined within our Infrastructure Charges Scheme.
(d)	charges schemes clearly explain the methodology to be applied for determining any Income Offset.	Compliant. Our approach for determining the above discount will be clearly determined within our Infrastructure Charges Scheme.
33	Rules 26 to 32 above do not apply to:	
(a)	new appointees; or	Not applicable
(b)	any charges scheme that has effect in relation to a period ending before 1 April 2018.	Not applicable

Rule no.	Charges scheme rule	Compliance statement
A1- A3	Annex: Information requirements	
A1	Each undertaker should provide to the Water Services Regulation Authority an assurance statement from its Board of Directors and publish its statement no later than the time of publication of the charges schemes confirming that:	Compliant. We have submitted our assurance statement to Ofwat and published it at the same time we published our retail charges schemes.
(a)	the company complies with its legal obligations relating to the charges set out in its charges schemes;	Compliant. Licence Condition B (compliance with price controls): KPMG LLP has provided assurance that our charges are compliant with the applicable price controls. Licence Condition E (undue discrimination and undue preference): In some areas our cost allocation is necessarily based on assumption as opposed to actual data. Where assumptions have been used these have been verified by subject matter experts within the Company. Compliance in this area is subjective, and therefore cannot be stated absolutely.

Rule no.	Charges scheme rule	Compliance statement
(b)	the Board has assessed the effects of the new charges on customers' bills for a range of different customer types, and approves the impact assessments and handling strategies developed in instances where bill increases for particular customer types exceed 5%;	Compliant. We include above, as part of this assurance statement submission, a statement explaining the Board's assessment of bill increases
(c)	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; and	KPMG LLP have assured our 2022-23 charges. As part of their work, KPMG performed checks on the base data used for forecasting the number of billed properties and volumes of water and wastewater. For the ten most material charges in terms of revenue yield, KPMG checked the base data used for forecasting purposes back to source systems.  Deloitte audited our 2020-21 statutory and regulatory accounts. While they were unable to adopt a control reliance strategy for their audit, due to IT issues, they undertook substantive testing and made the following comment in their report to our Audit Committee: "We have concluded satisfactorily with no issues to report."
		2021 in table 2I of the APR showed a variance of 4.6% between allowed wholesale revenues and actual revenues for 2020-21. The data in this table was assured by Deloitte and the details for the variance to our allowed revenues were disclosed.  In addition, there were no material issues raised in Deloitte's audit report, and they issued an unmodified audit statement on our financial statements.
	the company has consulted the Consumer Council for Water	
(d)	(CCWater) in a timely and effective manner on its charges schemes.	Compliant. As rule 7.

Rule no.	Charges scheme rule	Compliance statement
A2	With the exception of new appointees, each undertaker should provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker, and publish the statement, at least three weeks before the publication of the charges schemes. The statement should include the following.	
(a)	Confirmation of whether the undertaker is expecting there to be any bill increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption) and, if such increases are expected:	Compliant. On 12 January 2022 we published and provided Ofwat with a statement setting out any significant changes anticipated.
(i)	what size increase is expected;	out any significant changes anticipated.
(ii)	which customer types are likely to be affected; and	
(iii)	the handling strategies adopted by the company or why the company considered that no handling strategies are required.	
(b)	Details of any significant changes in charging policy by the company from the previous year.	
А3	In addition to the assurances set out in A1 above, new appointees' assurance statements must include assurance that their charges schemes offer:	
(a)	levels of service at least comparable to the previous appointee's charges scheme;	- N/A
(b)	prices that do not exceed those in the previous appointee's charges scheme for similar services; and	IVA
(c)	prices equivalent to those specified in the new appointee's application for each individual appointment or variation area.	

### **Summary Log of Consultation with CCWater**

Date	CCWater	Southern Water
14 July 2021		Email sent to give sight to our indicative scope of charges
14 July 2021	Email to confirm receipt of this	
29 September 2021		Email to update CCW charges template
11 October 2021		Video conference to explain how our charges are currently looking and explaining the considerations in setting 2022-23 charges
24 November 2021		Emailed to update CCW with our latest charges
25 November 2021	Email to confirm receipt of this	
25 November 2021		Email sent to provide our stakeholder consultation on our updated New Connection Charging Arrangements for the financial year 2022-23
7 December 2021		Email to confirm SW Board approved 2022-23 charges based on forecast inflation
7 December 2021	Email to confirm receipt of this	
6 January 2022		Email sent to confirm all 2022-23 charges updated for final CPIH inflation and approved by the Board