

Wholesale charges 2017/18 Board assurance statement

Introduction

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.

It is a core part of the Board's philosophy as well as enshrined in our governance that all customers are at the heart of our decision making and to ensure we provide help to any of our household customers who are experiencing financial difficulty. We do this through a range of support schemes managed by our specialist Customer Care Team, and by giving household customers advice on the tariff that is most suited to their circumstances.

In order to assess bill stability we have calculated the changes in bills between 2016/17 and 2017/18 over a wide range of bill types and confirmed all increases are below five per cent. To achieve this, the Board has chosen to defer £0.2m of the revenue allowance from 2017/18 and has also deferred £5.5m relating to a revenue shortfall in previous years.

In setting our charges we have engaged with the Consumer Council for Water and the Chair of our Customer Panel to ensure that they have been able to fully comment on our charges schemes.

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 schemes.

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 external financial auditors and 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 and the board assurance statement made pursuant to Ofwat's charges scheme rules of December 2016 (for end user charges) published in January and February 2017 respectively.

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 2016, considered the overall approach for setting charges for 2017/18 (for both wholesale and retail charges) compared to the process adopted in 2016/17, with particular reference to new charging requirements in relation to the publication of indicative wholesale charges by October 2016.

The Board approved the company's indicative wholesale charges and these were published on 30th September 2016. These charges and the associated Board assurance statement can be found using the following link:

southeastwater.co.uk/news-and-information/publications/our-charges#.VNCYB01ybcv

In December 2016 the Board approved the final approach for producing both wholesale and end user charges for 2017/18, including the external assurance to be undertaken, having regard in particular to the wholesale charging rules issued by Ofwat in November 2016, the charges scheme rules issued by Ofwat in November 2015 and to the consultation with the Consumer Council for Water and the Chair of the company's Customer Panel. The Board also considered extensive bill scenarios which confirmed that there would not be any increase of five per cent or more.

The Chairman of the audit and risk committee and the Executive Directors were jointly authorised to finalise the charges and the Board assurance statements subject to strict conditions and in particular that no customer bill would increase by five per cent or more. Further external assurance by Frontier Economics and Deloitte LLP was also carried out on the final charges based on the full year RPI that was published in December.

Internal control processes

The development of our charges for 2017/18 builds on the approach undertaken in 2016/17 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 reviewed 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 scheme for customers, 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 from our external auditors Deloitte LLP and 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 tariff models for both the indicative wholesale tariffs in September and the final proposed tariffs in December. At both points we reviewed the models and received clarifications from the tariff team at South East Water. The review process has identified no material issues with the calculations or modelling. South East Water has produced a charges scheme model that enables tariffs to be calculated that are compliant with the wholesale revenue target set by Ofwat for 2017/18. The approach is transparent and reasonable. The methodology for calculating 2017/18 retail household tariffs is consistent with the form of the price control as set out by Ofwat. The non-household retail tariffs are consistent with the PR16 determination. The tariffs are compliant with other Ofwat’s charging requirements including bill impact assessment and consistency with competition law principles. Open Water costs are recovered on non-household wholesale charges, in line with Ofwat requirements. The final tariff proposals did not contain any material changes from the September indicative tariffs except to reflect updated RPI and modest adjustments to achieve bill impact targets.”

Our external engagement

Charges Schemes and tariff documents

In developing our Charges Schemes and tariff documents for 2017/18 we have engaged with the Consumer Council for Water and the Chair of our Customer Panel.

All recommendations from both parties have been included in the final Charges Schemes and no outstanding issues remain.

Bill impact assessment

In order to assess bill stability we have calculated the changes in bills between 2016/17 and 2017/18 over a wide range of bill types and confirmed all increases are below five per cent. We have shared this analysis with the Consumer Council for Water and the Chair of our Customer Panel.

All recommendations from both parties have been included in our impact assessment and no outstanding issues remain.

Board Statement

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

Our governance and oversight processes, our review of our charges, of our statement of significant changes and charges schemes 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 and the Chair of our Customer Panel 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' and customers' bills for a range of different customer bill types, and confirms that there is no individual increase at or in excess of 5 per cent*
- (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*
- (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 Committee



Paul Butler
Managing Director



Andrew Farmer
Finance Director



David Hinton
Asset and Regulation Director