

DEVELOPER SERVICES CHARGING ARRANGEMENTS 2022/23

Board Statement of Assurance

NORTHUMBRIAN WATER LIMITED

BOARD STATEMENT OF ASSURANCE FOR DEVELOPER SERVICES CHARGING ARRANGEMENTS CHARGES 2022/23

The Northumbrian Water Limited (NWL) Board has overseen the development of the charges for 2022/23.

The latest charging rules issued under sections 51CD, 105ZF, 143B and 144ZA of the Water Industry Act 1991 were published by the Water Services Regulation Authority (Ofwat) in October 2021 and come into effect on 1 April 2022.

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 Charging Arrangements, 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 (a sub-group of the Executive Leadership Team) which has traditionally been convened to discuss charging issues and the annual charge setting process for NWL, has been changed to the 'Charging and Markets Leadership Group' (CMLG) to give it a more explicit role in promoting and monitoring market arrangements across NWL. The CMLG is chaired by the Chief Financial Officer and includes the Customer Director, the Regulation & Assurance Director, the Corporate Affairs Director along with senior managers from various disciplines within the business. The group met several times in the year to discuss charging policy, external markets, 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 have reviewed the charges calculation methodology, including the recalculation of a sample of charges, and found no areas of concern.
- We have consulted with CCW on our charges. CCW did not highlight any areas of concern that would require us to change our processes or our assumptions for the charges for 2022/23.

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

2021											2022
Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
CMLG meeting		CMLG meeting		CMLG meeting	Ofwat consultation on Charging Rules	SIA and Partners update of regulatory changes for Developer Services charging	CMLG meeting	Consult with CCW re indicative primary wholesale charges	Communications planning for potential bill increases	CMLG meeting	Internal audit assurance
Agree charges setting and Assurance timetable		Developer Services Charges planning			Publish statement of proposed significant changes to primary wholesale charges		Update NWL Audit Committee noting governance and Assurance processes for 22/23 charges	Publish indicative primary wholesale charges	Water Forum presentation on handling strategies	Final November indexation published	Update Board with final charges
							Update NWL Board with draft charges for 22/23	Communications planning for potential bill increases		Communications planning for potential bill increases	Consult with CCW regarding final charges and handling strategies
							Ofwat formal consultation on Charging Rules			Notify Ofwat of average bill increases	Finalise and publish tariffs and associated documents in accordance with Ofwat timetable
							Communications planning for potential bill increases			Developer Services consultation sessions	

Consultations

We have included more details about our consultations 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 21/04 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 2022/23 charges on typical developments and incorporates worked examples.

Handling strategies

During our charging consultation with customers, we were aware of the impact that increased water infrastructure charges and service connection charges would have on the overall cost of supplying water infrastructure to new developments. We therefore propose to:

- phase increases in water infrastructure charges over a 2-year period; and
- phase price increases to service connection charges (for connections to existing mains) over a 2 to 3-year period.

We were also conscious of the impact that a significant increase in mains construction charges could have on costs to customers. During the consultation, representatives of SLPs asked us to include cost increases in our mains construction charges for 2022/23, so we have not applied a handling strategy to these charges.

Maintaining the balance of charges

In setting our prices for 2022/23 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 forecast period. We have reassessed our forecast of water network reinforcement requirements and determined that, we will need to increase water infrastructure charges to fund the forecast reinforcement up to 31 March 2027. Further increases in water infrastructure charges will be required in both areas of supply and we have indicated this to customers in written correspondence, published on our website and in customer engagement events.

We have also reviewed the forecast of network reinforcement expenditure that is anticipated on our wastewater network and propose to reduce our wastewater infrastructure charges, applicable to the Northumbrian area 2022/23.

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 2022/23, 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 Charging Arrangements, 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

Michael Porter

MICHAEL PORTER
Chief Financial Officer