

# Hafren Dyfrdwy Cyfyngedig Board Assurance Statement



**RHAGOROL O'R TAP  
WONDERFUL ON TAP**



severn dee

# Hafren Dyfrdwy Board Assurance Statement

## Wholesale Charges 2022-23

This assurance statement is in relation to Hafren Dyfrdwy Wholesale Charges for 2022-23. We pride ourselves on being transparent about the information we publish, ensuring we are compliant with statutory and legal obligations and the requirements set out by Ofwat.

We believe high quality assurance is important in providing stakeholders with trust and confidence in the charges we apply and the information we publish.

### Who we are

As one of the 11 regulated water and sewerage companies in England and Wales, Hafren Dyfrdwy provides Mid and North-East Wales with world-class water services at the most affordable price in Wales.

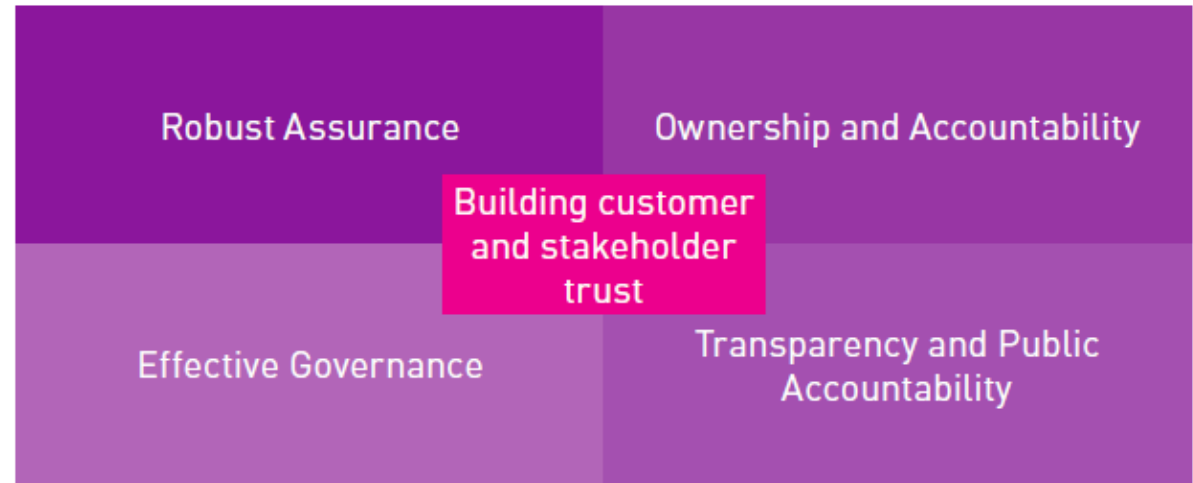
Hafren Dyfrdwy Limited is a subsidiary of Severn Trent Water Limited. The full ownership structure of the Company within the Severn Trent Group can be found on the Severn Trent Plc website at [severntrent.com](https://www.severntrent.com).

### Our Assurance Framework

We have an established, rigorous and robust assurance and performance reporting framework. The assurance approach builds on best practice from external organisations. It ensures that managers, leaders and Directors are responsible and accountable for delivering high quality data through robust processes and methodology.

Our established framework is underpinned by four main principles that provide consistency and clarity for our people, and allows flexibility for our assurance processes to build and evolve with our company and the environment we operate in.

#### Our assurance principles



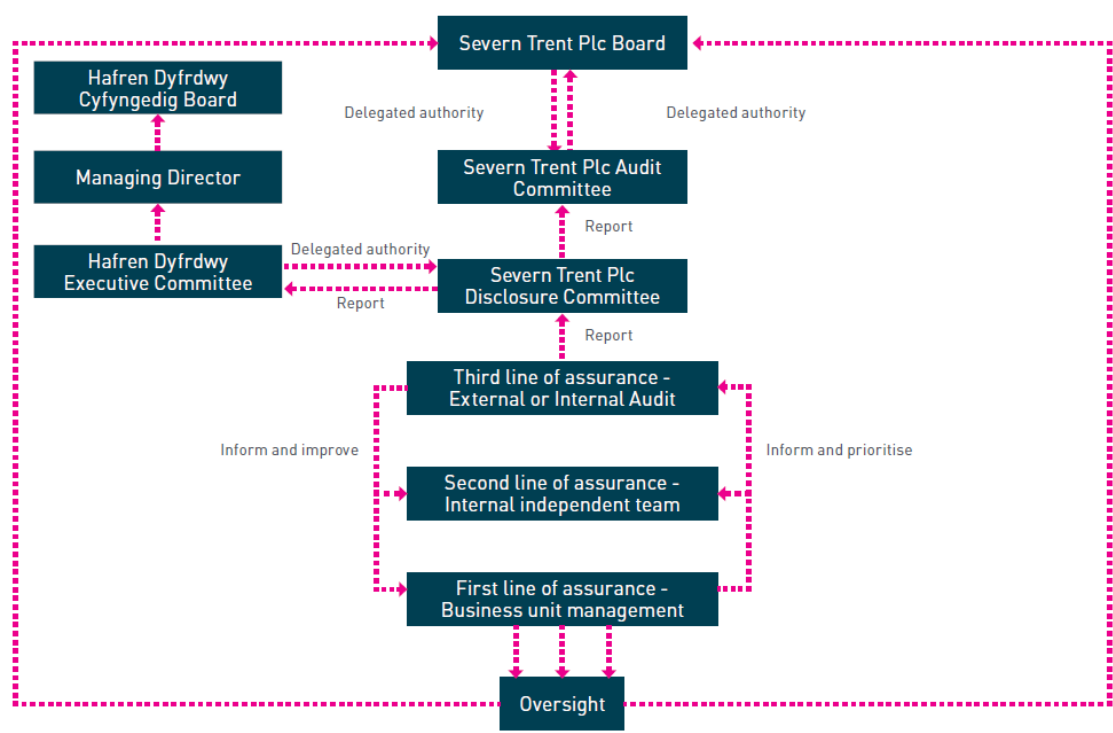
- **Robust Assurance** – we operate a three-lines of assurance model, targeted at areas of greatest risk.
- **Ownership and Accountability** – we have clear lines of ownership for both the delivery of performance, and the accuracy of the data provided.
- **Effective Governance** – provided by our Board, Audit Committee, Executive Disclosure Committee and Executive Committee.

- **Transparency and Public Accountability** – we publicly report on our performance and hold ourselves to account where we do not meet our commitments.

Effective Governance

We pride ourselves on having a high-functioning, well-composed, independent and diverse Board and being transparent in all that we do. Maintaining the highest standards of governance is imperative, and our governance framework ensures that the Board is effective in both making decisions and maintaining oversight. The Board delegates certain roles and responsibilities to its various Committees. The Committees assist the Board by fulfilling their roles and responsibilities, focusing on their specific activities, reporting to the Board on decisions and actions taken, and making any necessary recommendations to the Board in line with their respective Terms of Reference.

Our governance and assurance frameworks work together and are built on high standard processes to enable confidence in the information and data we report. The below provides an overview of how our frameworks interact to ensure that all levels of the business have an oversight and understanding of the assurance processes we implement. The effectiveness of the controls over reporting are monitored by the Audit Committee, which receives regular reports of the assurance conducted by the Internal and External Auditors.



We use this model for our regulatory returns so that we, and our customers, have a level of assurance that our submissions have been well prepared and accurate. The effectiveness of the controls over reporting are monitored by the Audit Committee, which receives regular reports of the testing conducted by the External Auditors.

To ensure we're applying an effective programme of assurance, while balancing value for money, 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 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 assurance spend.

### Our 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 some elements of assurance, additional second line reviews are undertaken within the same directorate to ensure that we maintain a strong level of expertise and understanding of the source data.

Third line activities are conducted by a number of different providers depending on the specialisation required. Generally the expertise can be divided into the following categories:

- **Engineering/Technical** - where assurance requires an expert engineering / water industry technical background.
- **Regulatory** - where challenge is required around the methodology used and assumptions against our regulatory requirements.
- **Data integrity and consistency** – understanding the flow of data from source through to our final publications ensuring no data transposition errors are made.

- **Financial** - used for areas requiring specific financial expertise, such as pensions and tax.
- **Model integrity** - where a complex financial model is used and requires specialist external expertise to test and challenge.

Our wholesale 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, with the third line provided by:

- **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** – provide data, process and completeness assurance.

## Ownership and Accountability

Our performance matters to our customers, our wider stakeholders and to us. Our Board is fully engaged in monitoring and assessing the quality of our performance and providing challenge through our established governance arrangements, as described above.

Our Wholesale Charges are monitored through our internal regulatory risk assessment called 'licence to operate' and it has been operating in Hafren Dyfrdwy for over five years. Licence to operate is a two-stage process that operates through the mid and year-end of the annual regulatory cycle.

We ask our the responsible managers in Strategy and Regulation to complete a risk assessment of their regulatory and statutory obligations twice a year. This involves assessing the following five categories as either low, medium low, medium high or high risk, which we use to indicate likelihood:

|            |  |
|------------|--|
| Purpose    | Does the responsible manager understand the purpose of the duty and what their obligations are?                                      |
| Process    | Has the responsible manager ensured that there is an adequate process in place to comply with our obligation and is this documented? |
| RACI       | Is it clear which employees are responsible for which part of the process?   |
| Competency | Are employees suitably trained and is there a clear skill matrix defined?  |
| Controls   | Are there measures in place to monitor performance and is regular quality checking undertaken?                                       |

Once this assessment has been completed, centrally the Compliance team, and other subject matter experts such as the Legal team, assess the impact of non-compliance in this area using six factors:

|                         |  |
|-------------------------|--|
| Customer service impact | Would there be a negative impact on customers?                                     |
| Environmental impact    | Could we damage the environment if we didn't comply?                               |
| Health and safety       | Could someone be hurt as a result?   |
| Regulatory impact       | Does the duty or obligation interact with competition law?                         |
| Financial impact        | Could there be a financial penalty or fine? Would investors lose confidence in us? |
| Competition compliance  | Is this a key industry or regulatory measure of prime importance?                  |

The Licence to Operate assessment duties and obligations relating to Wholesale Charges are reviewed by senior management and receives final sign off from the Director of Strategy and Regulation.

## Transparency and Public Accountability

To ensure that we are transparent in our approach we engage with CCW and other stakeholders to provide insight into our strategy and the impact on customer bills.

We produce and publish a Statement of Significant Changes document to inform stakeholders of the scope of proposed changes if we intend to make any significant changes to our primary wholesale charges. We publish this statement no later than six months before our final Wholesale Charges.

We also publish our full Wholesale Charges on our website ([Hafren Dyfrdwy Regulatory Library](#)) to ensure that all customers and broader stakeholders have access to our full charging document.

## Assurance Findings

**Jacobs confirmed:** 'Overall, at the end of our assurance work and subject to the completion of your engagement with CCWater Wales including updates for November CPIH, we consider:

- The Company complies with its legal obligations relating to the charges set out in its charges schemes
- The charges comply with legal obligations and the relevant charging rules.
- The Company has appropriate systems and processes in place to make sure that the information contained in the Charges Schemes is accurate.
- The Company has consulted with relevant stakeholders in a timely and effective manner on its charges schemes.

**Internal Audit** undertook a review focussed on the following objectives:

- Confirmed that all actions raised have been completed.
- Reviewed the assurance reports and confirmed that any material issues raised have been resolved.
- Reviewed the tick and tie process with Group Compliance and Assurance and confirmed completed. All queries were answered.
- Confirmed that the CPIH number from the ONS website has been correctly used in the charges model.

Following their review, Internal Audit confirmed *'All assurance as outlined in the Assurance Framework has been completed. Internal Audit have reviewed the reports provided by Jacobs and confirm that recommendations have been tracked to completion. Internal Audit have also confirmed the final CPIH number as published on the ONS website has been input into the model correctly.*

## Hafren Dyfrdwy Board Assurance Statement

### Wholesale Charges 2022-23

This assurance statement is in relation to Hafren Dyfrdwy's wholesale charges for 2022-23. We want to be transparent about the information we publish, ensuring we are compliant with statutory and legal obligations and the requirements set out by Ofwat.

We pride ourselves on having a high-functioning, well-composed, independent and diverse Board and being transparent in all that we do. Maintaining the highest standards of governance is imperative, and our governance framework ensures that the Board is effective in both making decisions and maintaining oversight. Our [Regulatory Reporting and Assurance Approach](#) document provides more information about our governance, compliance and assurance frameworks and the outcomes of our assurance activities.

### Significant differences from our indicative wholesale charges

The Company published indicative wholesale charges in October. On average, our final charges are 0.5% higher than predicted. This has been driven by inflation, which is 1.4% higher than anticipated. This has been partly mitigated by changes in forecast volumes, charging policy and in-period regulatory adjustments.

### Board Assurance Statement

The Board considers that in approving the wholesale charges the Company has applied the governance and assurance frameworks described in our Risk, Strengths and Weaknesses document. The processes and internal controls have been applied in a manner which has enabled it to satisfy itself, to the extent that it is able to do so from the information available, that the wholesale charges comply with our statutory and regulatory obligations in all material respects. Therefore, the Board confirms:

- the company complies with its legal obligations relating to the Wholesale Charges it has published;
- the Board has assessed the effects of the new charges on water supply and sewerage 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 groups) exceed 5%;
- 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; and
- the company has consulted with relevant stakeholders in a timely and effective manner on its Wholesale Charges.

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.

Signed by, and on behalf of the Board:



**James Jesic**  
**Managing Director**  
**Hafren Dyfrdwy Cyfyngedig**  
**January 2022**



**John Coghlan**  
**Chairman**  
**Hafren Dyfrdwy Cyfyngedig**  
**January 2022**



**Ann Beynon**  
**Non-Executive Director**  
**Hafren Dyfrdwy Cyfyngedig**  
**January 2022**