

DEVELOPER SERVICES CHARGING ARRANGEMENTS 2021/22

Board Statement of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR DEVELOPER SERVICES CHARGING ARRANGEMENTS CHARGES 2021/22

The Northumbrian Water Limited (NWL) Board has overseen the development of the charges for 2021/22.

The latest charging rules issued under sections 51CD, 105ZF and 144ZA of the Water Industry Act 1991 were published by the Water Services Regulation Authority (Ofwat) in March 2020.

The charging rules state that each undertaker should provide Ofwat with an assurance statement from its Board of Directors and publish its statements no later than the time of publication of the charging arrangements:

- i. confirming that the company complies with its obligations relating to the charging rules;
- ii. confirming that 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 in the annex is accurate; and
- iii. explaining how the present balance of charges between developers and other customers is broadly maintained.

The purpose of this statement is to clearly state that NWL has satisfied these requirements.

Governance and Assurance

We closely monitor the rules published by Ofwat and ensure that all changes are incorporated into our charges publications. In order to do this we have strong governance arrangements and assurance processes which have been applied to the development of these charges throughout the year, and are summarised below.

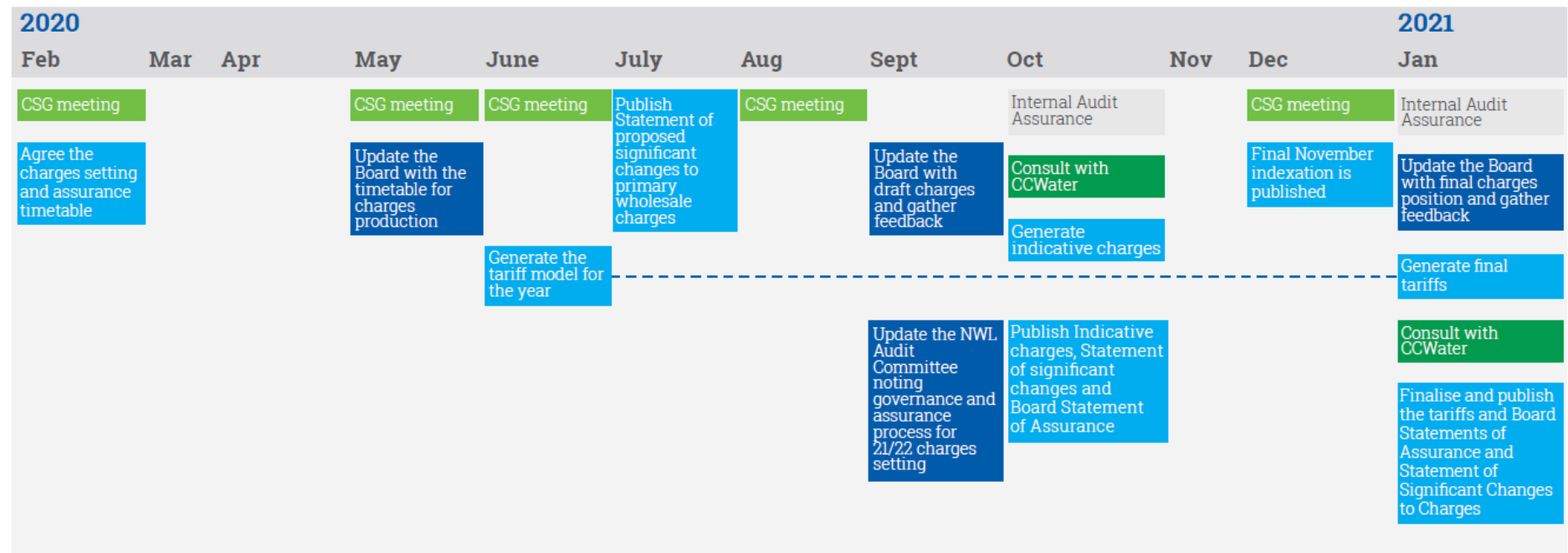
- The Charges Steering Group (CSG) chaired by the Chief Financial Officer, comprising a sub-group of the Executive Leadership Team (ELT), including the Customer Director, the Regulation and Assurance Director and the Corporate Affairs Director along with senior managers from various disciplines within the business, met several times in the year to discuss charging policy, strategy and governance. Any significant decisions and matters arising have been reported to the ELT and as required to the Board.
- Our Developer Services, Regulation and Finance teams met regularly to review our approach to the setting of charges.
- Consultation was carried out with stakeholders (more information is available in our Statement of Significant Changes in Charges for New Connections and New Developments).
- Our internal audit team reviewed a sample of charges calculations and any associated underlying assumptions and found no areas of concern.
- Charges movements were reviewed by the CSG.
- We have consulted with CCWater on our charges. CCWater did not highlight any areas of concern that would require us to change our processes or our assumptions for the charges for 2021/22.

More information on our overall Assurance Plan can be found at <https://www.nwg.co.uk/about-us/nwl/governance2/assurance/>.

Development of charges

We have a well-established timetable for the production and approval of our tariffs and charges schemes and schedules and this is incorporated into our Assurance Plan for the year. The charges have been developed through the following process:

DEVELOPMENT OF CHARGES



Consultation

We have included more details about our consultation in our Statement of Significant Changes in Charges for New Connections and New Developments, which can be found on our websites at:

<https://www.nwl.co.uk/services/developers/our-charges/> , and

<https://www.eswater.co.uk/services/developers/our-charges/>.

Statement of significant changes in charges for new connections and new developments

In accordance with Information Note IN 20/07 we have published a Statement of Significant Changes in Charges for New Connections and New Developments which can be found via the links above. This statement comprehensively highlights the effects of the new 2021/22 charges on typical developments and incorporates worked examples.

Handling strategies

We have assessed the effects of the new 2021/22 charges on these typical developments and produced impact assessments to allow us to consider any handling strategies that are required where typical developments would increase by greater than 10% from 2020/21 charges.

Given that there are no instances where overall charges for developments are increasing by greater than 10%, we have concluded that there is no requirement to implement any handling strategies.

Maintaining the balance of charges

In setting our prices for 2021/22 we have reviewed the overall balance of charges compared to those from before 1 April 2018 and have confirmed that the balance is broadly maintained.

We have maintained our approach to the setting of infrastructure charges to recover network reinforcement costs over a five-year period. We have reassessed our forecast of water network reinforcement requirements and determined that, if the current trend continues, we will require less income than originally forecast to fund the anticipated reinforcement up to 31 March 2023. Therefore, we have reduced our water infrastructure charges for 2021/22.

Additionally, we have reviewed the forecast of network reinforcement expenditure that is anticipated on our sewerage network and propose to maintain our wastewater infrastructure charges for 2021/22.

The future of new connections and developer services charging

In May 2020 Ofwat consulted on new connections charges. The conclusions of that consultation can be found on their website:

<https://www.ofwat.gov.uk/wp-content/uploads/2020/11/New-Connections-Charges-Consultation-Conclusions-document.pdf>

The outcome of the consultation means that English water companies' Charging Arrangements will include common charging terminology from April 2022 and there will be greater consistency amongst companies in the methodologies that they use to calculate their charges.

We will be contributing to the work to be undertaken by the sector during 2021 to achieve the objectives above.

Summary

The strong governance and assurance arrangements that have been applied in the development of the charges provide the Board with a sound basis to confirm that:

- i. NWL's charges for 2021/22, as set out in its charging arrangements, comply with our obligations relating to the charging rules;
- ii. NWL has appropriate systems and processes in place to make sure that the information contained in the charges schemes, and additional information, is accurate; and
- iii. NWL has explained how the present balance of charges between developers and other customers is broadly maintained.

Signed on behalf of the NORTHUMBRIAN WATER LIMITED Board

A handwritten signature in black ink that reads "Michael Porter". The signature is written in a cursive, flowing style.

MICHAEL PORTER
Chief Financial Officer