

Statement of assurance

Hafren Dyfrdwy Schemes of Charges 2020-21

Introduction

Hafren Dyfrdwy is one of the eleven regulated water and sewerage companies in England and Wales and part of Severn Trent Plc, a FTSE100 company. We strive to achieve the highest quality standards in everything we do. Whether it's the quality of our drinking water or the regulatory performance information we publish on our website, we want to make sure that our customers can trust us to deliver what matters to them most.

Every year, Ofwat requires all companies to publish their schemes of charges for household and non household customers in advance of the next financial year so that customers can have clear visibility of all relevant charges and understand how they are calculated.

Our approach to assurance

We have an established, rigorous and robust assurance and performance reporting framework that is used for all regulatory reporting including our scheme of charges. The assurance processes we use come from best practice identified across many organisations and industries ensuring that managers, senior leaders and directors are responsible for delivering high quality data.

Our established framework is underpinned by four main pillars which provide consistency and clarity for our people but also allow the flexibility for our assurance processes to evolve with our Company and the environment in which we operate:

- **Robust assurance** – we operate a three-lines of assurance model, targeted at areas of greatest risk.
- **Ownership and accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- **Effective governance** – provided by our Board, Audit Committee, Executive Disclosure Committee and Executive Committee with additional challenge provided by our Customer Challenge Group.
- **Transparency and public accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.

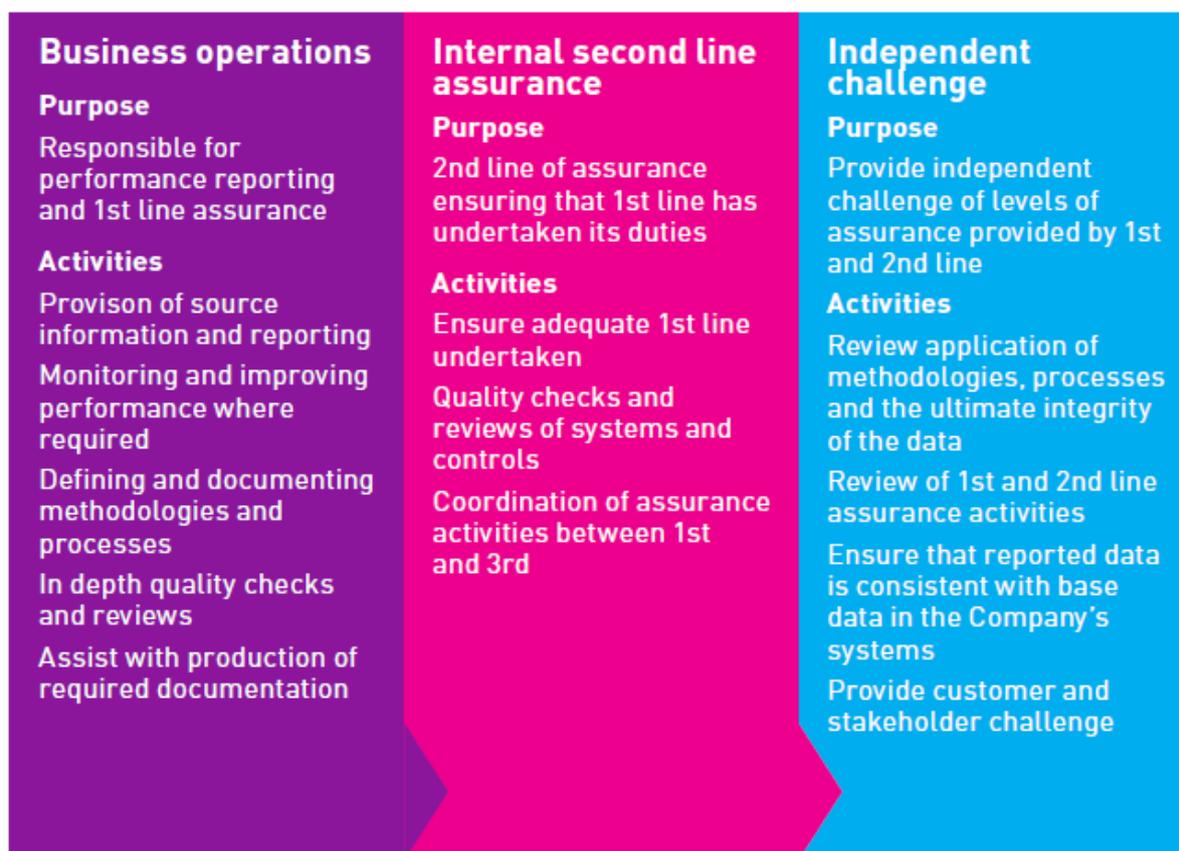
More information on our governance and assurance framework can be found in our assurance plan on our website¹.

Using three lines of assurance

To ensure we're applying an effective programme of assurance, while balancing value for money for our customers, we operate a three lines of assurance model. We target this model using a risk-based approach which considers areas that we know are of prime importance to our customers and regulators or which may have a significant financial value, alongside the likelihood of reporting issues. Areas that are higher risk receive the full three lines of assurance while other areas, where the risk is lower, may be targeted with first or second line only. This approach ensures we can continually reassess our assurance activity as risk is reduced in certain areas, where mature and stable process exist, and increased where new risks are emerging, resulting in a proportionate and value-added assurance spend.

¹ <https://www.hdcymru.co.uk/regulatory-library/regulatory-library/>

Our scheme of charges process has been identified as one of our key customer areas both internally and externally by our customers and stakeholders. As such, the submission is reviewed by three lines of assurance:



First line activities are embedded within the teams that are responsible for reporting the performance so that staff with the right expertise are conducting in depth quality checks at the time the data is produced.

Second line activities are then conducted by a separate team that does not report into the same senior manager as the first line to ensure a level of independent checking is conducted. For our schemes of charges, all second line activity is undertaken by Group Compliance and Assurance team.

Third line activities are conducted by a number of different providers depending on the specialisation required. For our schemes of charges, we have used a combination of assurance providers:

- **Numeritas** – who provide specialist technical assurance of our economic tariff model
- **Jacobs** – who review our methodologies and processes of how our charges formed and ensure that we comply with our regulatory and statutory obligations.
- **Internal Audit** – used for ad-hoc activity and data audits.

Assurance Findings

Numeritas confirmed:

‘We are not aware of any material outstanding issues arising from the procedures we have performed.’

Jacobs confirmed:

‘Overall, from the review we have undertaken we consider there is no reason why the Board should not sign off its final charges statements. We consider:

- the Company complies with its legal obligations, price control limits and relevant charging rules set out in its charges schemes; and
- the Company has appropriate systems and processes in place to make sure that the information contained in the charges scheme, and the additional information is accurate.

We found no issues with the process and data used to set Charges and the majority of Wholesale Charges. However, in our review of your non-primary charges we found that there is a non-compliance risk associated with your proposed charges for fire hydrants. These charges represent less than 0.003% of the total revenue you expect to collect and we have recommended you review the data on which you base these charges for next year.'

Internal Audit undertook a review focussed on the following objectives:

- There is an effective framework to provide assurance over the production and completion of the Charges Scheme;
- There is a robust process governing the extraction and use of historic and forecast data into the Charges Scheme model;
- The Charges Scheme completion process is documented with defined roles and responsibilities;
- All actions and recommendations from the assurance process have been completed; and
- The timetable agreed with STEC and assurance providers is appropriate to meet the Ofwat reporting deadline.

Following their review, Internal Audit confirmed the assurance level to be satisfactory.

Assurance Statement basis

In approving the 2020-21 Hafren Dyfrdwy Schemes of Charges, the Board has considered:

- The information requirements as set out in information notice 19/05 - Expectations, assurance and information requirements for water company charges for 2020-21² and Charges scheme rules July 2019³.
- The 'Statement of significant changes in our wholesale charges - 2020-21' as published on our website in July 2019.
- Papers outlining the Company's procedures for the production and assurance of the tariffs and associated Charges Scheme, and
- With respect to the production of the tariffs and Charges Schemes the Board has specifically considered the following:
 - The governance framework detailing the assurance approach adopted and the outcome of the independent review of the framework undertaken by Internal Audit.
 - The clearly defined accountabilities and responsibilities including formal sign off by approved data owners.
 - The scope of the assurance work undertaken by our independent Financial and Technical assurance partners, and their findings as detailed in the final audit reports.
 - Confirmation of the degree of assurance undertaken on the source information / data used in the tariff calculations.
 - Backlogs in meter reading data within the Central Market Operating System and the materiality of its impact upon the level of future charges.
 - The dedicated and assured Charges model designed to deliver wholesale and retail tariffs.
 - Confirmation that there are no material issues outstanding arising from the assurance work undertaken.

² <https://www.ofwat.gov.uk/publication/in-19-05-expectations-assurance-and-information-requirements-for-water-company-charges-for-2020-21/>

³ <https://www.ofwat.gov.uk/wp-content/uploads/2019/04/Charges-scheme-rules-from-April-2020.pdf>

- Confirmation that the indicative wholesale tariffs have been calculated in a manner compliant with the individual price controls.
- The outcome of the discussions with CCWater regarding indicative tariffs and evidence that any feedback has been duly taken into consideration.
- The content and tone of the Board Statement.
- The improvements being made to Hafren Dyfrdwy systems and processes, and the stage in the journey towards the full implementation of Severn Trent Group standards.

This endorsement can only apply to data supplied from our own systems and processes. Where we use data from other water and sewerage companies or from the Central Market Operator System, we do so on the basis that other companies apply similar measures to ensure that their data meets Ofwat requirements

Board statement

Having considered the above, the Board confirms that:

- the company complies with its legal obligations, price control limits and relevant charging rules set out in our charges schemes;
- it has assessed the effects of new charges and any significant changes 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% including the level of CPIH as set out in our statement of significant changes;
- the company has sufficient systems and processes in place to make sure that the information contained in the charges scheme, and any additional information is accurate; and
- the company has consulted the Consumer Council for Water (CCWater) in a timely and effective manner on its charges schemes.

Accordingly, we believe that the 2020-21 Charges Schemes comply with our statutory and regulatory obligations in all material respects and are consistent with Ofwat's published guidance on charging principles.

Signed by, and on behalf of the Board:



Liv Garfield
Chief Executive
Hafren Dyfrdwy

John Coghlan
Chairman
Hafren Dyfrdwy

Mohammed Mehmet
Non-Executive Director
Hafren Dyfrdwy