



Statement of Significant Changes to Charges Scheme 2021/22

11 January 2021

Statement of Significant Change 2021/22

1. Background

As part of Ofwat's Charges Scheme Rules re-issued on 27 March 2020 (Clause A2), each undertaker is required, no later than three weeks before publication of its Charges Scheme, to provide to the Water Services Regulation Authority a statement setting out any significant changes anticipated by the undertaker.

Because of the timing of the publication of this Statement of Significant Changes in relation to scheduled meetings of the Board, the Board established a Board Charges Committee which included executive and independent non-executive directors to act on behalf of the full Board to review the Company's proposed charges.

The Board Committee on behalf of the Board has:

- Reviewed the compliance with the requirements published in Information Notice 20/07 on 4 November, setting out Ofwat's expectations for charges for 2021/22 and for this Statement of Significant Changes;
- Considered the requirements of Annex A2 of Ofwat's Charges Scheme Rules in respect of this Statement of Significant Changes;
- Considered the actions undertaken by management to prepare the Charges Scheme for 2021/22; and
- Reviewed management's assessment of the effects the charges will have on customers' bills for about 30 types of customer, differentiated according to factors including the following:
 - Geographical location;
 - Charging method - measured / unmeasured / assessed;
 - Consumption band - average, low and high consumption; and
 - Watersure and social tariff customers.
- Considered the actions undertaken by management to develop its impact assessments and handling strategies, including stakeholder engagement and consultation, for those instances where the bill increase is expected to be greater than 5%.
- Considered management's assessment of the effects of Affinity Water's household bill changes when combined with expected wastewater bill changes in the Thames Water and Anglian Water wastewater regions, where our customers receive a combined bill for water and wastewater services, as well as in the Southern wastewater region (although this region differs slightly in that water and wastewater services are billed separately)

Affinity Water expects that there will be water bill increases of more than 5% from the previous year (assuming a constant level of consumption). A schedule of the expected bill changes is set out in Appendix 1.

The charging rules require in Annex A.2 that if we need to make significant changes to charges we should publish a Statement of Significant Changes setting out:

(a) Confirmation of whether the undertaker is expecting there to be any bill increases of more than 5% from the previous year (for a given customer type assuming a constant level of consumption) and, if such increases are expected:

(i) what size increase is expected;

(ii) which customer types are likely to be affected; and

(iii) the handling strategies adopted by the company or why the company considered that no handling strategies are required.

(b) Details of any significant changes in charging policy by the company from the previous year.

2. Summary of Changes to Charges

Our charges vary according by region as shown in the diagram below. In our Central Region, there are also four sub-regions for unmetered rateable value charges: Colne Valley, Lee Valley, Rickmansworth and North Surrey which reflect historical company boundaries.



In 2021/22, we project that we will need to increase our Charges Scheme charges by around 7.1% on average. The main drivers of the change in charges result from changes in the wholesale component of final charges:

- Our wholesale K factor, +2.63% for next year's charges.
- CPIH inflation, 0.55%, published by the Office for National Statistics on 16 December 2020.
- Revenue correction adjustments from 2019/20.
- Changes to the charging base over which we recover our charges.

3. Impact Assessment

We have assessed typical changes in bills for over 30 different types of customer, differentiated according to the region in which they are located, whether they are metered or unmetered and whether they have higher or lower consumption than average. The full schedule of comparisons is provided in Appendix 1.

Most commonly, household customers fall into two broad categories, metered and unmetered. Metered customers pay a fixed charge and a volumetric charge depending upon usage. Unmetered customers pay a fixed charge that does not vary with water use, but varies according to the rateable value of the property they occupy. Broadly this means that unmetered customers who occupy larger properties pay a higher unmetered water bill than those occupying smaller properties.

Metered customers

Table 1 shows the impact of our charges on typical metered household bills. The table assumes that consumption is held constant at the levels indicated.

Table 1. Typical bills to measured household customers £/year and % change

	Typical consumption (m3/year)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Central region	118	142.41	151.91	6.7%
East region	82	159.55	170.19	6.7%
Southeast region	98	195.61	208.64	6.7%

Unmetered customers

Table 2 shows the impact of our charges on unmetered household bills. The table assumes that rateable value is held constant at the levels indicated.

Table 2. Typical bills to unmeasured household customers £/year and % change

	Typical rateable value (£RV)	Typical Bill 2020/21 £/year	Typical Bill 2021/22 £/year	Change
Rickmansworth area	248	179.58	193.72	7.9%
Colne area	278	199.90	215.65	7.9%

Lee area	251	217.02	234.10	7.9%
North Surrey area	249	187.40	202.15	7.9%
East area	184	230.35	248.49	7.9%

The increase for unmetered customers is larger than for metered customers. This year it is necessary to increase charges at different rates to keep metered and unmetered bills in cost reflective balance (Ofwat Charging Rule 14). We accomplish this balance by adjusting tariffs until the average unmetered bill differs from what the bill would be for a metered customer with average unmeasured water use, only for the differences in the costs of, and the additional benefits of, the provision of one service relative to the other.

In 2021/22 we assess that the additional costs of operating a metered account have fallen compared to last year. Therefore, there is a smaller deduction to make for the difference in costs of operating a metered account compared to an unmetered account. As a result, metered tariffs need to be lower in relation to unmetered tariffs than they were last year.

Combined Bills

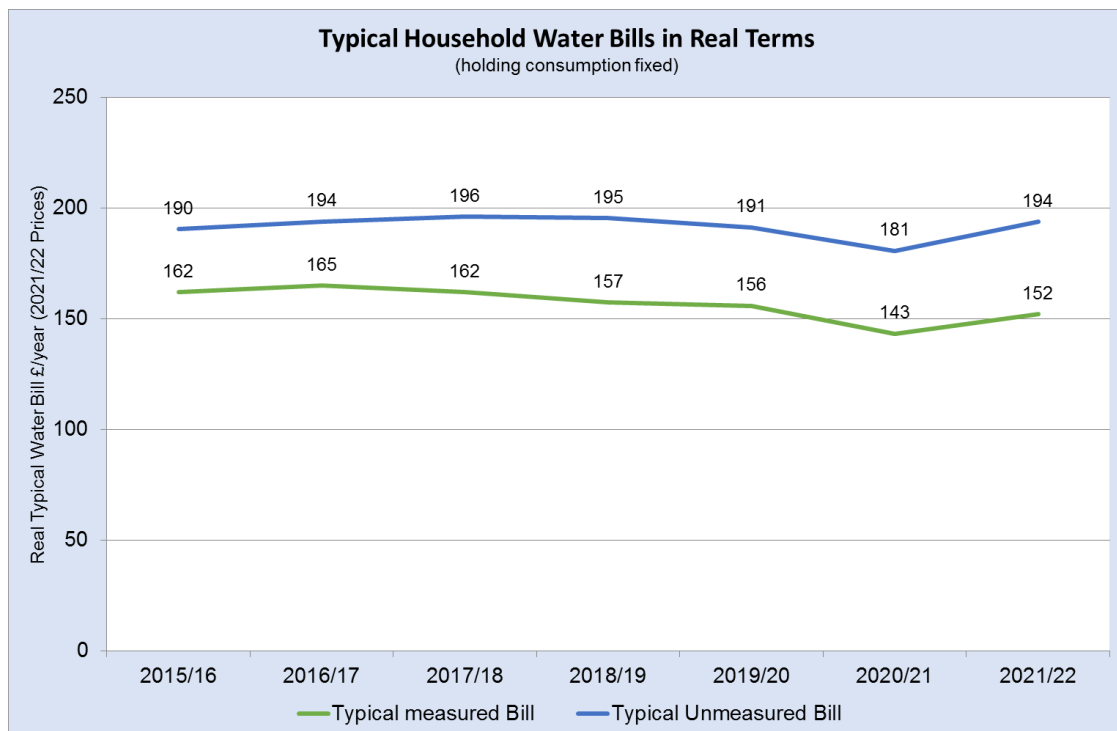
Most of our customers (about 95%) pay a combined bill including sewerage services (separate billing only occurs in our southeast region). Wastewater companies operating in our area are projecting smaller increases in charges than we are for water, which will mitigate the total impact for our customers' bill. As shown in Table 3 below, we expect that the increase in combined bills for most customers in our area to be below 5%.

Table 3. Typical change in combined water and wastewater bills

Affinity Water Region / Wastewater Area	Percentage of Affinity Water Customers (%)	Projected Percentage Change in combined bill (%)
AFW Central - Thames WW Area	85%	4.0%
AFW Central – Anglian WW Area	6%	4.2%
AFW East – Anglian WW Area	4%	4.3%
AFW Southeast – Southern WW Area	5%	5.4%

Trend in Water Bills

As mentioned above, final water bills will increase by 6.7% for metered customers, and 7.9% for unmeasured customers. The chart below shows the evolution of typical household bills over recent years, excluding inflation. Even with the increase proposed for next year, typical household bills for metered customers will still be lower in real terms than 2015/16. Typical bills for unmetered customers will be similar in real terms to levels in recent years.



4. Stakeholder engagement

An important part of the charges setting process is the proactive engagement with our regulators and key stakeholders. As part of this, we have informed stakeholders of the indicative changes to the tariffs (see full list below) and have invited feedback on our customer engagement plan. We have also shared a proposal for the customer engagement plan and support strategy which includes a short survey asking stakeholders to provide their ideas on how we can engage with customers to raise awareness of the changes and support available.

In addition to this, we have engaged more directly with Ofwat, CCW and our Customer Challenge Group (CCG).

Ofwat

On 15 July, we published our 'Indicative Statement of Significant Changes', providing an early indication to Ofwat of the 2021/22 indicative charges. We used this opportunity to also provide early views on key drivers of bills and demand forecast.

On 13 October, ahead of the publication of our indicative charges, we met with Ofwat to discuss our projected charges and customer handling strategy and at the same time were in consultation with Ofwat about the application of revenue adjustments from 2019/20. Ahead of our Board approval processes for final charges, we met with Ofwat on 18 December to review final charges proposals. We also sent an email to Ofwat on 22 December summarizing the tariff changes for FY21/22, the outcome of the external assurance carried out by Atkins and Frontier Economics, our stakeholder engagement and our customer handling strategy.

CCW

As part of our quarterly meeting, we provided an early view to our FY21/22 charges to CCWater on 8 September (together with supporting material).

We met again with CCW on 8 December, and we reviewed the latest position with charges, likely impacts on customers and progress with engagement and our handling strategy. Following this meeting we provided further information to CCW on our projections of demand. In particular we were able to update CCW on the final inflation figure used to index charges and on our final position on demand forecast. Our updated final bill increases, whilst remaining above 5%, are lower than the previous position discussed at the meeting.

CCG

On 28 October we held a meeting with our CCG Chair, where we reviewed in detail the indicative charges and our proposal for customer engagement, followed by a summary note sent to our CCG members.

We also held a meeting on 10 November with our CCG Inclusive Service Sub-Group (comprising members from Watford Housing Association, Money Advice Liaison Group (MALG) and CCWater) to discuss their views on the proposed customer engagement plan, with particular focus on engaging with customers in a financially vulnerable situation.

Other stakeholders

As mentioned above, we have taken a proactive approach in engaging with a wide range of stakeholders (see full list of external stakeholders below). We have sent a briefing note to each of them on the indicative tariffs and information about our approach for communicating with and targeting assistance towards customers (particularly those in the most vulnerable circumstances). We plan to use the feedback we obtain from all our regulators and stakeholders to refine our approach.

List of key stakeholders includes:

- Financial hardship groups
- Local Authority communications depts
- Citizens Advice
- Foodbanks
- Disability and illness
- Council leaders
- Councillors – social services portfolio holders
- Parish Councillors
- Housing Associations
- Family Centres
- BME Groups
- Select MPs – fair cross selection of Lab, Lib & Con
- Bulk owners

5. Handling Strategy

The company has developed a handling strategy to manage the implementation of the significant change to charges indicated in this statement. Its strategy contains 4 key workstreams, as below:

Impact assessment – to develop robust impact assessments to determine which customers are likely to be affected and to what extent.

Affordability assessment – analysis of customer segments to determine which types of customers are most at risk of difficulties in affordability. This will allow information,

communications and assistance to be targeted towards customers at greatest risk of falling into difficulties.

Stakeholder engagement – to identify external stakeholders who should be informed and consulted about changes to charges next year.

Customer Communications – to determine the correct channels and timing for customer communications, particularly regarding explaining the changes in charges, the reasons why charges need to change and to raise awareness with customers about the ways in which the company can help where there are payment difficulties.

As part of this workstream we have carried out new research into customer willingness to pay for social tariff cross subsidies. This research supports extension of social tariff assistance to more customers and creation of an additional tier to our social tariff that offers a higher discount to our most vulnerable customers.

The Board noted the requirement for impact assessments and handling strategy at its August meeting. Progress updates and further information was provided to Board members at Board's Audit, Risk and Assurance meetings held in September and November and most recently at the Board Charges Committee early January 2021.

Acting through its Charges Committee, the Board has noted the impact assessments made by the company and the handling strategy developed by the company's management. Having made due consideration and enquiries of management, it approves the impact assessments and handling strategies developed.

Appendix 1

Movement in Typical Bills 2021/22

Typical Customer	2020/21 Bill £/year	2021/22 Bill £/year	Change
Average Household Measured Customer (Central Region)	142.41	151.91	6.7%
Average Household Measured Customer (East Region)	159.55	170.19	6.7%
Average Household Measured Customer (Southeast Region)	195.61	208.64	6.7%
Average Household Unmeasured Customer (Rickmansworth Region)	179.58	193.72	7.9%
Average Household Unmeasured Customer (Colne Region)	199.90	215.65	7.9%
Average Household Unmeasured Customer (Lee Region)	217.02	234.10	7.9%
Average Household Unmeasured Customer (North Surrey Region)	187.40	202.15	7.9%
Average Household Unmeasured Customer (East Region)	230.35	248.49	7.9%
Social tariff Central and East Region	97.90	103.70	5.9%
Social tariff Southeast Region	97.90	103.70	5.9%
Household Measured Customer Low consumption 65m ³ /year Central Region	90.41	96.46	6.7%
Household Measured Customer Low consumption 42m ³ /year East Region	94.60	100.93	6.7%
Household Measured Customer Low consumption 65m ³ /year Southeast Region	138.63	147.88	6.7%
Household Measured Customer High consumption 300m ³ /year Central Region	321.84	343.26	6.7%
Household Measured Customer High consumption 225m ³ /year East Region	391.76	417.81	6.7%
Household Measured Customer High consumption 300m ³ /year Southeast Region	544.38	580.56	6.6%
Household Assessed 1 occupier (Central Region)	90.40	96.50	6.7%
Household Assessed 2 occupiers (Central Region)	139.70	149.00	6.7%
Household Assessed 3 occupiers (Central Region)	192.80	205.70	6.7%
Household Assessed 4 or more occupiers (Central Region)	246.00	262.40	6.7%
Household Assessed 1 occupier (East Region)	94.60	100.90	6.7%
Household Assessed 2 occupiers (East Region)	153.10	163.30	6.7%
Household Assessed 3 occupiers (East Region)	213.10	227.30	6.7%
Household Assessed 4 or more occupiers (East Region)	300.80	320.80	6.6%
Household Assessed 1 occupier (Southeast Region)	138.60	147.90	6.7%
Household Assessed 2 occupiers (Southeast Region)	225.00	239.90	6.6%
Household Assessed 3 occupiers (Southeast Region)	318.20	339.40	6.7%
Household Assessed 4 or more occupiers (Southeast Region)	411.40	438.80	6.7%
Watersure customer (Central & Saffron Walden Region)	161.14	169.79	5.4%
Watersure customer (Southeast Region)	193.37	206.21	6.6%
Watersure customer (East Region)	170.51	181.83	6.6%
Average Measured Non-contestable Business Customer Central Region (15mm meter)	506.98	540.70	6.7%
Average Measured Non-contestable Business Customer Southeast Region (15mm meter)	691.14	737.06	6.6%
Average Measured Non-contestable Business Customer East Region (15mm meter)	518.41	552.87	6.6%