

south east water

Board Assurance Statement

For wholesale charges 2023/24

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Board Assurance Statement

As Directors of South East Water we recognise that it is our responsibility to provide strategic leadership, and to promote good corporate governance within a framework of effective controls, enabling compliance with our obligations and the management of risks.

We have calculated the changes in bills between 2022/23 and 2023/24 over a wide range of bill types to carry out detailed impact assessments. Our regulated charges for 2023/24 are indexed to the November 2022 customer price index which measures inflation. This will result in increases in excess of 5% with the weighted average wholesale non-household bill increasing by 13.14%.

We will apply the increase in charges in line with our price control. As any other business, the prices we pay for the electricity needed to run our plants and to pump water in our network and the price of goods and services we need to run the water service have increased significantly with inflation.

When bill increases for retailers and their customers are expected to exceed 5%, Ofwat wholesale charging rules state that we must develop handling strategies to help mitigate the impact of these increases.

We first published our handling strategies in our statement of significant changes in October 2022 which formed the basis for our engagement with retailers and stakeholders.

We have confirmed and approved the applications of these handling strategies which have also been set out in our wholesale tariff document.

We will also continue to apply the handling strategies introduced in 2018/19 (and set out in the statement of significant changes published in respect of the 2018/19 non-household wholesale charges) in relation to the introduction of new non-household assessed charges, in cases where the new assessed charge is first applied on or after 1 April 2023.

Our charges for 2023/24 also incorporate the outcome of Ofwat's final determination of 15 November 2022 relating to in-period ODI for 2021/22.

In setting our charges we have engaged with the Consumer Council for Water to ensure they could fully comment on our charges and wholesale charges schedule.

In this statement, we describe the systems of internal control we operate to ensure that we comply with our statutory, regulatory and licence obligations relating to our charges and our charges documents.

In setting our charges we ensure that they comply with the price controls determined by Ofwat and their wholesale charging rules, that our charges are defined following consistent principles and methodologies, and that no undue preference is shown to, and that there is no undue discrimination against, any class of customers or potential customers or water supply licensees.

We have relied on comprehensive and transparent controls and assurance mechanisms which set out clear accountability for setting our charges. The data and assumptions used, our charging models and our control processes themselves have been thoroughly reviewed by Frontier Economics our independent assurance partner.

This enables us to have a high degree of confidence in the information presented in this statement and supporting data on which the declarations of compliance set out at the end of this statement are based.

This statement should be read in conjunction with our statement of significant change published in October 2022. We confirm that our final wholesale charges to which this statement relates are not significantly different from the indicative wholesale charges published in October 2022.

Our internal controls and Board oversight

Board oversight

We have established a strong governance and management framework ensuring statutory requirements are met and that the data we publish is robust and of a high quality.

A specific governance and assurance process was put in place by the Board for the preparation of our charges supplementing the well-established systems of internal control already in place followed for all regulatory submissions and customer focused publications.

This process incorporated oversight by the Board, review and approval by Senior Management and the Executive Directors.

The Board, in September 2022, considered the overall approach for setting charges for 2023/24 (for both wholesale and end-user charges) compared to the process adopted in respect of the charges for 2022/23.

The Board subsequently approved the company's indicative wholesale charges which were published in October 2022. These charges and the associated Board assurance statement can be found using the following link:

<https://www.southeastwater.co.uk/about/resources/publications/our-charges>

In December 2022 the Board approved the wholesale (and end-user) charges for 2023/24 subject to finalisation using the relevant CPIH and the outcome of external engagement and assurance to be undertaken. In doing so the Board had regard in particular to the wholesale charging rules. It also prescribed that charges and related documents should take due account of the consultation with the Consumer Council for Water.

The Board also considered extensive bill scenarios for a large number of customer groups, encompassing different types of charges (e.g. measured, unmeasured and assessed) and consumption which confirmed increases in excess of 5%. The board approved the implementation of the handling strategies that had been previously set out in the statement of significant changes published in October 2022.

The Chair of the audit and risk committee and the Executive Directors were jointly authorised to finalise the charges, charges documents, handling strategies and the Board assurance statements subject to strict conditions relating in particular to external assurance and that there should be no significant differences between the indicative charges published in October 2022 and the final published charges.

Further external assurance by Frontier Economics was also carried out on the final charges based on the full year CPIH that was published in December 2022.

Internal control processes

The development of our wholesale charges for 2023/24 builds on the approach undertaken in previous years which included involvement in the UKWIR project into charging principles and adoption of best practice principles recommended in this research to develop our charging model, improving quality control, readability and auditability.

The key components of the charging model, namely properties and consumption, have specific owners within South East Water who are responsible for ensuring the data and any forecast are robust and reliable.

These key components are rigorously validated through a series of reviews with final approval by Senior Management reporting to an Executive Director.

Our external assurance

The Board focused on the process followed to prepare and review data, the clarity of the charges documents, and obtained additional information and analysis from the Executive Directors.

In addition to the internal control processes described above, the Board has also obtained certain assurance covering inputs and outputs of the tariff model from Frontier Economics as outlined below.

Specifically, Frontier Economics were asked to review the tariff model calculations and functionality, and to assess compliance against the determinations and charging rules. They produced a detailed assurance statement, which concluded:

“Frontier Economics has reviewed the calculations in the 2023/24 final tariff model. The review did not identify any issues with the calculations or modelling, and the approach adopted by South East Water in the model is transparent and reasonable. South East Water has produced wholesale and retail charges that enables tariffs to be calculated that are compliant with the relevant retail and wholesale revenue target for the year. Our review of the tariffs across customer types does not identify any specific concerns in relation to the principle of no undue preference or discrimination. South East Water has undertaken a robust and comprehensive assessment of customer bill impacts, in line with Ofwat guidance. In addition, our review of the underlying source files for the volume multipliers has not identified any issues and the charges documents to be published have been correctly updated with the charges for 2023/24.”

Our external engagement

Charges and tariff documents

We have presented our indicative charges including the expected level of increase and our proposed handling strategies at a retailer open day held on 12 October 2022. We also wrote to all retailers in our area to inform them of the changes and proposed handling strategies.

Bill impact assessment

We have assessed the impact of wholesale charges increases on retailers and their end-user customers. For this assessment we reviewed a large number of customer groups, encompassing different types of charges (e.g. measured, unmeasured and assessed) and consumption to understand their impact of different groups of end-user customers.

Board Statement

For the preparation of this statement we have considered compliance with our statutory, regulatory and licence obligations relating more particularly to setting and publishing our wholesale charges.

Our governance and oversight processes and our review of our wholesale charges have not identified any material deviation from or non-compliance with these obligations and to the best of the Board’s knowledge after reasonable enquiries the company has complied in all material respects with these obligations and the company is taking appropriate steps to ensure compliance and manage and/or mitigate the relevant risks.

Based on the scope and outcome of the process review detailed in this statement and the engagement with the Customer Council for Water the Board is able to confirm that:

- a) The company complies with its legal obligations relating to the wholesale charges it has published;
- b) The Board has assessed the effects of the new wholesale charges on water supply licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying eligible premises (as a whole or in groups), and approves the impact assessments and handling strategies developed in instances where bill increases for licensees (as a whole or in groups) who are retailing wholesale services and on customers occupying eligible premises (as a whole or in group) exceed 5%;
- c) The company has appropriate systems and processes in place (including up-to-date models and data) to make sure that the information published about its wholesale charges is accurate;
- d) The company has consulted with relevant stakeholders in a timely and effective manner on its wholesale charges; and
- e) The final wholesale charges published are not significantly different from the indicative wholesale charges published for the same period.

Signed on behalf of the Board by:



Chris Girling
Chair of the Audit
and Risk Committee



David Hinton
CEO



Andrew Farmer
Chief Financial
Officer

Contact Us

South East Water
Rocfort Road
Snodland
Kent
ME6 5AH

southeastwater.co.uk

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