

AffinityWater

Charging Arrangements for New Connection Services

Statement of Significant Change 2022/23

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Introduction

The purpose of this statement is to provide our stakeholders with information on changes to the structure of our charges and any other significant changes to our charges which are anticipated for the 2022/23 charging period beginning 1st April 2022.

The information included in this document is published in accordance with the [new connections charges scheme rules](#) issued by Ofwat. We will publish our New Connection Charging Arrangements and Summary of Developer Services Charges by 1st February 2022.

Affinity Water Developer Services provide advice and guidance, and if requested, delivery capability for the provision of new water services for developer customers, including self-lay providers and new appointments and variations.

If you would like further information, including details on how to apply for a developer services activity, please see our website: <https://www.affinitywater.co.uk/developing>.

Significant Changes

For the 2022/23 charging period the industry will use a new set of consistent worked examples; ours can be found in both our New Connection Charging Arrangements and Summary of Developer Services Charges publications. These can be found [here](#). We use these to help determine significant changes to our charges and the impacts that may be felt by our customers.

There is a significant increase to the total charge of some of our worked example calculations which exceed the 10% guideline threshold outlined in the latest Ofwat Information Notice. These are set out in the table below.

Scenario	Description	Equivalent 21/22 Charge	22/23 Charge
1	Single connection to a house from an existing main	£2,152	£2,212
2	Single connection to a block of flats from an existing main	£3,782	£6,331
3	Medium housing development requiring new mains and communication pipe (excavation and reinstatement by others)	£54,654	£76,384
4	Medium housing development requiring new mains and communication pipe (excavation and reinstatement by Water Company)	£96,674	£104,254
5	Large housing development requiring new mains and communication pipe (excavation and reinstatement by others)	£181,590	£265,888
6	Large housing development requiring new mains and communication pipe (excavation and reinstatement by Water Company)	£326,152	£361,128

Our Board of Directors have assessed the effects of the new charges on customers' bills for a range of different types of developments using the above information and approves the impact assessments and handling strategies developed

These significant changes are also referred to in our Board Assurance Statement, which can be found [here](#).

Further information on the detail of the significant changes, the drivers and the handling strategies can be found below.

Onsite Charges

Our onsite charges are increasing for 2022/23. This is due to a combination of the following:

New delivery rates

From April 2021, we are working with new delivery partners in our region to carry out works for developer services. Some of our rates have increased and this is reflective of a general increase in the cost in providing services across the construction industry as a result of wholesale increases in material costs. During the procurement process for our delivery partners, we worked to ensure we achieved the best possible rates, while maintaining cost-reflectivity for these activities. These assurance activities included:

- Extensive commercial analysis, both using a full basket of rates, the top 60 rates used in developer services, as well as assessment of cost against new connections charging worked examples
- Market testing of all rates submitted as part of the procurement activity compared to more general market rates for the same activities
- Request for overheads to be split out from the rates to give clear transparency of overheads vs costs
- Inclusion of a 'right to audit' clause within the contract to ensure that our charges always remain cost reflective

Material shortages and supply chain increases

We are currently impacted by wholesale increases in the cost of materials. We are obliged to ensure this increase is reflected in our charges, to ensure that fair competition in our region can be maintained. As such, material increases have been calculated using index mechanism tracking and are reflective of the increase in costs we are predicting moving into 2022/23. This increase is not specific to the Affinity Water region. We are working closely with our delivery partners and supply chains to forecast as far in advance for the supplies required for developer services activities to mitigate the impact, however, we are already experiencing the impact of these costs and it is vital that we reflect these in our onsite charges moving forwards to protect competition.

Inflation (CPIH)

While our delivery rates absorb a proportion of inflation - 0.7% - inflation is added to our construction rates as well as our pre-construction and post-construction fees. CPIH has been confirmed at 4.58%, which is much higher than previous years. This therefore has a material impact on our ability to maintain inflation below the 10% threshold for significant change.

Infrastructure Charge and Income Offset

There is no significant change to the structure or methodology in calculating our infrastructure charge for 2022/23; it remains a per property (domestic) flat rate. However, there is a significant increase to the value of our infrastructure charge for the coming year. The infrastructure charge is moving from £249 to £366. This increase is primarily due to an incorrect assumption in previous years.

Our infrastructure charge calculation has been assured internally and externally, to ensure that it is a cost reflective position and maintains a forward-looking five-year period as its calculation basis, in line with Ofwat Charging Rules. The detail behind this calculation can be found in our charging arrangements [here](#). This has been openly discussed with key stakeholders throughout our consultation period, to give early warning of an increase. Further information on our handling strategies can be found below.

Our income offset calculation methodology has been revised to align with best practice and ensure we maintain a balance of charges between the contribution developer customers and household customers make for the provision of infrastructure, as required under the Charging Rules.

The 2022/23 income offset value is significantly lower than 2021/22. The income offset value is moving from £387 to £345.

The amended calculation has undergone consultation with our customers as well as internal and external assurance. The detail behind this calculation can be found in our charging arrangements [here](#).

Handling Strategies

Through our consultation work, we understand that our developer customers are keen that our charges are reflective of the work we carry out. We have an obligation under competition law to ensure our charges are cost reflective, and this is also governed through a general charging principle. We recognise that any increase may have a negative impact on our developer customers, therefore, we have taken the following steps to help our customers plan for the increases to our charges and ultimately attempt to mitigate any negative impacts:

- We carried out a customer engagement event on 6th October to discuss the upcoming changes, followed by a written consultation which ended on 5th November. We subsequently had followed up with one-to-one conversations with key stakeholder groups who were either unable to attend our consultation event or raised queries in their written consultation response.
- Our consultation document and our subsequent response document, which was published on 30th November, were published on our website and in our quarterly customer newsletter.
- We have reviewed our approach to the calculation of the infrastructure charge following concern raised about the net impact of the infrastructure charge increase. We have worked with external assurance partners to ensure we are broadly maintaining the balance of charges, while trying to mitigate the impact of the infrastructure charge increase. This led to increasing our income offset from £324 at consultation, to £345.
- Throughout our assurance activities, we have engaged with our partners to understand best practice and have ensured that our approach is consistent with the industry.
- We have developed an application fee calculator for customers to use to accurately understand the cost of their application.
- We subsequently developed a new connections cost estimator tool for customers to use to obtain a budget estimate for their new connection. This allows customers to self-serve information before committing to a full application, and the associated application fees.
- We have implemented advanced warning messaging on our current cost advice documents.
- We have updated our website with advanced warning messaging regarding upcoming 22/23 charges.
- We have updated our email signature with advanced warning messaging regarding upcoming 22/23 charges.
- We have reviewed our position on transitional arrangements, to ensure they are best practice and made attempts to make these clearer in our charging arrangements.
- We are also planning a further customer event in February 2022 to talk through the published charges in more detail once again.