South Staffs Water

Cambridge Water

South Staffordshire Water PLC Annual performance report

For the year ended 31 March 2021

July 2021

The year at a glance

Achieved a significant improvement in water quality compliance

Exceeded our target for the number of customers receiving financial and other support

Achieved our target for the number of customers on our Priority Services Register receiving extra help

Provided resilient and reliable service despite significant COVID-19 impacts

Met our leakage targets and remain on track to deliver a 15% reduction over five years

Exceeded our supply interruptions target – despite some challenges during the winter

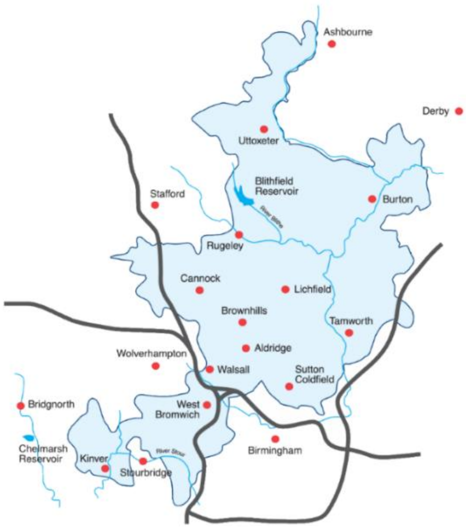
Exceeded our target for the total area of environmentally sensitive sites protected

Achieved Investors in People accreditation

About South Staffordshire Water

South Staffordshire Water PLC ('the company') is part of the South Staffordshire Plc group of companies, a privately-owned integrated services group concentrating on regulated water supply and complementary specialist service businesses. We operate across two regions under a single water supply licence, providing clean water services to more than 1.7 million people and around 43,000 businesses in Staffordshire, parts of the West Midlands, and in and around Cambridge. Our South Staffs region extends from Ashbourne in the north to Halesowen in the south, and from Burton-upon-Trent in the east to Kinver in the west. Our Cambridge region stretches from Ramsey in the north to beyond Melbourn in the south, and from Gamlingay in the west to the east of Cambridge city.

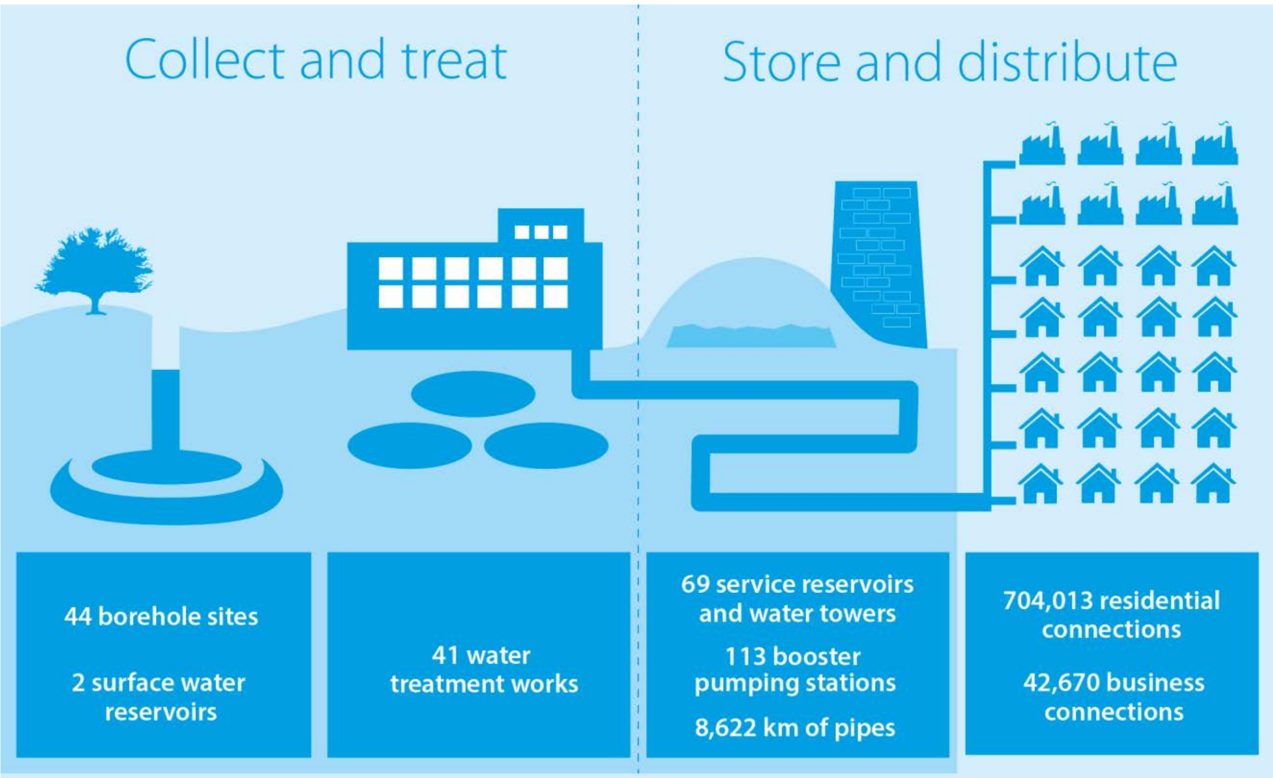
South Staffs region



Cambridge region

	South Staffs region	Cambridge region
Area served (km²)	1,497	1,175
Population served	1,366,845	347,243
Water supplied each day on average (Million litres Ml)	323.11	83.32
Residential connections	565,062	138,951
Business connections	33,750	8,920

Our role



Information consistent with 2020/21 annual reporting tables 5A, 6A, 6B and 4R.

South Staffordshire Water is a water only company and does not provide sewerage services. We bill customers for these services on behalf of Severn Trent Water in our South Staffs region and Anglian Water in our Cambridge region.

Our vision, purpose and core beliefs

Our vision

To deliver clean, affordable water every day

Our mission

To make sure:

- **all our customers have access to high-quality and affordable drinking water every day; and**
- **we always empower our people to provide an excellent and trusted service.**

Our purpose

For more than 150 years, we have provided an essential public service to customers in our South Staffs and Cambridge regions that enables them to go about their daily lives. So that we can keep delivering the things that matter most to our customers, now and in the future, we:

- **actively work in partnership with local communities – playing our part to help them thrive;**
- **act as the guardians of our assets, while always working hard to protect the local environment;**
- **put the safety of our customers and our people at the heart of our decision making; and**
- **run an efficient business, which is in everyone's interests.**

This is how we are delivering what matters.

Our core beliefs

Our mission and purpose are underpinned by our core beliefs, which focus on:

- **preparing for the future;**
- **building resilience in the face of climate change;**
- **minimising waste in every area of our business operations;**
- **using water wisely;**
- **always looking for new ways to do things better and quicker;**
- **listening to customers;**
- **local issues; and**
- **working with partners to create better communities.**

These core beliefs are reflected in our people's objectives and the work they do.

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Chair's foreword

It's certainly been a strange and challenging year. We've faced the unprecedented impact of the COVID-19 pandemic, with a succession of national lockdowns, and many of our staff having to work from home. We made a deliberate decision not to take advantage of the UK Government's furlough scheme, because of the essential nature of the work our employees do.

And in addition to the direct stress of the pandemic, we also experienced very high levels of consumer demand for water, partly because of the extent of home working, but also because of an exceptionally dry spring. Through it all, our staff responded magnificently. They rose to the challenges we were facing; they continued to deliver the water our customers needed; and despite all the difficulties they ensured the company was performing effectively and well against all the industry's benchmarks. The Board owes a huge debt of gratitude to everyone in the South Staffs and Cambridge team.

When we agreed our five-year plan through to 2025 with Ofwat, we were deliberately far-reaching in what we sought to achieve. We have a commitment to major capital improvements, especially for our two key plants at Hampton Loade and Seedy Mill. We have ambitious targets to curb leakage, improve performance and secure a better service for our customers. We've begun the five-year period well, despite everything the pandemic has thrown at us. But we do have to make sure we put in a sustained effort to deliver on our plans over the years to come; and this will be the best basis for looking further forward to the following five-year period. We need to start thinking about this now, not in a few years' time.

One of the challenges we all face, in the company, the water sector, and indeed in society as a whole, is the need for better and more sustained environmental stewardship in everything we do. This has to be a principal long-term goal for us, and we've established a special Board Environmental, Social and Governance (ESG) Sub-Committee in order to make sure that these issues are kept very much to the forefront of our thinking. We face a particular challenge in the Cambridge area, where all our water is drawn at the moment from ground sources, and simultaneously there are strong pressures for new development and the increased consumption that comes with it. Making sure we can provide the water our customers require while at the same time not depleting the resources of groundwater in an unsustainable way, and endangering the health of chalk streams in the process, is a major issue for us to face in the coming years.

We also need to think, of course, about the carbon footprint of all of our activities. The water sector has a key target of achieving net zero carbon by 2030, and we will have to work hard to play our part in ensuring the target is reached. I fervently hope that we won't have to live through another year quite like 2020. What it has demonstrated, however, is just how resilient the company and its people are: able to respond to the difficult, the unusual, the seemingly impossible. Able to come through it all, and come through it well. Thank you, to everyone who has made it happen.

Chris Smith

Lord Chris Smith

Managing Director's introduction

The past year has been a challenging one – for us, for society and for the economy as a whole. The impact of the COVID-19 pandemic has been unprecedented, affecting almost every aspect of our daily lives. Throughout the pandemic, we delivered for our customers, our communities and the environment. Our people have worked tirelessly to make sure clean water always comes through customers' taps, demonstrating our resilience as a provider of an essential public service.

Despite the challenges of the COVID-19 pandemic, I've been impressed by how our people have pulled together to ensure we continue to deliver for all our customers. For many colleagues, it's also meant working in a completely different way, with most office-based staff working entirely remotely. I'm proud of the way everyone has embraced new ways of working and engaging with each other – even if it's not been easy for everyone at times. We've learned many lessons over the past year and have put initiatives in place to make sure our people, whatever their role, have felt supported. My hope is that we take forward the best of our collective experiences to build a more flexible approach to our working lives, while continuing to deliver the high levels of service our customers rightly expect.

The commitment of our people to always deliver the best for our customers is reflected in our strong performance for the year against a number of key indicators. For example, in 2020 we beat our target for the acceptability of the water we supply to our customers. In addition, we saw excellent performance in relation to supply interruptions – despite some challenging conditions during the winter. We also met our leakage targets for the year across both our South Staffs and Cambridge regions. And we continued to engage with young people – delivering a virtual package of assemblies and activities while restrictions on school visits were in place.

Another area where we performed well and demonstrated our public value is in the level of support we've continued to provide to customers. As well as our Assure social tariff for customers on low incomes, we also introduced an Assure COVID-19 tariff for anyone whose livelihoods have been directly impacted by the pandemic. In addition, we made it easier for all our customers to manage their water bills, offering flexible payment plans and a number of ways to pay. We recognise, however, that affordability is likely to be an issue for some customers and will do everything we can to support them. And we extended the reach of our Priority Services Register for customers in vulnerable circumstances by sharing information and engaging with our partner community organisations, as well as with local and national elected officials.

We also started work to deliver our ambitious capital investment programme for the five years from 2020 to 2025. This includes our project to upgrade the two largest water treatment works in our South Staffs region – Hampton Loade and Seedy Mill. This is a strategically important programme of work for us, as these works supply clean water to around 60% of customers across the region. And although it falls just outside the reporting year, in May we were delighted that Ofwat and other sector regulators recognised our ambition in the draft decision on our green recovery proposal to install an innovative ceramic membrane filtration system at Hampton Loade. We welcome the part we're playing to aid economic recovery and build back better post-COVID.

But there have been some serious challenges for us during the year, a number of which are directly attributable to the impact of the COVID-19 pandemic. For example, we deliberately scaled back our normal debt collection practices as a result of the income pressures on some households caused by the pandemic.

We've also seen a large and sustained increase in individual water use across both our South Staffs and Cambridge regions during the year. Much of this has been driven by more people working from home and schools being closed during the three lockdowns that were the overriding feature of the 12 months covered by this report. At several points during the year we broke our own records for the volume of water we put into the supply network. We're mindful of our duty to encourage all our customers to use water wisely and become more water efficient, and are actively looking at strategies to further understand and promote the value of water.

Much of my focus during the year has been on putting in place the people, systems and processes that will help drive the business forward as we head towards Ofwat's next periodic review of price controls in 2024. The steps we're taking now will, I believe, stand us in good stead for years to come. As part of this, I've made a number of new executive appointments, putting in place a team that reflects our ambition and direction of travel.

Looking ahead, you can expect to see us taking more of a leadership role within the England and Wales water sector – both in terms of how we demonstrate our public value and in the area of environmental stewardship. This means playing our part and working collaboratively with others within and outside the sector to ensure we deliver clean and sustainable water supplies always – for our customers, for our communities and for the environment we all rely on and enjoy.

Andy Willicott

About the annual performance report

We publish our annual performance report (APR) alongside our annual report and financial statements each year. It provides information about the appointed business in the following areas.

- Regulatory accounts primary statements.
- Price review and segmental reporting.
- Performance summary.
- Additional regulatory information (water resources, the network plus price control and the innovation competition).

Our APR comprises:

- an analysis of our performance during the year covered by this report;
- a number of case studies, highlighting different aspects of our performance;
- a suite of data tables forming the regulatory accounts;
- a table on outcome performance for the year;
- narrative covering outcomes, totex and a reconciliation to price controls;
- a statement on the accuracy of data and information;
- a statement confirming our compliance with the ring-fencing conditions of our licence (F6A); and
- a risk and compliance statement confirming that we have a full understanding of, and are meeting, all our relevant statutory, licence and regulatory obligations.

Our statutory accounts on their own are considered insufficient to assess the performance of a vertically integrated, price-controlled monopoly such as South Staffordshire Water. This is particularly relevant in a water sector with long-life assets and where there is still an absence of competitive markets for different parts of the value chain. These regulatory accounting statements use audited information and comply with Ofwat's published regulatory accounting guidelines (RAGs), which can be found on its website.

To avoid duplication, we have signposted some of the required disclosures in our annual report and financial statements. We present the APR to the Audit and Risk Assurance Committee and the Board for approval.

Assuring our APR

Our APR is a key document providing information to Ofwat on our performance for the year. Rating agencies and other stakeholders also use it to assess our performance. As with all publications, it is vital that the information it contains is accurate.

As in previous years, the financial information (regulatory accounts, and price review and segmental reporting) has been audited by our external auditors, Deloitte LLP, as required by Ofwat. Deloitte has also carried out agreed-upon procedures on the relevant cost allocation tables in the sections on price review and segmental reporting and additional regulatory information.

There is also a section on ODIs and the indicators that carry a financial reward or penalty; Jacobs has audited this. A summary report is set out on pages 54 to 60. Group Internal Audit has reviewed the remaining reputational ODIs and the summary report is set out on page 62. Jacobs has also audited the financial flows submission and our long-term viability statement.

Board leadership, transparency and governance

We need to demonstrate through our annual reporting how we are meeting Ofwat's revised principles on Board leadership, transparency and governance, which came into effect at the start of the 2019/20 reporting year. As part of this, we are required to meet the objectives of these revised principles.

We set out below how we have complied with Ofwat's principles of Board leadership, transparency and governance.

Ofwat's principle	How we have complied
Purpose, values and culture	• We have a clear vision, mission statement and purpose, which are underpinned by our core beliefs. Our vision and purpose has been tested with our customers and people, and shaped and approved by the Board (page 4). • As part of the work we carried out to achieve Investors in People (IIP) accreditation in 2020/21 and following discussion with the Board, we have re-shaped our values to focus on the following themes. – equality, diversity and inclusion; – excellence in service; – responsibility; and – trust and respect.
Stand-alone regulated company	We cover this in more detail in the annual report and financial statements. • See 'Matters reserved for Board' (page 61). • See 'Corporate governance report' (pages 56 to 78).
Board leadership and transparency	We cover this in more detail in the annual report and financial statements. • See 'Corporate governance report' (pages 56 to 78).
Board structure and effectiveness	We cover this in more detail in the annual report and financial statements. • See 'Board, Directors and Executive team' (pages 47 to 51). • See 'Directors' report (pages 52 to 55). • See 'Corporate governance report' (pages 56 to 78), with particular reference to the Board effectiveness section (page 76). • See 'Statement of Directors' responsibilities for regulatory information' (page 31).

Performance against our targets

Outcome	Customer promise	Performance commitment	Unit of measurement	2020/21 target	2020/21 performance	Target met
Core outcomes	We promise to provide value for money	Delivering services that are value for money	% of satisfied customers	78	74	✗
	We promise to maintain our customers' trust in us	Making sure customers have a high level of trust in us	Score out of 10	8.10	8.16	✓
Our customers	We promise to offer a great customer experience and get feedback to help us keep improving	Great customer service to our household customers	C-MeX score	10th out of 17 companies		
		Great customer service to our business market suppliers (retailers)	R-MeX score	Not achieved, based on one survey in the 12-month period		
		Great service to developers	D-MeX score	11th out of 17 companies		
Our community	We promise to offer customers the right level of support to suit their individual needs and help everyone learn how to use water wisely	Financial support for household customers struggling to pay their bills	No. of customers helped	32,000	49,279	✓
		Extra Care support for customers who need assistance	% on PSR receiving extra care support	5	5	✓
		Education programme, working with schools about the need to use water wisely	No. of pupils engaged	6,000	9,648	✓
		Ensuring customers who need assistance are registered with us	% registered on Priority Services Register	6.1	5.8	✗
Our service	We promise to provide clean, high-quality and reliable water supplies now and in the future	Delivering upgraded water treatment works	% completion	0	8	✓
		Always meeting water quality standards – drinking water quality	Compliance Risk Index (CRI) score (water quality measure)'	0	1.09	✗
		Always meeting water quality standards – taste, smell and colour	Contacts per 1,000 population	1.14	0.98	✓
		Maintaining a reliable supply – supply interruptions	Average interruptions in minutes and seconds	06:30	04:33	✓
		Maintaining a reliable supply – severe supply restrictions	% of customers at risk	0	0	✓
		Reducing the number of water production failures	Unplanned outage as a % of total production capacity	2.34	0.57	✓
		Finding and fixing visible leaks more quickly	% of visible leaks repaired within set no. of days	90% within six days	90% within six days	✓
		Reducing the number of burst mains	No. of bursts per 1,000 km of mains	129.6	130.0	✗

Outcome	Customer promise	Performance commitment	Unit of measurement	2020/21 target	2020/21 performance	Target met
Our environment	We promise to protect the natural environment, reduce leakage and support the building of water efficient homes	Reducing leakage levels – South Staffs region	% reduction from baseline	1.8	3.3	✓
		Reducing leakage levels – Cambridge region	% reduction from baseline	2.9	4.1	✓
		Reducing how much water each person uses (per capita consumption) – South Staffs region	% reduction from baseline	0.4	-5.8	✗
		Reducing how much water each person uses (per capita consumption) – Cambridge region	% reduction from baseline	1.2	-3.0	✗
		Not taking too much water from environmentally sensitive sites	Abstraction Incentive Mechanism (AIM) score	0	-0.07	✓
		Protecting wildlife, plants, habitats and catchments	Hectares of land managed	194	245.8	✓
		Supporting water-efficient house building	Volume of water saved (megalitres)	1.9	2.2	✓
		Reducing our carbon emissions	Kilograms per connected property	68	26.4	✓
		Delivering Water Industry National Environment Programme requirements	Milestones	Met	Not met	✗
Our business	We promise to run an efficient business, with happy employees, where our suppliers are treated fairly	Making sure all our people love their jobs	Net Promoter Score/ Achieving Investors in People (IIP)	IIP accreditation achieved at Standard level		
		Treating all our suppliers fairly and paying small businesses quickly	% of small businesses paid within 30 days	100	29	✗
		Reducing our bad debt so customers do not pay more than they need to	Bad debt as a % of revenue	3.01	3.23	✗
		Making sure our property records are up to date	% validated	100	100	✓

Delivering for our customers

How we performed during 2020/21

Our customers' views of the service we deliver are extremely important to us. So we continually engage with them using a range of tools, including focus groups, polls and surveys. We also measure their views on both the trust they have in us and the value for money of the services we provide.

We use the combined results of two surveys to work out the scores for our trust and value for money performance commitments. Half the results are taken from a yearly, independently run survey among 800 household customers. The other results are taken from the Consumer Council for Water 'Water Matters' survey of 300 household customers. Both surveys include a representative sample of customers across our South Staffs and Cambridge regions. The scores are calculated as follows.

- Our trust score is an average score out of ten, calculated from the results across both surveys. 'Don't know' responses from customers are excluded.
- The value for money score is calculated from the percentage of customers who gave an 'agree' or 'strongly agree' response across both surveys that our service represents value for money. Again, we exclude 'don't know' responses to ensure the survey results are directly comparable and match the way CCW's Water Matters results are reported. This means the value for money score in our tracker moves from 68% agreement to 71%.

We are pleased to report that we beat our target levels for customers' trust in 2020/21, achieving a score of 8.16 out of 10. However, we ended the year a little bit behind where we wanted to be in terms of our value for money target. We think this is due in part to the impact the COVID-19 pandemic has had on household finances during the year. We will be looking to improve our performance in this area in the year ahead.

Our main regulatory customer service target is the customer measure of experience (C-MeX). This is designed to ensure we provide all our household customers with excellent levels of service. C-MeX measures direct customer feedback. It is made up of two surveys: one with customers who recently contacted us about the service they received from us; and one with randomly selected members of the public about their experience of us as their water company.

In both cases, customers are asked how satisfied they are with the service we provide and how likely they would be to recommend us to their friends or families. At the end of the reporting year and following strong performance since December we had a C-MeX score of 81.89, which placed us 10th among other water companies in England and Wales. We have put a strategy in place to help us improve on this in the year ahead.

There is also a regulatory measure of customer experience known as D-MeX for our developer services customers. This includes large and small property developers, self-lay providers and water companies with new appointments and variations. D-MeX comprises a survey of developer services customers that have recently a completed transaction with us and a measure of our performance against a set of level of service metrics developed by Water UK, the body that represents water companies.

We have continued to engage with our customers in the housebuilding sector to ensure they receive excellent service from us for the water mains and service connections they need to enable us to supply new homes. We did not quite met our target for 2020/21, but we are continuing to work with developers on the areas where we need to improve to ensure they receive excellent service in the future. We have also continued to offer incentives for developers to increase water efficiency in new homes. We saw more take up of this during the year and are pleased to report we performed better than our target in this area.

We also have a third performance commitment in relation to customer service. We call this R-MeX and it measures business retailers' satisfaction in us as a wholesaler operating in a retail market. We use operating performance and market performance standards as the basis of R-MeX, combining them with our own retailer satisfaction survey. We are disappointed that we did not meet our target in this area and will look to drive improvements in our performance in the coming year.

Making it easy for our customers to find information quickly

Throughout 2020/21 we made a number of improvements to our website. This was to make it easier for our customers to find the information they are looking for quickly by improving functionality and enhancing the user journey. Over the year we updated the content in a number of key areas, including the Priority Services Register pages, the education pages, and the news and publications sections. We also updated our Developer Services pages, making them much easier to navigate. And we made it easier for customers to report a problem and relaunched the 'help and advice' section.

This work demonstrates our commitment to developing our digital platforms, which have seen us introduce a number of self-serve elements for those customers who value engaging with us in this way. The work we carried out during the year forms part of a larger project to overhaul and modernise our website. We plan to make more use of mobile-optimised techniques to enable different web pages to be viewed on a range of devices and web browsers. We will also ensure that customers who wish to contact us using traditional means can continue to do so. We will report on the progress of this project in next year's APR.

Encouraging customers to get water fit

We know that water is a precious and finite resource and we are always looking for ways to encourage our customers to use it wisely. So in November we launched a six-month pilot of 'Get Water Fit', an interactive digital tool designed to help customers save water, energy and money by managing their water use more effectively.

Anyone signing up to the tool is asked some simple questions tailored to their individual circumstances. Get Water Fit then produces a personalised dashboard and coaching plan, showing how and where water is used in the home. The aim is to help customers save water by making small changes to their daily activities. In addition, customers are encouraged to join water saving teams in their area and can earn 'coins', which can then be donated to local charities or other organisations. They can also get free water-saving devices, such as shower regulators, pipe lagging, water saving gel for plants and 'leaky loo' leak detection strips.

To date, 2,463 customers have signed up to the Get Water Fit digital tool – 1,718 in our South Staffs region and 745 in our Cambridge region. We will continue to encourage participation and will report on the outcome of the pilot in next year's APR.

Delivering for our communities

How we performed during 2020/21

As the provider of an essential public service we understand how important it is to make sure extra help and support is available to those customers and communities that need it most. This has been especially true during 2020/21 as a result of the COVID-19 pandemic. When the UK Government announced the first national lockdown in March 2020 we moved very quickly, adopting different ways of working and proactively putting in place a range of support measures to help customers whose lives had been directly impacted by the pandemic.

This included introducing a new Assure COVID-19 tariff, offering a 12 week discount for any customer facing financial hardship as a direct result of the pandemic. At the same time, we continued to offer our Assure tariff for customers on low incomes, along with a range of flexible payment options, payment plans and payment breaks for those experiencing temporary financial difficulty. In addition, we shared regular updates with more than 400 local community organisations and charities that we work with. And we actively encouraged our customers to contact us so that we could tell them about our support schemes. This included helping those customers who traditionally pay their water bills in banks, post offices or PayPoint locations to switch to safe alternative payment methods.

We also encouraged customers who might be eligible to sign up for our Priority Services Register (PSR). This is a free service for anyone who may need extra help because of their age, or because of medical, learning, physical disabilities or financial difficulties. And we implemented an Extra Care package for customers on the PSR who need additional levels of support, achieving our target of 5% uptake for this service.

Customers on the PSR can get hands-on help in the event of an emergency (for example, if we have to turn off the water supply to deal with a burst main), help with reading or understanding their water bills and access to a password protection scheme. We took steps during the year to extend the reach of the scheme, engaging with local councillors and MPs across our South Staffs and Cambridge regions. And we set up special codes on our PSR to help us actively identify those customers who were shielding.

We are very pleased to report that we hugely increased the number of people who receive our Assure social tariff discounts and other forms of financial support during 2020/21, beating all our targets in this area. At the time of writing 36,927 customers were on our Assure tariff, while another 12,352 benefited from our financial support packages. Also, 23,694 customers signed up for the PSR during the year. Overall, 54% of customers are aware of the support we offer to those who find it difficult to pay their water bills (compared with 41% in 2019/20), while awareness of our social tariff has also increased significantly to 34% (compared with only 20% in 2019/20). We will continue to raise awareness among our customers of the support that we have available to help them.

And while the pandemic seriously affected our education outreach work, we still met our target for the year – engaging with 9,648 young people. As we were unable to visit schools because of COVID-19 restrictions we had to come up with other ways to deliver our exciting education programme across both our regions. This included delivering virtual assemblies, and making a number of worksheets, workbooks and activity packs available online.

Making a difference and adding value in our communities

We are committed to being embedded in the communities we serve. And while the COVID-19 pandemic has impacted some of our activities we have continued to act in the interests of our customers and our communities. For example, before Christmas our people, together with other employees from across the South Staffordshire Plc group, raised almost £3,000 to support local food banks. A contribution from our parent company took the total amount raised to £9,000, which we donated to the Trussell Trust and a number of independent food banks, including Breaking Bread, Chase Lighthouse and Salma Foodbank in our South Staffs region, and Abbey Community Food Hub, Cherry Hinton Food Hub and Queen Edith's Food Hub in our Cambridge region.

Also, following the success of our 'dress to impress' campaign in September where we asked for donations of smart clothes and work wear for people attending job interviews, we continued with our free clothes initiative. In November we asked for donations of men's, women's and children's winter coats and distributed them to people in our communities who were in the most need. In March we followed this by asking for donations of baby clothes, again to help families in need and those whose lives had been seriously impacted by the pandemic.

H2Online going from strength to strength

Since its launch in November 2019, our H2Online community has become an integral part of our ongoing customer engagement programme. It has enabled customers in our South Staffs and Cambridge regions to help shape the future of their water services and drive improvements across the business. It has also given them the opportunity to provide feedback on a range of water-related topics. At the time of writing 781 customers were registered members of our community – 461 from our South Staffs region and 320 from our Cambridge region.

We use a range of approaches to engage with H2Online members, such as discussions, surveys and video diaries. During the year some of the most popular topics discussed included:

- the acceptability of our current investment programme;
- the introduction of smart meters to provide more regular readings; and
- ways to improve the content and design of our website, to make it easier for customers to quickly find the information they are looking for.

A key feature of H2Online has been the 'You said, we did' feature where we provided updates on how we used their feedback, alongside the insights from our other engagement activities, to improve our services. As a result of this approach, we had more than 50 'quick wins' during 2020/21, including:

- making changes to web pages, application forms and letters to improve our COVID-19 support plans;
- updating the promotional materials for our PSR and financial support schemes to raise more awareness among customers; and
- making it easier for customers to access our MyAccount tool.

In the coming year we will continue to encourage participation in our H2Online community across both regions.

Growing our communities with PEBBLE

In December we announced the successful recipients of grants from our PEBBLE biodiversity fund. First launched in 2016, our PEBBLE (Projects that Explore Biodiversity Benefits in the Local Environment) fund makes grants of up to £10,000 available for community projects that look to improve, create or restore habitats within our South Staffs and Cambridge regions. To date, more than 100 hectares of land across both regions – the equivalent of around 100 rugby pitches – has been improved thanks to PEBBLE awards.

In our South Staffs region we awarded more than £22,000 for a number community allotment and gardening related activities, including:

- projects in Walsall and Burton-on-Trent to engage and train existing and potential bee keepers, and to provide habitats for bees;
- a community gardening project in Uttoxeter and a community allotment in Smethwick;
- a project to create and restore hedging along the Lichfield and Hatherton Canals to provide new habitats for wildlife and enhance the area for local communities; and
- a pond restoration project in a nature reserve near Alrewas.

In our Cambridge region we awarded almost £21,000 to eight projects that focus on restoring chalk streams and protecting rare species of birds and other wildlife, including:

- improving a section of Vicar's Brook and the Mel River in the Greater Cambridge area, and carrying out conservation management and invasive species control at Cherry Hinton chalk pits;
- replacing six barn owl boxes across a 160 hectare site;
- creating a wildflower meadow and orchard at a community farm in the centre of Cambridge; and
- improving the existing habitats at the Round Moat in Fowlmere.

Applications for the latest round of PEBBLE funding opened in April 2021.

Delivering a reliable service

How we performed during 2020/21

Our customers always expect to receive water of the highest quality from us. We have a rolling programme of investment and maintenance that we carry out to ensure the long-term health of our pipes, pumping stations and treatment works. The 2020/21 reporting year marks the first year of an ambitious programme, which will see us invest around £600 million in our assets and services over the five years to 2025. This is our largest-ever investment programme.

One area where we have continued to invest is in the quality of the water we supply to our customers – this is the most important priority for them. This investment is paying off – in 2020 we saw a significant improvement in our Compliance Risk Index (CRI) score compared with previous years. CRI is the key regulatory measure of compliance with stringent water quality requirements. In addition, we beat our target for the number of contacts from customers about the taste, smell and colour of their water. The work we are carrying out to upgrade the Hampton Loade and Seedy Mill water treatment works in our South Staffs region will help ensure the quality and reliability of our supplies now and in the future. We are currently on target to deliver the upgrades to our treatment works in line with our performance commitment.

We also saw excellent performance on planned and unplanned interruptions to supply for most of the year. However, we experienced some problems during the winter and worked quickly to restore supplies to customers – often in difficult circumstances. Despite the challenges posed by these supply interruptions, on the whole we exceeded our target for the year. We also continued to see excellent performance for most of the year in the area of mains repairs. Again, the lengthy periods of very cold weather we experienced in January resulted in our highest level of bursts for ten years, which reflected a nationwide pattern. As a result, we failed this target.

Consistent with previous years, asset health and reliability is another area where we performed well during the year. Our investment programme is continuing to deliver asset replacements that meet all the required standards and reliability expectations. During the year for example, we delivered nearly 76km of new and renewed water mains across our South Staffs and Cambridge regions. Our levels of unplanned outage for the year were low and we performed better than our target.

We introduced a new target for visible leak repair time in 2020/21 as this is another key priority for our customers. We put in place new systems and processes to be able to track these types of leaks and increased our focus on fixing them quickly when they are identified. We are pleased to report that we achieved our target of 90% of visible leaks being repaired within six days. This is an excellent achievement, given how difficult it can be to fix leaks on public highways.

Building resilience for the future

One of the key themes of our ambitious investment programme is around building resilience for the future in the face of the challenges of population growth and a changing climate. For example, we carried out planned work at the Bourn reservoir site in our Cambridge region during the year. This site comprises three storage reservoirs – only one of which is currently in service – providing clean water to around 14,000 properties. As part of our investment programme we are constructing a new eight million litre storage reservoir at the site, which will improve operational resilience and support future population growth in the area. Over a three-week period in August and September we worked in partnership with our contractors to demolish one of the decommissioned storage reservoirs, making way for the new one. Our contractors removed 40 tonnes of steel from the site, which was sent to a recycling plant; 860 tonnes of concrete was also taken away to be crushed and re-sold. At the time of writing we are waiting for the appropriate planning consents to enable the construction work on the new storage reservoir to start.

As well as setting our service delivery performance in the context of the COVID-19 pandemic, we also have to consider the impact of the sunniest April on record in 2020, followed by a hot, dry May. This saw a surge in the demand for clean water from our customers as the first national lockdown meant more people were at home and making the most of the hot weather. In our South Staffs region, demand at the end of May was around 400 million litres of treated water a day – the equivalent of around 160 50-metre swimming pools. This is 100 million litres more than a 'normal' spring day. In our Cambridge region, demand stood at around 100 million litres a day, 20 million litres more than we usually supply. We were able to meet this record-breaking demand from customers, thanks to a combination of the resilience of our assets and the hard work of our people.

We will continue to deliver our ambitious investment programme, making sure we catch up in those areas where the impact of the pandemic has slowed us down. We will report on our progress in next year's APR.

Building back better – investing in green recovery

Following the widespread social and economic upheaval caused by the COVID-19 pandemic, the UK Government launched a number of initiatives in the second half of 2020 to encourage economic growth post-COVID. As part of this, the regulated water companies in England Wales were encouraged to revisit their AMP7 investment programmes, focusing on green recovery solutions.

In light of this, and also the water sector's commitment to achieve net zero carbon emissions by 2030, we looked again at our upgrade plans for Hampton Loade, our largest water treatment works. Built between 1966 and 1972, it has a capacity of 210 million litres of water a day and supplies around 700,000 people in the southern half of our South Staffs region. It is also the only water treatment works on the River Severn without a secondary treatment stage, which is no longer considered best practice within the water sector.

In February we submitted a proposal to our regulator Ofwat to install an innovative ceramic membrane-based filtration system at the works. This would be the first retrofit of its kind in an existing water treatment works in the UK, and would deliver a number of benefits for customers and the environment, including enhanced water quality, reduced carbon emissions of around 1,000 tonnes a year, and improved operational flexibility and resilience. We were the only water only company to submit a green recovery bid to the regulator; the other companies that submitted bids were Severn Trent Water, South West Water, Thames Water and United Utilities.

Ofwat made its draft decision in May this year, just outside the 2020/21 reporting period. We are pleased to report that Ofwat approved our proposal, subject to consultation.

Dealing with bursts on the network

Although we are investing heavily in a programme of mains replacement and repair, and have a proactive approach to finding and fixing leaks, burst mains can occur on our network at any time and for a variety of reasons. The most important thing for us is to make sure we minimise the impact of such events on our customers. During 2020/21 we experienced several large bursts across both our South Staffs and Cambridge regions.

In August for example, we experienced a burst on the Thetford main in our Cambridge region. Unfortunately, because of its location, it is not always easy to find a leak on the main. On this occasion, the burst occurred in remote scrubland. Our people worked overnight to repair the main so that supplies could be restored to customers as quickly as possible. Indeed, the day after the burst we put more than 106 million litres of water into supply – the highest volume ever recorded in our Cambridge region.

On Christmas Eve, we experienced a burst in the Cawney Hill area of our South Staffs region, which was followed by a second burst in the early hours of Christmas morning. Because the bursts were in the same area, they put the water supply to tens of thousands of customers at risk and resulted in supply interruptions and low pressure. Many people from across the business gave up time with their families to help minimise the impact on our customers. In the end, their hard work and professionalism meant that both bursts were repaired without the storage reservoirs in the area being affected. Had this happened, the impact on our customers would have been far greater. The festive incidents did not stop there, however, as we experienced a burst on Boxing Day in our Cambridge region, causing a loss of supply to the village of Holywell-cum-Needingworth. Again, our people took time away from their families to ensure the burst was fixed and supplies to customers were restored quickly.

And in February we experienced a major burst in Etwall in our South Staffs region, which occurred when the temperature rose quickly after a prolonged period of very cold weather. Unfortunately, the burst main caused a loss of supply and low pressure for many customers in the surrounding area, which meant co-ordinating alternative supplies while we carried out the repair. The repair itself was challenging – as well as being in close proximity to the A38 and a nearby rail line, the main was situated near a gas pipe, which also had a leak. We worked closely with contractors from Cadent to complete the repairs safely, returning supplies to customers as quickly as we were able to.

Delivering for the environment

How we performed during 2020/21

We take our role as custodians of the environment seriously and recognise the need to ensure water is available now and in the future. One of the ways we do this is by minimising the volume of water that leaks from our network of pipes. This is another priority for our customers. The 2020/21 reporting year saw a big step up in our leakage detection across our geographically diverse regions. We are pleased to report that we performed better than our target for the year in our South Staffs region and met our target in our Cambridge region. This performance sets us up well for continued reductions in future years.

We saw a significant shift in household and non-household water consumption during the year because of the unprecedented impact of the COVID-19 pandemic on everyone's daily lives. This led to a big increase in household water use, on which our water efficiency targets are based. We continued to promote our water saving activity and ran numerous campaigns during the sustained periods of hot weather. But this could not offset the large step change in household water use patterns. This meant we failed our targets for household water use in both our South Staffs and Cambridge regions. Because of the significant impact on water use as a result of the pandemic, our regulator Ofwat has agreed to look again at water use targets at its next review of price controls in 2024. This is to allow more time for the impacts of COVID-19 on water efficiency to be fully understood.

The UK water sector has an ambitious target to achieve net zero carbon emissions by 2030 – we are playing our part to deliver this commitment. This includes taking steps to reduce our own carbon footprint, which mainly comes from the electricity we use to pump water through our network of pipes to our customers' homes and businesses. Unfortunately, we did not meet our carbon emissions target in 2020/21 because of the significant increase in the demand for water across our South Staffs and Cambridge regions as a result of the COVID-19 pandemic. We are looking at ways to improve our performance in this area in the coming year.

We are conscious of the impact our activities have on the environment and do everything we can to minimise that impact. During 2020/21 we continued to manage the volume of water we take from the environment, despite the challenges we faced with sustained higher water demand throughout the year. We are pleased that we performed better than our abstraction incentive mechanism (AIM) target. This is the means by which we can reduce the volume of water we take from environmentally sensitive sites when river flows are low. In addition, we continued to carry out a number of environmental initiatives and exceeded our targets for the year for the total area of land managed. And we made excellent progress during the year with our national environment programme commitments, meeting all but one of our agreed deadlines.

Using satellite technology to help detect leaks

Over the five years from 2020 to 2025 we have set ourselves an ambitious target to reduce leakage across our South Staffs and Cambridge regions by at least 15%. We know from our engagement that this is a really important issue for our customers.

In March we announced that, following extensive trials, we would be using an innovative satellite technology developed by Utilis to help us detect leaks. The system uses radar sensors to penetrate the first few metres of earth and look for the unique signature of underground drinking water to show where there might be a leak. The sensors can detect water under natural and manmade surfaces, such as tarmac, brick and concrete. It produces satellite images that can then be shared with our field-based people who can then investigate the area to pinpoint the leak. We believe using this technology will save around two million litres of water a day from being lost through leaking pipes.

Protecting rare habitats for future generations

Much of the water in our Cambridge region is taken from underground aquifers, which feed a number of chalk streams in the area. There are only about 200 chalk streams in the world and 85% of these are found in the UK – mostly in the south and south east of England. They have unique characteristics and support a wide range of aquatic plants and wildlife, such as water crowfoot, kingfisher and brown trout. Because they are fed from underground aquifers, chalk streams have a stable temperature of 10 degrees centigrade all year round, making them cool in the summer and warm in the winter. They are also a fragile environment and sensitive to the effects of abstraction from the aquifers that feed them.

As a custodian of the environment, we are mindful that many people are not aware that much of the water they use every day comes from the same sources that feed into these chalk streams – and that by using less water, more will be left in the environment. So to help our customers, in June we launched an animation showing how the demand for water can affect water levels in rivers and chalk streams. This was the first time we had produced an animation entirely in house, with people from our water strategy and communications teams working in close collaboration on the content and visuals.

We recognise how important it is to protect our chalk streams for future generations. So in September, working in partnership with Cambridge City Council, we commissioned a specialist analysis of the chalk streams in Cambridge and South Cambridgeshire. Specialists from Bedfordshire, Cambridgeshire and Northamptonshire Wildlife Trusts and the Wild Trout Trust carried out an assessment the health of the chalk streams in the area. The aim of the project was to demonstrate how much pressure is being put on these water bodies and provide a programme of actions and partnership working opportunities for local groups and other stakeholders. The project report was published in December.

Farming scheme benefits the environment and drinking water quality

In July we teamed up with Affinity Water and farmers in our Cambridge region in a scheme that is designed to benefit the environment, drinking water quality and soil health. EnTrade is an innovative reverse auction first developed by Wessex Water, which looks to develop collaborations between water companies and landowners. It operates online markets for nature-based solutions and offers farmers a reliable income stream by encouraging them to sell environmental credits from their land. We also had the support of the Farming and Wildlife Advisory Group East, which promoted the EnTrade auction to local farmers.

During the year we worked with 18 farmers on a project to fund the planting of cover crops across 800 hectares of land. Cover crops, such as oil radish, linseed, Italian ryegrass and barley, are an excellent way to capture nitrates in the soil. Grown in the autumn and winter between cash crops, they help to build organic matter in soils, protect them from erosion and increase biodiversity by attracting birds and wildlife. Without a cover crop, nitrates have the potential to leach into nearby rivers and the underground aquifers from which we take our water. This water then requires more intensive treatment before we can supply it to our customers.

We are pleased to report that the 2020/21 EnTrade scheme was a success and had captured more than 40 tonnes of nitrates that might otherwise have leached into our groundwater sources. In the year ahead, we will continue to work with Affinity Water in the South Cambridgeshire and North Hertfordshire areas to fund the growing of cover crops through the EnTrade platform.

Delivering for our business

How we performed in 2020/21

In our business plan for 2020 to 2025 we committed to run an efficient business with people who are happy in their jobs, where our customers pay their fair share and where we treat our suppliers fairly and in line with the Prompt Payment Code. As part of this, we set ourselves a target to achieve Investors in People (IIP) accreditation during 2020/21. IIP is an internationally-recognised scheme that aims to support businesses in getting the best out of their people. It looks at how the business leads, supports and improve its people, and any steps it could take to do this better. IIP offers accreditation at three different levels – Standard, Silver and Gold.

We achieved accreditation at the Standard level in December. This is the first step in our IIP journey, demonstrating that we have in place principles and practices around supporting people and that everyone understands how to use them to make work better. The final report highlighted the areas where we are performing well, including:

- the commitment of our people to delivering excellent service;
- having an inspirational leadership that instils trust and empowerment;
- keeping our people informed; and
- supporting our people's wellbeing during the COVID-19 pandemic.

We also received an action plan on areas where we need to improve, including in the areas of reward and recognition and encouraging greater collaboration between teams and departments. We will continue to report on our IIP journey in our APR each year.

We know how important it is for our customers, suppliers and other stakeholders to trust us. Without this trust our legitimacy as the provider of an essential public service is broken. One of the ways we are building this trust is by making sure that everyone who should be paying a bill is doing so. During 2020/21 we continued with our void property checks to ensure fairness across our charges. There was an increase in bad debt during the year, which was because of a higher level of missed payments that stemmed from the financial impact of the COVID-19 pandemic. Because we were acutely aware of these financial impacts, we partially suspended our normal debt collection activity.

Another way of engendering trust is by treating our suppliers fairly and paying them in a timely manner. This is particularly important for small businesses and for those that are critical to our day-to-day operations. In our business plan we committed to paying companies with turnover less than £6.5 million within 30 days of receiving their invoice. Unfortunately, we missed our target in this area; we will look to see what we need to do to improve our performance in the coming year.

Over the year covered by this report, we have been looking at how we present ourselves as a business. This includes refreshing our corporate visual identity to more closely align our South Staffs and Cambridge regions. We will report on the outcome of this work in next year's APR.

Enhancing our ways of working

In March we delivered another of our business plan commitments with the launch across both our South Staffs and Cambridge regions of our new Maximo works management system. This was one of the key outcomes of our Enhancing our Ways of Working (EWOW) programme, which we launched in 2019. Our EWOW programme aims to transform our business processes, making us more efficient and able to respond quickly and flexibly to changing circumstances.

We worked in partnership with BPD Zenith to develop and implement our new Maximo system. As part of this, we identified 15 inter-related processes covering things like the operation and maintenance of production assets, work planning and scheduling, and the services provided to developers. In addition, we identified a number of subject matter experts from across the business, whose role was to help design the new system so that it was truly responsive to our needs. We also produced a number of video guides to help our people navigate their way round the new system. And to facilitate the smooth roll out of the new system we distributed nearly 200 iPads to our field-based teams.

We believe that Maximo will deliver a number of benefits for the business, including:

- aligning metering processes to improve the customer journey;
- improving our work planning, scheduling and delivery processes;
- enabling mobile working through Maximo Anywhere;
- creating a consistent and easy to maintain production assets register; and
- improving the governance and efficiency of our supply chain processes.

Performance against our resilience action plan

In August 2019, we published our resilience action plan. This outlined how we were developing an integrated, systems-based approach to ensure we delivered resilient services to our customers now and in the long term.

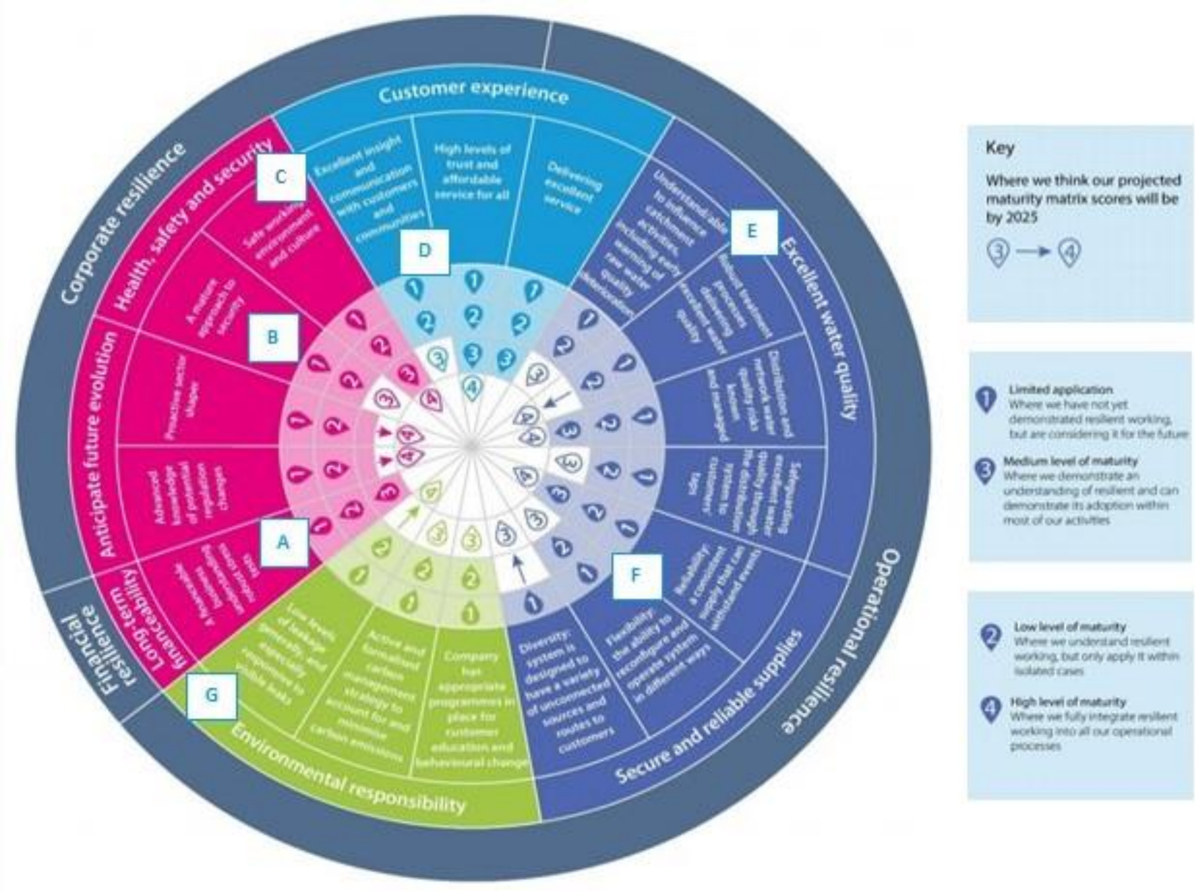
We committed to being resilient 'in the round', meaning we had:

- **financial resilience** – the ability to avoid, cope with and recover from any disruption to our finances now and over the long term;
- **corporate resilience** – the ability of our governance, accountability and assurance processes to avoid, cope with and recover from disruption of all types; and
- **operational resilience** – the ability of our infrastructure to avoid, cope with and recover from any disruption, and ensure we continue to deliver secure and reliable water supplies.

We have been working hard to complete the actions we set out in the plan and improve our long-term resilience in each of these areas.

Our resilience lens and progress against our plan

We created our resilience lens as a structured and robust way to assess our overall resilience, scoring ourselves on our resilience security against each of our desired states.



Linked to the resilience lens, we outline below the actions we have completed and the progress we have made in delivering against our resilience action plan over the past two years.

Financial resilience

Ref	Business outcome	Desired state	Action	Update
A	Long-term financeability	A financeable business understanding robust stress tests	Commit to demonstrating in our next long-term viability statement that our assessment of financial resilience extends beyond 2025	We have assessed our long-term viability over a ten-year period and also improved our approach to modelling financial resilience. See pages 37 to 41 in our annual report and financial statements for more information.

Corporate resilience

Ref	Business outcome	Desired state	Action	Update
B	Health, safety and security	A mature approach to security	Continue to ensure security matters are at the heart of all our decision making, business planning and processes	The tragic event at Wessex Water in December 2020 (in which an explosion at one of the company's plants resulted in the deaths of four employees) and the onset of a global pandemic during the year covered by this report have further highlighted the constant need to focus on the safety of our people, our supply chain and our customers. This is always at the fore of the Executive team's focus. During the year, there has been regular engagement with our people, supply chain and customers about safe working practices. In addition, following the explosion at Wessex Water we have revisited all our pressurised vessels at all our production sites and carried out thorough risk assessments.
C	Health, safety and security	Safe working environment and culture	Achieve Investors in People (IIP) accreditation during 2020/21	We achieved IIP accreditation at the Standard level in December 2020. See page 23 for more information.
D	Customer experience	Excellent insight and communication with customers and communities	Set up an online community panel to track customer priorities and give us regular insight across a range of topics	Our H2Online customer community, which we launched in our South Staffs and Cambridge regions in 2019, is continuing to go from strength to strength. We also launched a customer priorities tracker and customer promises tracker during the year. See page 16 for more information.

Operational resilience

Ref	Business outcome	Desired state	Action	Update
E	Excellent water quality	Robust treatment processes delivering excellent water quality	Upgrade our water treatment works at Hampton Loade and Seedy Mill by introducing an additional treatment stage and dual streaming	We started work on the upgrade programme at Hampton Loade and Seedy Mill during 2020/21. We submitted a successful bid to Ofwat under the UK Government's green recover initiative to install an innovative ceramic membrane based filtration system at Hampton Loade. See page 19 for more information.
F	Secure and reliable supplies	Flexibility: the ability to reconfigure and operate our system in different ways	Continue with our proactive control systems and processes replacement programme	In 2019, we launched our Enhancing our Ways of Working (EWOW) programme, which aims to transform our business processes, making us more efficient and able to respond quickly and flexibly to changing circumstances. In March we achieved a major programme milestone, with the launch of our new Maximo works management system. See page 24 for more information.
G	Environmental responsibility	Low levels of leakage generally. And especially responsive to visible leaks	Reduce leakage by at least 15% in our South Staffs and Cambridge regions	We are on target to achieve our stretching target to reduce leakage. In 2020/21 we reduced leakage by 3.3% in our South Staffs region and 4.1%in our Cambridge region. See pages 21 and 22 for more information.

Next steps

We are continuing to work towards improving our resilience maturity across all areas of our operations. We are in the process of delivering a number of other actions and will report on our progress in next year's APR.

Long-term viability statement

The Directors' full assessment of financial viability can be found on pages 37 to 42 of the South Staffordshire Water PLC annual report and financial statements. The Directors have assessed the company's viability over a ten-year period to 2031, taking into account the company's current position and principal risks. Based on that assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2031.

Company direction and performance statement

This short statement sets out how we are delivering for our customers and how they are central to everything we do, including our aspirations for the future and how we set our targets for delivery.

Our vision is to ensure we deliver clean, affordable water every day. This is so that we can make sure all our customers have access to high-quality drinking water, and that we always empower our people to provide an excellent and trusted service.

As a business that has provided an essential public service in our South Staffs and Cambridge regions for nearly 170 years, we recognise the importance of delivering the things that matter most to our customers, now and in the future. To achieve this, we actively work in partnership with local communities and play our part to help them thrive. We also act as the guardians of our assets and work hard to protect the local environment. We are a responsible company that puts the safety of our customers and our people at the heart of all our decision-making. This helps us to run an efficient business that is in everyone's interests.

Our overarching vision and purpose are underpinned by our core beliefs, which are that:

- preparing for the future is essential;
- building resilience in the face of climate change is vital;
- minimising waste in every area of our business operations is crucial;
- using water wisely is important;
- we are always looking for new ways to do things better and quicker;
- listening to customers is critical;
- our focus is on local issues; and
- working with partners creates better communities.

These core beliefs are reflected in our people's objectives and the work they do.

Our main operational targets are broadly those we put forward to Ofwat in our business plan for 2020 to 2025, and approved as part of our final determination, which we received in December 2019. Our customers have shaped these targets and we have grouped them into five outcomes – these are the promises we have made on the services they want us to deliver. To ensure we maintain our customers' trust in us, it is vital that we deliver these promises. So we have developed 30 performance commitments, which are the areas our customers have said they want to hold us to account. We have set stretching targets, known as 'outcome delivery incentives' or ODIs, for each of these commitments so that customers can measure our performance and see how we are doing.

We publish our progress on meeting these targets in an open and transparent way each year; we also publish key performance data each month on our dashboard. In addition, in this APR and in our annual report and financial statements we make further disclosures around:

- gender, equality and diversity;
- corporate governance;
- Executive pay and remuneration;
- shareholder dividends; and
- our ownership structure.

Our ODI targets feed into our financial and operating budget setting process each year and ensure that we maintain our ability to meet our customers' needs now and over the long term. We are required to outperform these targets while also delivering sustainable returns for our shareholders and making sure that capital investment takes place, and that we are operating efficiently across our wholesale and household retail price controls. We also have some non-regulated aspects to our business, which are managed under a similar framework. The Board, which is led by an Independent Non-executive Chair, uses its expertise and insight to challenge these targets and ensure there are plans in place to get back on track if there are any shortfalls.

During the year, our focus was firmly on delivering a resilient service to all our customers in the face of the challenges presented by the COVID-19 pandemic. This was an unprecedented situation that at times presented us with a rapidly evolving situation. But we were able to act in an agile way, putting plans in place to ensure we maintained essential public water supplies, while keeping our people and our customers safe. We built resilience around key functions directly connected to the supply of clean water to customers and asked managers to update their business continuity plans to ensure we key our water network operating as normal. We also made sure our office-based people had the tools and support they needed to work effectively from home. And we put in place a wide range of financial support for customers who were directly impacted by the pandemic.

Andy Willicott
Managing Director
29 June 2021

Statement of Directors' responsibilities for regulatory information

Further to the requirements of company law, the Directors are required to prepare accounting statements, which comply with the requirements of Condition I of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991 and RAGs issued by Ofwat.

This additionally requires the Directors to:

- confirm that, in their opinion, the company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months;
- confirm that, in their opinion, the company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the company;
- confirm that, in their opinion, the company has contracts with any associated company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the company's obligations as a water and sewerage undertaker;
- report to Ofwat changes in the company's activities, which may be material in relation to the company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- keep proper accounting records, which comply with Condition F.

These responsibilities are additional to those already set out in the statutory financial statements.

This Directors' responsibilities statement was approved at a meeting of Directors held on 29 June 2021 and duly signed on its behalf.

Andy Willicott
Managing Director
29 June 2021

Ring-fencing certificate

The company is required by Ofwat to produce and submit a ring-fencing certificate (RFC), also known as a certificate of adequacy. The RFC confirms that, in the opinion of the Board, the company will have available to it: sufficient financial resources and facilities; management resources, and systems of planning and internal control; and rights and resources, other than financial resources, to enable it to carry out the regulated activities for at least 12 months from the date the certificate is submitted to Ofwat.

The company also has to confirm that all contracts between it and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to the company, to ensure it is able to carry out the regulated activities.

Deloitte has performed assurance procedures on certain items of the certificate and its report has been submitted to Ofwat.

Main factors the Board has considered

The Board has considered a wide range of factors and evidence to satisfy the Directors that they can approve the RFC. The areas covered are set out in the following sections.

Financial resources and facilities

Factor considered	Sufficiency of evidence
Financial position	During the year we agreed a new £30 million facility, refinancing two facilities that expired in December 2020. Our balance sheet on 31 March 2021 showed net cash of £4.4 million and we had undrawn facilities amounting to £25 million. This gives us total liquidity headroom of £29.4 million. This provides sufficient headroom for at least the next 12 months.
Credit ratings and compliance	The latest published credit ratings at October 2020 from Moody's and March 2021 from S&P remain well within investment grade. The actual and forecast borrowing covenants all maintain significant headroom to allow us to operate.
Performance against the PR19 final determination	We have outperformed our totex allowance (excluding rates, abstraction licence fees and costs not subject to cost sharing) by £0.5 million, once timing differences are taken into account. Excluding PCC, which will be assessed at PR24 as a result of the impact of the COVID-19 pandemic, our PCs are in reward by £1.1 million.
Budgets and plans	Our budget for 2021/22 and the associated investment programme has been reviewed, challenged and approved by the Board. Base plans used for the long-term viability statement cover the period 2021 to 2031. This is set out on pages 37 to 41 of our annual report and financial statements, along with the stress tests applied, the results of those tests and the mitigations considered. The Audit and Risk Assurance Committee has reviewed the long-term viability statement on behalf ofthe Board; it considers that the company will continue to operate for at least the next ten years.

Management resources

Factor considered	Sufficiency of evidence
Management skills, experience and qualifications	Many key managers have been with the company for a number of years and have gained a significant level of experience in their relevant areas. Key technical managers are suitably qualified and continually developed to ensure their skills are up to date.
Recruitment process and employee management	All job vacancies are gender neutral and focus on skills, abilities and opportunities for development. We also work proactively with local schools, colleges and universities – attending careers fairs and engaging with young people about the opportunities we have to offer. All employees have two formal appraisals a year. This enables managers to review performance, progress against objectives set for the year and behaviour against company values. Appraisals also consider future aspirations and training needs.
Succession planning	Succession planning in recent years has focused on recruiting apprentices and training them in key roles, such as leakage detection and repair. We also run a successful apprenticeship scheme.
Training and development	All new starters attend a formal induction, and health and safety presentation. Where identified, a formal training and development plan is agreed to ensure employees become fully competent in their roles. These plans are reviewed on a regular basis against specific milestones. We achieved Investors in People (IIP) accreditation during the year. This is a measure of people investment that offers accreditation to organisations that adhere to specific standards and recognise the importance of employee engagement. More details are set out on page 23.
Board culture and independence	The Chair has carried out a review of Board effectiveness and compliance with Ofwat's principles. More details are set out on page 76 of our annual report and financial statements. The largest single group of Directors on the Board during the year was that of Independent Non-executive Directors, including the Independent Chair.

System of planning and internal control

Factor considered	Sufficiency of evidence
Risk management	The Audit and Risk Assurance Committee reviews the risk management process on behalf of the Board and every six months presents it with the key risks facing the business, the impact assessment and the controls in place to mitigate them. This is set out on pages 29 to 36 of the annual report and financial statements.
Internal/external audit	The Audit and Risk Assurance Committee reviews and challenges papers and feedback from senior management, external auditors' reports and reports from Group Internal Audit. During the year the Committee reviewed the assurance framework and requested a mid-year review by the technical auditor to review progress towards achieving full compliance with the Ofwat common methodologies for leakage and PCC.
Business continuity	Each department reviews and updates its business continuity plans every year. These plans consider how we would operate in the event of a significant event. They cover the ability to work remotely, disaster recovery and how we ensured a continued service to customers.

Factor considered	Sufficiency of evidence
Fraud prevention, unethical behaviour and whistleblowing	The Board, supported by the Audit and Risk Assurance Committee, attaches considerable importance to our system of internal control and reviews its effectiveness. This includes making sure reasonable steps are taken to safeguard our assets, and to prevent and detect fraud and other irregularities. The internal control system can provide only reasonable and not absoluteassurance against material mis-statement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives. We have an established internal control framework that is continually reviewed and updated, taking into account the nature of our operations.
Risk and compliance statement	The Board reviews and approves the risk and compliance statement as set out on pages 38 to 41. This includes a statement that the company has sufficient processes and internal systems of control to meet its statutory obligations.

Other rights and resources

Factor considered	Sufficiency of evidence
Corporate purpose and values	As part of Ofwat's principles on Board leadership, transparency and governance, the Board is required to monitor to assess values and culture to satisfy itself that behaviour throughout the business aligns with the company's purpose. This is set out on page 4.
Technology, systems and security	There is an Information Security Steering Group that works in tandem with our fellow Group companies to focus on protecting the business and driving improvements through: • the creation of an Information Security Control team; • reviewing and improving our business continuity and resilience. The Group IT services provider has achieved ISO 27001 certification; • continued engagement in national and international industry forums; • providing information security awareness training for our people; and • collaboration with others across the water sector.
Policies to encourage and integrated approach and 'systems thinking'	We have developed and implemented a framework that demonstrates an integrated approach and systems thinking, which underpins all its operations. This is published as part of our resilience action plan, which is available on our website.
Planning systems	As part of our published resilience action plan, we have set out seven principles of systems planning that have been linked to its business outcomes. These are: • resilience in the round; • a naturally resilient water sector; • customer engagement; • consideration of intervention options; • delivering best value solutions for customers; • having an outcomes and customer-focused approach; and • Board assurance and sign off.

Factor considered	Sufficiency of evidence
Asset maintenance and insurance factors	We have a number of assets that are critical to the provision of clean, safe and high-quality drinking water. The reliability and resilience of these assets could cause risks around our delivery capacity, with loss of supplies. We have considered our long-term plans in the context of managing and maintaining its assets and supply capabilities. We have also carried out: • significant investment on our key water treatment works; and • a risk-based review of all our assets to ensure we are ready and capable of delivering clean, safe and high-quality drinking water. We have a comprehensive insurance policy that covers: • public liability; • employee liability; and • business interruption. We review the policy each year to ensure it provides appropriate cover.

Contracting

Factor considered	Sufficiency of evidence
Status of key contracts	For most key contracts, regular dialogue takes place to identify any potential supply issues at an early stage. We use multiple suppliers for critical items. We also hold additional stocks where there is a limited number of suppliers.
Contracts with associated companies comply with licence conditions	There are defined procedures to ensure contracts with associated companies are at arm's length, either through competitive tender or at cost. These are set out on page 54. We ensure the Board has visibility of our trading arrangements with associated companies, and present a paper that sets out the current arrangements in place and any risks of non-compliance. This paper also sets out the total value of transactions in the year compares with the previous year and shows them in the context of total category spend.
Details of transactions between the appointed company and associates	These are set out on pages 49 to 53 and show the: • service supplied; • value of transactions in the year; and • terms by which the contract operates.
Loans, guarantees and transfers of assets by the appointed company	No new loans, guarantees or transfers were issued during the year. Details are set out on page 46.

Material issues or circumstances

Factor considered	Sufficiency of evidence
COVID-19 outbreak	The ongoing impact of the COVID-19 pandemic demonstrates that our business continuity plans have been effective. Most of our office-based people have continued to work from home and have maintained service with our customer contact centre so that it could help all customers, especially those who could be classed as being in vulnerable circumstances, and deal with emergencies. We also demonstrated the resilience of our systems, people and processes. For example, changes to working practices and remote working became the new normal. In addition, staff embraced video and telephone conferencing, and continued to provide and maintain a service to customers. Field-based teams continued to operate while observing the UK Government's guidelines on social distancing.

Procedures followed to satisfy the Board that the evidence is sufficient

The Board has to satisfy itself that the evidence set out above is sufficient to be able to reach the conclusion it can make the required declaration in the RFC.

During the year, the Board discusses a wide range of agenda items. Examples of these are set out on page 45. A number of these items cover the factors considered above and allow the Directors to gain an overall picture in respect of the sufficiency of resources.

For example, the Board has been fully engaged in the formulation of the company's budget and longer-term plans. As part of the process, several key meetings were held with Board members to allow early discussion and challenge. The process culminated in the approval of the final budget at a Board meeting in March 2021.

In addition, the Audit and Risk Assurance Committee is responsible for reviewing and monitoring the company's financial statements, internal controls and systems for mitigating the risk of financial and non-financial loss. This includes:

- assessing the integrity of the financial statements;
- considering changes to accounting policies;
- reviewing financial reporting procedures;
- risk management processes; and
- monitoring systems.

The Audit and Risk Assurance Committee reports back to the full Board on the key work carried out.

Board declaration

The Directors declare that in their opinion:

a) The company will have available to it sufficient financial resources and facilities to enable it to carry out its regulated activities, for at least the 12-month period following the date on which this certificate is submitted.

b) The company will have available to it sufficient management resources, and systems of planning and internal control to enable it to carry out its regulated activities, for at least the 12-month period following the date on which this certificate is submitted.

c) The company has available to it sufficient rights and resources other than financial resources, as required by paragraph p15 of its licence.

d) All contracts entered into between the company and any associated company include the necessary provisions and requirements in respect of the standard of service to be supplied to the appointee, to ensure that it is able to carry out its regulated activities.

In making this declaration, the Directors have considered the main factors set out on pages 34 to 38.

This statement was approved at a meeting of Directors held on 29 June 2021 and duly signed on its behalf.

Andy Willicott
Managing Director
South Staffordshire Water PLC

Lord Chris Smith
Chair
South Staffordshire Water PLC

Catherine May
Senior Independent Non-executive Director

Alice Cummings
Independent Non-Executive Director

Peter Antolik
Non-Executive Director

Stephen Kay
Independent Non-executive Director

Keith Harris
Non-executive Director

Keita Saito
Non-Executive Director

Risk and compliance statement

South Staffordshire Water has a number of statutory and regulatory obligations as a water undertaker. These obligations are predominantly set down in the Water Industry Act 1991 and its Instrument of Appointment (the 'licence'). The purpose of the risk and compliance statement is to demonstrate that the company fully complies with these obligations.

Ofwat guidance requires the company to confirm that it has:

- a full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations;
- taken steps to understand and meet customers' expectations;
- satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

Each of these is considered below, along with a view of how the company has satisfied itself that it can confirm the obligations have been met.

1. The company confirms that it has a full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations

Each year the company considers its obligations as a water undertaker and that it understands and complies with them. This is done in a number of different ways, including by:

- assessing the impact of any licence changes or changes to the Water Industry Act made during the year and making sure any new obligations are adopted;
- reviewing and publishing relevant documents as required under the licence;
- using the appropriate assurance where required, either through internal audit or external technical audit;
- requiring Board sign off of all significant obligations – for example, customers' charges and the APR; and
- the Audit and Risk Assurance Committee carrying out an annual review of compliance.

At a meeting of Directors held on 29 June 2021 the Board confirmed that the company:

- has adequate financial resources and facilities, management resources and systems of internal control (including those needed to manage risk) to enable it to carry out its regulated activities (including the investment programme necessary to fulfil its obligations under its Instrument of Appointment);
- has maintained an investment grade rating from both Moody's and S&P;
- can confirm that there are sufficient rights and assets available to enable a special administrator to run the business;
- has ensured that executive Directors' remuneration packages are linked to the performance of the business, taking account of both financial and service performance;
- has ensured that each Director has confirmed that, in accordance with the Companies Act 2006, as far as they are aware, there is no relevant audit information of which the company's auditors are unaware. The Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the company's auditors are aware of that information; and

- complies with condition F of its licence. The Board can also confirm the company's compliance with the objectives and principles of RAG 5.07, namely that transactions with associate companies are at arm's length and that cross-subsidy is not occurring.

Based on the work carried out during the year, the company has not identified any exceptions and can confirm that it has a full understanding of and is meeting all its relevant statutory, licence and regulatory obligations. The company confirms that it has taken steps to understand and meet customers' expectations.

The company has a number of outcomes that reflect what its customers have expressed as what matters to them. These outcomes have performance commitments attached that customers can expect it to achieve. Each year the company publishes a summary of its performance for customers and makes it available on its website.

The company believes it is important to be transparent with its customers and other stakeholders, and regularly shares information about its performance. In addition, it reports operational performance to customers through its accessible dashboard. The company also makes further disclosures around remuneration, governance, tax and its ownership structure, as it knows these are importance matters for customers.

The company uses insight from customers to help shape its day-to-day and long-term plans. In particular, it has:

- continued to track household and non-household customers' perceptions of its service delivery and brand experience to ensure action plans are focused on the areas in need of most improvement;
- engaged with household and non-household customers to understand the priority they place on different aspects of their water service. These priorities will now be reviewed and tracked each year throughout AMP7 to ensure the company quickly identifies any changes in customers' priorities and understand what has driven these changes. This insight will help ensure the company can better adapt its plans to meet customers' needs;
- continued to engage on a weekly basis with customers who are members of its H2Online community in both the South Staffs and Cambridge regions. During the year members have engaged on more than 50 topics related to their water service, which has driven a wide range of tactical improvements in website content and design, communications campaigns and the development of support packages in response to the impacts of the COVID-19 pandemic, through to informing strategic decisions around metering, branding and as an evidence point for the company's green recovery bid to Ofwat. The community now has more than 600 members and continues to grow;
- launched a new customer survey platform, providing customers with the opportunity to feed back on their experience following a contact more quickly (often the same day) and offering an improved survey experience. The improved reporting functionality also allows the company to follow up any customer dissatisfaction quickly and resolve the issue, as well as to identify trends and themes that will help the relevant teams put actions plans in place to improve the day-to-day service based on customers' feedback;
- completed a segmentation of the household customer database to ensure that communications can be personalised to the customer and use their channel of choice. This will help ensure the company's communications are more effective and enable customers to be more aware of, better understand and make use of the services and support offered;
- set-up a regular benchmarking process to review best practice engagement within and outside the water sector to ensure best practice approaches are built into actions plans to improve the service for customers;

- set up a new reporting approach that more effectively triangulates customer insights with the insight sources listed above and benchmarks from the wider sector for the majority of its performance commitment during AMP7. This report from April 2021 will provide the Executive and senior leadership teams with a clear view of how effectively the company is delivering against its customers' priorities and expectations, viewed through a 'customer' lens, and to ensure the actions plans in place are driving positive benefits for customers; and
- established a research supplier framework to ensure high-quality customer engagement to support the development of the PR24 business plan and continue to deliver best practice approaches to engagement for the business-as-usual insight programme.

The company has used the insight gathered from its customers to help shape the services it delivers, which has been more important than ever with the additional challenge of the COVID-19 pandemic. This includes:

- updating the website to provide more information in a straightforward way, including: a dedicated COVID-19 page providing essential information, a financial support page, and updates to information on water efficiency and benefits of having a water meter;
- launching several new financial support options for customers, including payment breaks, help for anyone waiting for their Universal Credit applications to be approved, a payment matching scheme to support those customers already in debt to the company, and a dedicated COVID-19 social tariff; and
- increasing the number of customer who are benefitting from the Priority Services Register by more than 23,000. The company has also set up an additional Extra Care service for those customers who need the most support, which includes proactive engagement with customers to determine the levels of help and support it may need to provide.

The company can therefore confirm that it has taken steps to understand and meet customer expectations.

2. The company confirms that it has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations

The company has a number of processes and controls in place to ensure it delivers its statutory, licence and regulatory obligations.

The Board, supported by the Audit and Risk Assurance Committee, attaches considerable importance to the company's system of internal control and reviews its effectiveness. This includes making sure reasonable steps are taken to safeguard the company's assets, and to prevent and detect fraud and other irregularities.

The Audit and Risk Assurance Committee is closely involved in challenging the company's processes for identifying, evaluating and managing significant risks and there is an established internal control framework that is continually reviews and updated. This process includes identifying, evaluating and managing the significant risks faced by the company is described below.

Alongside this, the company also has robust and transparent assurance processes in place as set out in its company monitoring framework and assurance plan.

The company benefits from independent reviews of performance by an internal audit function operated by its parent company. This service is dedicated to ensuring internal control activities remain a priority within the company. This includes consideration of the statutory and regulatory obligations to ensure compliance.

Based on this, the company is satisfied that it has sufficient processes and internal systems of control to fully meet its obligations.

3. The company confirms that it has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks

The company recognises that risks exist in all businesses. Its approach to risk reflects its status as a regulated and licensed water undertaker providing an essential public service. The company accepts that not all risks can be mitigated entirely, but its aim is to ensure that risk management activities reduce the overall estimated impact of risks to a level that is considered to be acceptable and that does not impact on its long-term viability.

Risk management is embedded in the company's day-to-day business activities. To facilitate the risk management process, every six months the Executive team reviews the principal business risks as identified and documented by senior managers. They consider the risks on the whole business, as well as the proposed mitigating controls and procedures that are designed to reduce risks to an acceptable level. These risks are then presented to the Audit and Risk Assurance Committee for review, which challenges and comments on behalf of the Board, with any agreed actions passed on to the relevant senior manager, and any significant issues escalated to the Board.

The objectives of this risk management process are to:

- ensure that the Executive team is able to identify and prioritise all key business risks;
- implement appropriated procedures and controls to mitigate risks to an acceptable level; and
- enable senior managers to highlight, document, priorities and execute any identified actions.

The key risks, as identified using the process described, and details about what each risk means for the company, the actions it is taking to mitigate the impacts and any changes in risk are set out on pages 29 to 36 of the annual report and financial statements

The company stress tests its financial projections against a number of plausible scenarios, taking into account these key risks and the impact they could have on customers and other stakeholders. This is set out in the long-term viability statement on pages 37 to 41 of the annual report and financial statements.

Overall, the company is satisfied that it has appropriate systems and processes in place to allow it to identify, manage and review its risks.

This statement was approved at a meeting of Directors held on 29 June 2021 and duly signed on their behalf.

Andy Willicott
Managing Director
South Staffordshire Water PLC

Lord Chris Smith
Independent Chair
South Staffordshire Water PLC

Board statement on accuracy and completeness of data and information

Each year the company publishes a wide range of information for stakeholders (regulators, customers and other bodies), about how it runs its business and the service standards it achieves. It is important that this information can be trusted to be accurate and complete, so the company carries out a range of assurance processes to give customers, regulators and other stakeholders confidence that the information is robust.

The company is required by Ofwat to provide a statement, signed by, or on behalf of the Board, stating that the data and information which the company has provided to Ofwat in the reporting year and/or which it has published in its role as water undertaker was accurate and complete and setting out any exceptions to this which should be clearly explained.

Main factors the Board has considered

The Board has considered a wide range of factors and evidence to satisfy the Directors that they can approve the statement. The areas covered are set out in the following sections.

1. How the Board has engaged and challenged on the assurance approaches that have been taken

Each year, the company's assurance plans are presented for review, challenge and approval.

This plan sets out in detail the process the company has been through to understand the regulatory reporting risks and the plan it proposes to put in place to ensure those risks are controlled. This review results in a number of 'targeted areas' and are intended to ensure that areas of higher risk or significant change are given appropriate focus during assurance activity. The Board agreed the following targeted areas for the 2020/21 reporting year.

- Developer charges.
- Annual customer charges.
- Annual performance report.
- Performance commitments between 2020 and 2025.
- Delivery of the water treatment works investment.
- Making sure all publications are customer friendly.

The company consulted with stakeholders on its 2021/22 draft plans in November 2020 and incorporated feedback into the final plan published on the company's website in March 2021.

2. How the Board has taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed

As part of last year's APR assurance, the company's technical auditor, Jacobs, identified a number of limitations in the methodology for achieving full compliance with Ofwat's common reporting for both leakage and PCC. In response to this, senior management were challenged to undertake a mid-year audit for 2020/21. The company engaged Jacobs to undertake a review of its progress towards achieving full compliance with the Ofwat common methodologies for leakage and PCC. Jacobs reviewed all of the components of compliance against each of the measures for each region separately. This included areas where full compliance had already been achieved previously with a larger focus on the areas where the company is working towards full compliance in this reporting year. Jacobs reported its findings back to Audit and Risk Assurance Committee.

Jacobs found that there had been significant progress towards compliance since last reporting year shown and that the proportion of green scores had improved significantly. Jacobs recognised that some areas were still in progress and in evaluating how these were progressing and what the projects were expected to deliver, were supportive that these areas would be fully compliant for the year end reporting.

Jacobs identified a small number of areas where it had concerns about full compliance being achieved. As a result, additional actions were put in place for year-end reporting and the company committed to carry out a further review with Jacobs on completion of these actions.

3. How the Board has satisfied itself that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas

As outlined above, the Board reviewed the risk assessment process set out in the company's assurance plan to determine the minimum level of assurance for a piece of information or data.

Different data may have different risks associated with its compilation or accuracy, and different consequences depending on the purpose of the data.

The company scores assurance risk by looking across several factors that influence the likelihood that the data may contain an error; and the impact that inaccurate, incomplete or late data may have on the recipient or other parties. It then calculates an assurance risk score by multiplying the maximum scores from the likelihood assessment and the impact assessment.

It then uses this score to derive the minimum level of assurance required as follows.

Category	Low assurance risk	Medium assurance risk	High assurance risk	Critical assurance risk
Planning	Methodology statement required for all data			
Audit	Second person review	Independent internal assurance	Third party assurance	Third party assurance
Sign off	Manager sign off	Second manager sign off	Director sign off	Board sign off

More details of the company's process and the risk scoring of all the information it publishes can be found in chapter 4 of its assurance plan.

4. How the Board utilised individual directors and committees in carrying out its activities in this area

The Board utilises the Audit and Risk Assurance Committee to undertake the above activities. This is set out in the key terms of reference of the Audit and Risk Assurance Committee on page 63 of the annual report and financial statements. Specific areas of review during the year included the following.

- Long-term viability statement assumptions and outputs.
- Review of the APR data tables.
- Review of progress towards full complaince of PC reporting.

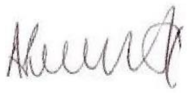
- Inter-company transactions.

In addition, individual Board members have been used to review specific areas in the year, including:

- the consumption assumptions used for the annual customer charges and how this reconciled to reported consumption over the last three years; and
- developer charges, including cost assumptions, challenge on the levels of network reinforcement and how revenues reconciled to the PR19 allowances.

Overall, the Board is satisfied that the data and information which the company has provided to Ofwat in the reporting year and/or which it has published in its role as water undertaker was accurate and complete.

This statement was approved at a meeting of Directors held on 29 June 2021 and duly signed on their behalf.



Andy Willicott
Managing Director
29 June 2021

Accounting disclosures

Board agendas for the year ended 31 March 2021

The Board met 11 times during the year; among other things, it discussed the following key items.

- Our green recovery proposals to install a ceramic membrane filtration system at Hampton Loade.
- Statutory accounts, APR and external assurance (including long-term viability testing).
- Overground engineering base capital maintenance – the framework for 2020 to 2025.
- Operational and performance issues.
- Customer issues, including vulnerability/ affordability and tariff setting.
- Financial performance, financeability, risk and cash management.
- The views of key stakeholders and regulators, including Ofwat, the DWI, CCW and the Independent Customer Panel.
- Approvals of capital activities, budgets, proposals and reports.
- Health and safety.
- Approval for publication of a Modern Slavery policy statement.
- Review of the terms and conditions of the Board Committees to ensure that the work of those Committees addressed the appropriate matters with updated terms of reference.

Relationship between Directors' remuneration and standards of performance

We have an obligation under Section 35A of the Water Industry Act 1991 to make a statement in relation to remuneration that is linked to standards of performance. Please refer to pages 71 to 73 of the annual report and financial statements for full details of the relationship between Directors' remuneration and standards of performance.

Disclosure of information to auditors

The Directors confirm that as far as they are aware, there is no relevant audit information of which the company's auditor is unaware and that the Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the auditor is aware of that information.

Approach to taxation

Please refer to pages 10 and 11 of the annual report and financial statements for full details of our approach to taxation.

Dividend policy and framework

In last year's annual report and accounts, we reported that the Board committed to reviewing our dividend policy during 2020/21 following the outcome of our PR19 final determination from Ofwat and in light of the recent changes in economic circumstances as a result of the COVID-19 pandemic.

Our dividend policy aims to ensure that we distribute dividends that reflect the equity value created by the business, subject to:

- meeting the range of outputs promised to customers and required by regulators;
- credit quality metrics that are consistent with a Baa1 credit rating; and
- there being sufficient liquidity to meet investment and operational needs for the foreseeable future.

In assessing the dividend, the Board will have regard to the following factors.

- **Equity returns earned** – that is, the cost of equity allowed in our price controls.
- **Performance for customers** – this covers the projected rewards from performance commitments, an understanding of the rewards earned and the timing of cash collected.
- **Gearing capacity and credit quality** – which covers indexation of the regulated equity portion of our RCV and maintaining investment grade credit rating.
- **Covenants compliance** – under all significant debt, including the index-linked Arteisan loan and bond, there are various conditions that need to be met before a dividend can be paid.
- **Inter-company loans** – a proportion of the dividend is to enable inter-company interest to be paid to the company; Ofwat's guidance states that this should be disclosed.
- **Phasing across the five year price review period** – which relates to outperformance of our totex allowance adjusted to reflect acceleration or delay because of timing differences.
- **Liquidity** – that is, available working capital, liquidity and undrawn committed facilities to meet forward-looking business plan requirements for the next 12 to 18 months.
- **Company law** – that is, statutory accounting distributable reserves.
- **Reputational factors** – including in-period customer service standards, any significant health and safety incidents, pension obligations and employee considerations.

In 2020/21, we assumed a full year dividend for the appointed business of £6.2 million (2020: £8 million), which includes £1.8 million (2020: £1.9 million) to enable inter-company interest to be paid to the company and £1.5 million (2020: £1.8 million) in non-appointed profits.

Condition P

In the opinion of the Directors, the company was in compliance with paragraph 14 of condition P (formerly 3.1 of condition K) of its Instrument of Appointment as at 31 March 2021.

Accounting policies

Accounting policy for price control segments

The regulatory accounts have been prepared in accordance with RAG 2 ('Guideline for the classification of costs across price controls'). They follow our accounting separation methodology statement, which is available on our website.

Data for accounting separation is taken predominately from our financial system, through downloads into spreadsheets. The financial information is captured at a location and activity level. Account codes are used to classify the expenditure to the correct cost lines within the relevant tables in section 2 and section 4 of this APR. Costs and assets are then attributed directly to business units in line with the RAGs.

For general and support expenditure, a number of cost drivers have been identified for allocation of costs into the relevant business units. These include:

- headcount;
- number of vehicles;
- floor space; and
- asset values.

Revenue recognition

In the regulatory accounts, income is based on the value of bills and accrued income for measured customers raised in the year in line with the RAGs. This is in line with the statutory accounting policy on page 105.

For metered consumption not yet billed, an accrual is estimated. Where a property is unoccupied and fully furnished, charges are still applicable. Charges are also applicable where a property is renovated.

Charges may be waived in special circumstances – for example, hospitalisation, probate and incarceration. Where a property is believed to be occupied, but the occupier details are not known, the income is not recognised until the occupant details are obtained. We use internal mailing campaigns, third party credit rating agency information and void inspector visits to ascertain the identity of any occupier.

We do not bill unmetered void properties speculatively to 'the occupier'.

Void inspectors visit properties to confirm that a property is unoccupied. For void metered properties, where consumption has been measured and the identity of the customer is not known these will follow the voids with consumption process to identify the occupier before the charges are raised.

The first bill for a new connection is based on an actual meter reading. Where a customer has been connected during the year but has not had a meter reading, an estimate of the income is accrued based on the average household consumption.

Charges on income include charging orders and attachment of earnings. Cash received is applied against the outstanding debt, with income being recognised from the billing date.

Income recognised during the year is based on the value of bills raised. For metered consumption not yet billed, an accrual is estimated based on historical average daily consumption for each customer. The measured income accrual at March 2021 was £12.7m compared with £12.4m in the previous year. Following comparison to the income actually billed for these customers in the year there are no significant differences to report.

Capitalisation policy

Capital expenditure results in the acquisition of an asset for continuing use within the business with a view to earning income or making profits from its use, either directly or indirectly.

Operating expenditure is incurred either for the purpose of the day-to-day running of the business or to maintain the existing capacity of fixed assets.

Costs are allocated between operating and capital expenditure in accordance with our accounting policies and applicable accounting standards. The de minimis level for capitalisation is £1,000 for minor assets and £5,000 for buildings.

Bad debt policy

Before passing an account for write-off, we pursue all debts through every available recovery method. This usually includes attempts by the Sheriffs' Office or debt collection agencies. Only where it is impossible, impractical or inefficient to collect debt, will we make a recommendation for write-off.

The range of circumstances when it will be necessary to write off irrecoverable debts; we summarise these below.

Absconded

- Where returned mail is received on accounts, no forwarding details are available and a final account is created, and where all recovery options have been exhausted.
- Where a debt has been passed to a 'trace and collect agency' and that agency is unable to trace the customer and therefore is unable to collect the outstanding debt.
- Where the total debt is less than £50, it is uneconomic to pass for trace and collection and therefore the outstanding debt is unable to be collected.
- Where a customer has debt greater than six years old and no billing activity or correspondence has been received in this period (statute barred).

Bankruptcy

- A household customer where official and final notification has been received from the courts or a check has been made with the online insolvency website service.

Deceased

- Where the balance outstanding is less than £25, the amount is written off immediately.
- Where the balance outstanding is greater than £25, the estate is approached. Where written confirmation has been received in writing that the estate has insufficient funds, the balance is written off.
- In circumstances where a joint tenancy liability exists, the remaining party is pursued for the whole amount of the arrears.
- Where attempts to contact the executors (or next of kin) have failed to produce a response, balances under £100 are written off after a period of six months.

Liquidation

- A commercial customer where final notification has been received from an Official Receiver, Insolvency Practitioner or Liquidator that the company has been liquidated.
- Debts where a company has ceased to trade, leaving no assets.

Uneconomic to collect

- Final debt more than four years old will be written off where evidence exists that it has become non-collectable. A minimum of three attempts to contact a customer by phone and/or letter in the prior 12 months has proved to be ineffective and there has been no payment or contact in the preceding 12 months.
- The debtor's age, health or other social factors make it inappropriate to pursue the debt.
- Sums of less than £25 will be written off as they are deemed to be uneconomic to collect.

Transactions between the appointed company and associated companies

We have a duty to trade at arm's length and ensure there is no cross-subsidy with respect to transactions with associated companies or between price control units. Our licence conditions require that all such transactions must be disclosed. In line with RAG 3.12, no single transaction exceeding £100,000 has been aggregated.

Loans by or to the appointed company

As at 31 March 2021, South Staffordshire Water had a loan of £25.0m to Hydriades Limited, with interest payable at 7%; in the year, we received £1.768m in interest.

Dividends paid to associated companies

As a wholly owned subsidiary, South Staffordshire Water paid dividends of £4.6m in the year to our holding company, South Staffordshire Plc. This included £1.8m to enable it to pay intra-group loan interest to the company. The remaining £2.9m is from the appointed business.

Guarantees or other forms of security by the appointed company

We confirm that there are no guarantees or other forms of security with any associated companies.

Transfers of any asset or liability by or to the appointed company

During the year, we transferred no assets or liabilities to an associated company and did not receive any from an associate.

Transfers of any corporation tax group losses by or to the appointed company

We anticipate that we may claim or surrender any group loss relief for the year ended 31 March 2021 of £1.666m (2020: £nil). This will be fully compensated for so does not impact on the company's tax liability.

Other transactions

We can confirm that there has been no omission to exercise a right as a result of which the value of our net assets is decreased and that there has been no waiver of any consideration, remuneration or other payment by us.

Supply of services by or to the appointed company

All supplies of services by associated companies comply with the objectives and principles of RAG 5.07. Transactions with associated companies are at arm's length, either through competitive tender or at cost, and cross-subsidy is not occurring.

Competitive tenders

Whenever a tender process is carried out and could potentially involve an associated business, we apply the following procedures.

- The procurement team must be involved from an early stage to ensure that a proper tender process is carried out. Where required, this must comply with Utilities Contracts Regulations 2016 and the 'Find a Tender' process.
- The tender process must be fully documented. This is to ensure that it is auditable and that the details can be reported in the APR.
- Appropriate approval of the award of contract must be given, usually through a meeting of the Executive team or the Board of Directors. Any Director of the water company who is also a Director of an associated company tendering is not involved in the procurement process and must declare an interest, take no part in the discussions and have no vote in the matters discussed.
- Once the award of contract to an associated business is approved, all transactions must be in line with the contract. Any variations to the contract must be approved separately.
- All transactions under a contract with an associated company must be signed off by the appropriate manager to confirm that it is in line with the contract terms.
- On all key supplier relationships where we use the parties in the appointed business, we require that there is at least one other framework supplier to ensure ongoing competitive procurement.

'At cost' transactions

If work is carried out by an associated company at cost, we take the following guidelines into account.

- All 'at cost' contracts are approved by the Executive team or the Board of Directors every 12 months. The approval should outline why the contract should continue at cost (for example, performance of the associate during the year or strategic reasons).
- All transactions under the 'at cost' contract must be signed off by the appropriate project manager.
- The cost allocation of the associated company must be fully auditable to show that it is 'at cost'. Sample audits are carried out by the Internal Audit function.

Benchmarking

For certain small value transactions, we benchmark prices to ensure that we are paying a fair price. We used benchmarking for the following services during the year.

- Billing software maintenance.
- Lightning protection.
- Water coolers.

The outcome of the benchmarking showed that we were paying comparable prices to other companies both in 2019/20 and 2020/21

Transactions between price controls

From 2020, we are required to report our costs split between three separate price controls; water resources, network plus and residential retail. These are set out in tables 2b and 2c. We have followed the RAGs to ensure that costs are correctly allocated between price controls. The tables and our accompanying cost allocation methodology statement have been externally reviewed by Deloitte. The following transactions occurred during the 12 months to 31 March 2021.

Services supplied to the appointee by associated companies

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Onsite	73.238	Mainlaying and repair of water mains	15.089	Competitive tendering
	-	Mains Rehabilitation	5.015	Competitive tendering
	-	Minor Civils	1.461	Competitive tendering
	-	Metering	0.733	Competitive tendering
	-	Reservoir Refurbishment	0.290	Competitive tendering
	-	Drainage Surveys	-	Cost
		CCTV & JETTING	0.010	Cost
	-	Hinksford works and patch lining	0.006	Cost
Integrated Water Services Limited	37.686	Water Treatment	0.038	Cost
		Mechanical and Electrical Services	0.425	Cost
	-	Capital Works	3.495	Competitive tendering
SSI Services UK Limited	0.910	Motor vehicle repair and maintenance	0.499	Cost
Hydrosave (UK) Limited	20.226	Leakage detection	0.055	Competitive tendering
Echo Managed Services Limited	22.932	Customer Services	6.996	Cost
		Billing Software	0.400	Benchmarking
		Secondment of staff	0.036	Cost
		New Billing System	0.624	Benchmarking
South Staffordshire Plc	-	Management services	1.265	Cost
		HR and Health & Safety	0.019	Cost
		Payroll Services	0.142	Cost
		IT Networks, Operations, Development and Telephony	0.928	Cost
		Finance, Treasury, Internal Audit and Accounts Payable	0.529	Cost
		Office services	(0.000)	Cost
Office Water Coolers	5.116	Water Coolers	0.003	Benchmarking
Omega Red	16.693	Lightning Protection	(0.008)	Benchmarking
South Staffs Water Non appointed	5.438	Emergency water Supply tankers	0.013	Cost
		Total services supplied to the appointee by associated companies	**38.063**	

Services supplied by the appointee to associated companies

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Echo Managed Services Limited	22.932	Sewerage collections support	0.253	Cost
	-	Site Services	0.161	Cost
	-	Recharges for the use of appointed assets	0.059	Cost
South Staffordshire Plc	-	Communications and media support	0.041	Cost
Echo Managed Services Limited	22.932	Operational training	(0.000)	Cost
Hydrosave (UK) Limited	20.226	Operational training	0.001	Cost
Integrated Water Services Limited	37.686	Operational training	0.001	Cost
Onsite	73.238	Operational training	0.003	Cost
	-	Standpipe Hire	0.011	Cost
	-	Capital contribution	0.001	Cost
South Staffordshire Plc	-	IT Equipment removal	-	Cost
		Total services supplied by the appointee to associated companies	**0.531**	

Services supplied by the appointee to the non-appointed business

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
South Staffs Water Non appointed	5.438	Recharges for the use of appointed assets	0.001	Cost
	-	Management fees	0.172	Cost
	-	Operational training	0.001	Cost
		Total services supplied by the appointee to non appointee	**0.174**	

External assurance of financial outcome delivery incentives

Annual Performance Report 2020-21 Letter of Assurance

Jacobs

Letter of Assurance

For the attention of The Board, South Staffordshire and Cambridge Water

Annual Performance Report 2020-21

To the Board

Introduction

For the period 2020-25 (AMP7) Ofwat requires companies to complete and submit an Annual Performance Report (APR) in July each year.

As your technical assurance partner, you asked us to undertake a risk-based review of the following APR data:

- **Section 3 Performance Commitments (PCs) including**
  - **Common PCs** – your reporting across each of the ten common PCs Ofwat requires water only companies to report in the APR (you have separate regional PCs for leakage and PCC making your total 12 common PCs),
  - **Bespoke Financial Performance Commitments (PCs)** – the proposed performance figures for the PCs in your final determination (FD) that have financial rewards and penalties associated with them,
  - **Bespoke Non-Financial Performance Commitments (PCs)** – the proposed performance figures for the PCs in your final determination (FD) that are reputational
- **Cost assessment data** – a selection of the non-financial lines, focusing mainly on sample checking across the lines you asked us to review; and
- **Return on Regulated Equity (RoRE) and financial flows** – relevant data from APR tables 4C, IF and 4H
- **PR19 In period adjustment model**

For AMP7 Bespoke PCs and Common PCs you asked us to provide an assessment based on our scores of A, B, C or D reflecting the level of reporting risk.

Table 1: Risk-based scores for Performance Commitments

Score	Data meaning
A	Low risk – no weaknesses or deviations from methodology in production of data and confidence grade is appropriate
B	Low to medium risk - no material weaknesses or deviations in production of data and confidence grade is appropriate
C	Medium to high risk - material weakness or unjustified deviations (or number of minor ones with material effect) or confidence grade is not appropriate
D	High risk – two or more of: material weakness or deviation (or number of minor ones with material effect) or confidence grade is not appropriate

For Cost Assessment data you asked us to indicate material reporting risk with a yes or no to indicate the identification of potential material issues as described below.

Table 2: Scores for Cost Assessment Data

N	We reviewed the line (s) and found no material issues (i.e. there are no issues that indicate the accuracy of the proposed data is not consistent with the accuracy implied by the associated confidence grade)
Y	We reviewed the line(s) and found potentially material issues that are still outstanding (i.e. the accuracy of the proposed data may not be consistent with the accuracy implied by the associated confidence grade)

Our annual reviews undertaken during April, May and June have all taken place remotely using Microsoft Teams video-conferencing. Although this has created some challenges when reviewing data, we have worked closely with your teams to ensure that it has not had an impact on the effectiveness of the overall assurance process.

We provided detailed feedback at the end of each audit. This letter summarises our findings.

Findings

Overview

Table 3 shows the data we assured, and the risk-based scores at the end of our assurance. Overall, there were only two PCs where we assessed the reporting risk as medium to high: Education and Risk of Restrictions in a Severe Drought. These are discussed in more detail in the following sections of this letter. For all other PCs and costs assessment data there were no remaining material issues at the end of our assurance.

Table 3: Summary of Assurance findings

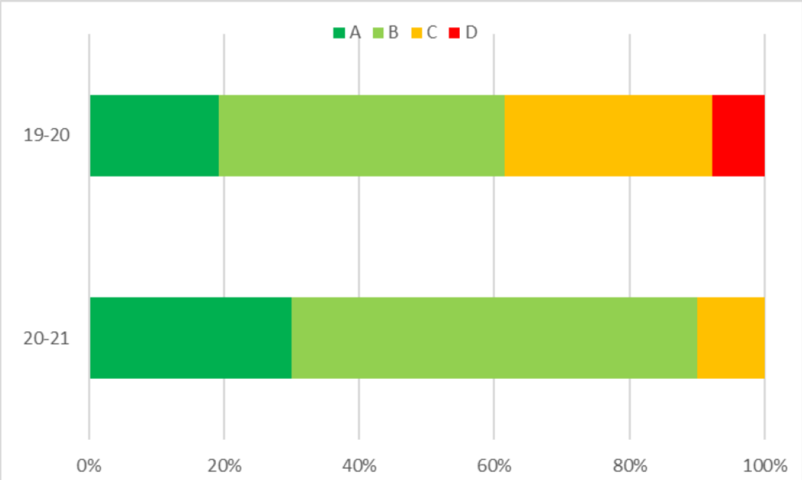
	Data Code	Data description	Score
Common PCs	A1	C-MeX	A
	A2	D-MeX	B
	B4	Priority services for customers (PSR)	B
	C1	SST - Leakage	B
	C2	CAM - Leakage	B
	C3	SST - PCC	B
	C4	CAM - PCC	B
	D1	Water Quality compliance (CRI)	A
	D2	Water Supply Interruptions	B
	D3	Risk of severe restrictions in drought	C
	D4	Mains repairs	A
	D5	Unplanned Outage	A
Bespoke PCs	B1	Financial Support	B
	B2	Extra Care	A
	B3	Education	C
	C5	Environmentally sensitive abstraction	A
	C7	Wildlife, plants, habitats, catchment	B
	C8 (reputational only)	Carbon Emissions	B
	D6	Customer contacts about water quality	B

	D7	Visible leaks repair time	B
	D8	Water treatment works delivery programme	A
	E2	Residential void and gap sites	B
RoRE	Table 1F	Financial flows for the 12 months ended 31 March 2021 and price review to date Lines 1-25	N
RoRE	Table 4C	Impact of price control performance to date on RCV Lines 1-27	N
RoRE	Table 4H	Financial metrics Line 5	N
Cost assessment data	Table 4R	Properties and population Lines 1-27	N
Cost assessment data	Table 5A	Water resources asset and volumes data Lines 1-23, 25-28	N
Cost assessment data	Table 6A	Raw water transport and water treatment asset and volumes data Lines 1-6, 8-28, 31-36	N
Cost assessment data	Table 6B	Treated water distribution asset and volumes data Lines 1-26, 28	N
Cost assessment data	Table 6C	Network plus mains and CPs Lines 1-21, 26	N

Figure 1 sets out the distribution of our assessments undertaken for performance commitments for APR21 compared to APR20. We note that this is not a like for like comparison because the PCs for AMP6 are not the same for AMP7 and our assurance scope was different between the two years. However, we consider this is a reasonable approach to illustrate the improvement in reporting risk in the round across your performance commitments.

Annual Performance Report 2020-21 Letter of Assurance

Figure 1: Risk based scores for PC data for APR20 and APR21



Note: The Leakage and PCC scores are for the in-year reporting data only. Our assessment of performance against your 3 year average baseline accounting for back-casting is discussed later in this letter.

This is the first APR of AMP7. The APR contains a number of new lines, revised definitions, significant table re-orientation of data reported previously, and you have new bespoke PCs as part of your Final Determination for PR19. Your centralised approach to reviewing the changes to RAG4.09 and PC definitions has assisted this transition. We noted audits were attended by SSC teams that were better prepared than previous years and we observed an improvement in the level of formal reporting documentation during our audits. We recommend you continue to extend the scope of reporting documentation as a more detailed examination of reporting documentation, processes and data can lead to identifying additional opportunities to further reduce reporting risk.

Ultimately this year fewer material issues were identified. Most non-material issues were where first and second line assurance was not evident, or documented evidence to support reporting data was not immediately available.

Appendix A includes a summary of our findings for the data we assured.

Bespoke Company Performance Commitments

We assured 9 bespoke company performance commitments with rewards and penalties. We also assured one reputational PC (Carbon emissions). For all but one of the bespoke PCs we reviewed your teams provided evidence of sufficiently robust data with a low to medium reporting risk, and therefore these scored A or B.

In addition, we peer reviewed the evidence you might use to support any statement you might make about progress against your Water Treatment Works Delivery programme, namely Seedy Mill and Hampton Loade (D8). There is no target for this Pc for 2020-21. You were able to demonstrate progress against key milestones for delivery, later in AMP7, and your understanding of delivery risks, and how they might be mitigated.

In audit you explained you are proposing to report alternative activity against your Education PC. Delivery of your planned activity has been severely impacted by Covid-19 restrictions and whilst you have taken action to provide alternative education activities during the year these alternatives are not compatible with the definition of activity for this PC (education activities of duration of 2-15 minutes to 9000 people compared to FD definition of minimum of 60 minutes to more than 6000 people). We did not identify any issues with the numerical accuracy of the data we reviewed. However, we consider there is a risk that Ofwat will take a literal interpretation of the definition and we have therefore assigned a risk-based score of C to this reporting data.

Common Performance Measures

We assured your 12 common PCs. At the end of our assurance work there were no remaining material issues with seven of these measures which were scored A or B:

- Water Quality compliance (CRI);
- Water Supply Interruptions;
- Mains repairs;
- Unplanned Outage;
- Priority services for customers (PSR);
- C-MeX; and
- D-MeX.

For Risk of Restrictions in Severe Drought we note that, consistent with last year, your approach does not align with the reporting guidelines. This is due to the fact that your calculation accounts for the impact of future planned interventions. We note that last year, you stated that other companies were also interpreting the guidance as you are. We can confirm that none of our other clients have taken this approach for 2020-21. Our interpretation of the Ofwat guidance is that this measure allows the tracking of progress towards resilience to a 1:200 drought so the values should get smaller over time until zero is reached. As your reported figures are not consistent with the reporting guidance, we have scored this as medium to high risk.

The remaining four common PCs relate to regional targets for leakage and PCC. We raised a number of material issues in these areas last year and have worked with you this year to assess the current level of reporting risk. We have provided a risk score for the in-year reporting figure which has been used in Figure 1 and also a score associated with back-casting the 3 year average used to determine your reward or penalty. Table 4 sets out our findings for leakage and PCC for the in-year data and the 3 year average data.

Table 4: Findings for Leakage and PCC

Common PC	Score	Summary of assessment
In-year reporting data score		
Leakage - CAM	**B**	At the end of our audits there are no remaining material issues with the final proposed APR21 reporting numbers. However, we consider there are material risks in the process due to the lack of checks and controls and the reliance on 3rd party assurance to fill that gap. There are numerous risks within the process related to multiple single points of failure and reliance on individual experts. We were not able to trace all data back to source due to limitations of auditing via MS Teams.
Leakage – SST	**B**	At the end of our audits there are no remaining material issues with the final proposed APR21 reporting numbers. However, we consider there are material risks in the process due to the lack of checks and controls and the reliance on 3rd party assurance to fill that gap. There are numerous risks within the process related to multiple single points of failure and reliance on individual experts. We were not able to trace all data back to source due to limitations of auditing via MS Teams.

PCC – CAM	**B**	There were no material issues identified with the calculation of this measure. The process to calculate the unmeasured per household consumption was not fully reviewed as handover of the new model from Artesia had not yet taken place. We recommend this is reviewed in the future once the model has been fully accepted by SSC. We recommend documentation of the process and checks and controls within the process are improved.
PCC - SST	**B**	At the end of our assurance there were no remaining material issues with the final proposed APR21 figures. We recommend documentation of the process and checks and controls within the process are improved.
3 year average (back-casting)		
Leakage – CAM	**C**	The team proposed no back casting for this year due to the ongoing work to complete the non-household night use monitor and the sensitivity of the calculation to this component. The score for last year's data has therefore been carried forward. Using the original shadow reporting figures indicates a reward of circa £42k. As the baseline against which performance is measured is not yet consistent with the in-year data you advised you propose to defer the reward until the back-casting is fully consistent. We fully support this position.
Leakage – SST	**B**	The team highlighted a significant inconsistency in the calculations when using per household consumption compared to per capita consumption. The team were unable to explain this. However, the team demonstrated the sensitivity of this and showed no material impact to the calculated leakage reward at circa £216k. On this basis we consider the resulting outcome is acceptable. However, we recommend the team fully explore the calculation issue.
PCC – CAM	**D**	As for leakage, the team proposed no back-casting for this year due to the ongoing work to complete the non-household night use monitor. The score for last year's data has therefore been carried forward.
PCC – SST	**B**	There were no material issues found with the PCC back-casting.

Cost Assessment Tables

In total we reviewed more than 150 lines of data. We found no material issues.

This is an improvement on last year, where we identified some material issues. You have sought to address these issues this year, by implementing better defined processes, and assigning clearer ownership and accountability for data reporting.

Return on Regulatory Equity and Financial Flows (APR tables 4C, 1F and 4H)

We reviewed the data inputs to the models, the mechanics of the models and their outputs as per the agreed scope and found no material issues. In particular, we note there were no anomalies in your calculation of the values for Table 4C, Table 1F or table 4H.5 and that your approach to calculating each element of these tables is consistent with the relevant guidance.

You have used the data provided by Ofwat to populate your models. However, we note that there are a number of errors in Ofwat's proforma tables and the PR19 FD data Ofwat provided to you. You intend to provide corrected tables, supported by explanatory text in your commentary. We consider this approach to be appropriate and proportionate.

PR19 In-period adjustment model

We reviewed the data inputs to Ofwat's model. You have used the PR19 FD data provided by Ofwat and actuals consistent with your APR21 as inputs to the model.

We have reviewed the subsequent outputs from the model. We note that there is one formulaic error in the Ofwat model, which you have corrected to ensure the outputs from the model are correct. We consider this approach to be appropriate and proportionate. We recommend you explain this in your commentary.

Summary

Overall, at the end of our assurance work our findings across the areas you asked us to look at are:

- Bespoke PCs – we identified one PC (Education Activity) that we consider might carry a material reporting risk;
- Common PCs – we consider your reporting for 3 common PCs (CAM leakage, CAM PCC and Risk of Restrictions in a Severe Drought) carries a material level of reporting risk;
- Cost Assessment data – we did not identify any material reporting risks;
- APR tables 4C, 1F and 4H – we consider that the calculations, assumptions and inputs to the headline model are consistent with the guidance and data provided by Ofwat, where this is accurate. We note that there are a number of errors in Ofwat's proforma tables and the PR19 FD data Ofwat provided to you. You intend to provide corrected tables, supported by explanatory text in your commentary. We consider this approach to be appropriate and proportionate; and
- PR19 In period adjustment model - we did not identify any material issues.

This letter summarises the results of our APR assurance. We can provide you with a separate report that sets out our scope, findings and general observations in more detail.

Yours sincerely

Alexandra Martin
Director of Water Resources and Regulation
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Our response to Jacobs' letter of assurance

Jacobs has carried out a detailed and extensive review. We have engaged closely with this review and built on our successes from the previous year to significantly reduce our assurance risk, as is demonstrated in the high quality scores we have received against our performance commitments and other data items. We are pleased that we have been able to achieve this at the same time as much of our office-based workforce is still working from home, meaning audits were done remotely, and against an increased number of performance commitments that have been implemented in 2020/21, the first year of the new price control.

Leakage and per capita consumption

We have made substantial improvements towards full compliance with the common definitions, most notably implementing a new unmeasured consumption monitor in our Cambridge region, improving our trunk mains leakage assessment, and reassessing our confidence factors. We have achieved full compliance for per capita consumption (PCC), but for leakage we were unable to complete our full installation programme for new logged non-household meters as a result of the restrictions due to the COVID-19 pandemic that have been in place since March 2020 and throughout the year. This component of leakage was more sensitive in our Cambridge region. As a result, we were not able to restate that region's historic values from 2017/18 through to 2019/20, which form the three-year average baseline, and we will need to revisit this next year after completing the metering programme. It is for this reason we have chosen to delay the outperformance payment until this data is more robust. Further information on leakage compliance is provided in the document published alongside this APR, which contains additional detail relating to the section 3 data tables.

Risk of severe restrictions in a drought

Our interpretation of the guidance at PR19, and subsequent discussions with Jacobs and other companies, has revealed different approaches to how this measure is reported. We continue to report this measure consistently with how we set our PR19 performance commitment, which is to report the value aligned to our final water resources plan delivery. To do otherwise would mean that our business plan targets are not set on a consistent definition. We welcome further dialogue with Ofwat on the issue, if required.

Education activity

We have been completely transparent on how the COVID-19 pandemic has impacted our education performance commitment during 2020/21, and discussed these impacts at length with Jacobs during our assurance reviews. Jacobs felt it appropriate to highlight that the new activity we have carried out, in response to the COVID situation, was not fully aligned with our original PR19 definition. We believe it was the right thing to do to carry out additional activity beyond the original definition scope, given the extreme set of circumstances we faced in trying to deliver our education offering. We have provided more detail on the impacts of COVID-19 on our education activities in the document published alongside this APR, which contains additional detail relating to the section 3 data tables.

Internal independent assurance of reputational outcome delivery incentives

As the South Staffordshire Group Internal Audit Manager (with more than 25 years' experience of working within the water industry), Internal Audit was requested to perform an independent review of the reporting of the following reputational performance commitments.

- Trust
- Value for Money
- Supporting water efficient housebuilding

The audit work carried out sought to review the methodology supporting the calculations to ensure accuracy, consistency and validity of the numbers provided. Internal Audit has confirmed that that the figures reported have been validated and checked to supporting information.

Glyn Palmer BA (Hons) FCA
Group Internal Audit Manager
15 July 2021

Independent Auditor's report to Ofwat (the WSRA) and the Directors of South Staffordshire Water PLC

Opinion

We have audited the sections of South Staffordshire Water PLC's Annual Performance Report for the year ended 31 March 2021 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), lines 1F.1 to 1F.3, 1F.5 to 1F.6, 1F.8, 1F.12 to 1F.14, 1F.18 and 1F.23 to 1F.24 of the statement of financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited lines 1F.4, 1F.7, 1F.9 to 1F.11, 1F.15 to 1F.17, 1F.19 to 1F.22 and 1F.25 of the statement of financial flows (table 1F), the Outcome performance table (tables 3A to 3I) and the additional regulatory information in tables 4A to 4R, 5A to 5B, 6A to 6D, 7A to 7E, 8A to 8D and 9A.

In our opinion, South Staffordshire Water PLC's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.08, RAG 3.12, RAG 4.09 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.12, appendix 2), set out on page 50.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law, except as stated in the section on Auditors' responsibilities for the audit of the Regulatory Accounting Statements below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 68 to 82 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the Regulatory Accounting Statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's projected cash flow and performing sensitivity analysis;
- Assessing management's ability to refinance the borrowings due within one year, including the review of liquidity;
- Assessing the assumptions used in establishing the liquidity position throughout the going concern period, with reference to forecast income and expenses; and
- Evaluating the financing requirements, including the maturity profile of existing finance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the directors are responsible for the preparation of the Annual Performance Report in accordance with the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.12, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- Had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act, pensions legislation and tax legislation; and
- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance reviewing correspondence with HMRC and WSRA.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2021 on which we reported on 15 July 2021, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our “Statutory audit”) was made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company’s members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Leeds, United Kingdom
15 July 2021

Section 1 – regulatory accounts primary statements

1a) Income statement for the 12 months ended 31 March 2021

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Revenue	130.289	-	5.439	(5.439)	124.850
Operating costs	(108.064)	-	(3.616)	3.616	(104.448)
Other operating income	5.956	(5.952)	-	(5.952)	0.004
Operating profit	28.181	(5.952)	1.823	(7.775)	20.406
Other income	-	5.952	0.088	5.864	5.864
Interest income	1.768	-	-	-	1.768
Interest expense	(14.888)	-	(0.010)	0.010	(14.878)
Other interest expense	(0.174)	-	-	-	(0.174)
Profit before tax and fair value movements	14.887	-	1.901	(1.901)	12.986
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	14.887	-	1.901	(1.901)	12.986
UK Corporation tax	(1.016)	-	(0.362)	0.362	(0.654)
Deferred tax	(1.425)	-	-	-	(1.425)
Profit for the year	12.446	-	1.539	(1.539)	10.907
Dividends	(6.178)	-	(1.541)	1.541	(4.637)
Tax analysis					
Current year	2.223	-	0.362	(0.362)	1.861
Adjustments in respect of prior years	(1.207)	-	-	-	(1.207)
UK Corporation tax	1.016	-	0.362	(0.362)	0.654

Analysis of non-appointed revenue	
Imported sludge	-
Tankered waste	-
Other non-appointed revenue	5.439
Revenue	5.439

1a) Income statement (continued)

Activities outside of the appointed business include:

- Aqua Direct spring water business;
- commission from sewerage collection;
- property searches;
- sailing and fisheries;
- rental income from non-appointed properties; and
- energy generation.

Non-appointed operational costs include the cost of providing these services, including a share of depreciation to the non-appointed business for the use of assets owned by the wholesale business.

In line with the RAGs, we have completed the following adjustments between the statutory financial statements and regulatory reporting.

	Revenue £m	Operating costs £m	Other operating income £m	Other income £m	Profit for the year £m
Revenue not recognised under FRS102	-	-	-	-	-
Rental income	-	-	(0.420)	0.420	-
Amortisation of capital contributions	-	-	(3.228)	3.228	-
IRE contributions	-	-	(2.304)	2.304	-
Net adjustments	-	-	(5.952)	5.952	-

Analysis of interest charges

	2021 £m
Interest charged on external borrowings	14.818
Bond discount / premium on issue	(0.342)
Bond costs	0.301
Amortisation of debt issuance costs	0.101
Total interest charge per table 1A line 7	14.878
Amounts recycled through hedging reserve	(0.174)
Total interest charge per table 1A line 8	(0.174)

Reconciliation of appointed current taxation to standard tax rate

This reconciliation of the appointed current tax charge results from applying the standard tax rate to the profit before tax as shown in table 1a.

	2021 £m		Current Tax £m
PBT			
Appointed	12.986		(0.654)
Non appointed	1.901		(0.362)
Total	**14.887**		**(1.016)**
Appointed Profit on ordinary activities	**12.986**		
Appointed profit before tax at standard UK corporation tax rate of 19%	2.467		
Expenses not deductible for tax purposes		0.154	
Transfer pricing adjustments		(0.183)	
Capital allowances less than depreciation		(0.472)	
Other timing differences		(0.104)	
Adjustments in respect of prior years		(1.207)	
	(1.813)		
Appointed current tax charge	**0.654**		
Appointed total current tax charge allowed in price limits	0.645		
Impact of difference between tax rate used in price limits (17%) and actual tax rate (19%)		0.076	
Differences in profit before tax		1.091	
Taxable interest income for which no tax allowance given in price limit		0.336	
Expenses not deductible for tax purposes		(0.018)	
Transfer pricing adjustment		(0.183)	
Capital allowances in advance of depreciation		(0.350)	
Pension contributions		0.271	
Other timing differences		(0.006)	
	1.217		
Current year	**1.862**		
Adjustments in respect of prior years	(1.208)		
Appointed current tax charge	**0.654**		

The current tax charge in respect of the year at £1.9m was higher than that allowed in price limits by £1.2m and was offset by adjustments from prior years of £1.2m.

1b) Statement of comprehensive income – for the 12 months ended 31 March 2021

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	12.446	-	1.539	(1.539)	10.907
Actuarial gains/(losses) on post-employment plans	-	-	-	-	-
Other comprehensive income	0.630	-	-	-	0.630
Total Comprehensive income for the year	13.076	-	1.539	(1.539)	11.537

Other comprehensive income relates to the movement in the hedging reserve net of deferred tax.

1c) Statement of financial position – as at 31 March 2021

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	569.088	-	1.606	(1.606)	567.482
Intangible assets	-	-	-	-	-
Investments - loans to group companies	-	25.000	-	25.000	25.000
Investments - other	-	-	-	-	-
Financial instruments	-	-	-	-	-
Retirement benefit assets	-	-	-	-	-
Total	569.088	25.000	1.606	23.394	592.482
Current assets					
Inventories	2.978	-	0.035	(0.035)	2.943
Trade & other receivables	59.092	(18.955)	7.145	(26.100)	32.992
Financial instruments	-	-	-	-	-
Cash & cash equivalents	4.306	0.047	0.001	0.046	4.352
Total	66.376	(18.908)	7.181	(26.089)	40.287
Current liabilities					
Trade & other payables	(52.142)	(6.045)	(0.994)	(5.051)	(57.193)
Capex creditor	(11.422)	-	-	-	(11.422)
Borrowings	-	-	-	-	-
Financial instruments	-	-	-	-	-
Current tax liabilities	-	-	-	-	-
Provisions	-	-	-	-	-
Total	(63.564)	(6.045)	(0.994)	(5.051)	(68.615)
Net Current assets/(liabilities)	2.812	(24.953)	6.187	(31.140)	(28.328)
Non-current liabilities					
Trade & other payables	(10.756)	-	-	-	(10.756)
Borrowings	(273.198)	(0.047)	(0.047)	-	(273.198)
Financial instruments	(2.271)	-	-	-	(2.271)
Retirement benefit obligations	-	-	-	-	-
Provisions	-	-	-	-	-
Deferred income - G&C's	(163.332)	-	(0.007)	0.007	(163.325)
Deferred income - adopted assets	-	-	-	-	-
Preference share capital	-	-	-	-	-
Deferred tax	(46.118)	-	-	-	(46.118)
Total	(495.675)	(0.047)	(0.054)	0.007	(495.668)
Net assets	76.225	0.000	7.739	(7.739)	68.486
Equity					
Called up share capital	2.123	-	-	-	2.123
Retained earnings & other reserves	74.102	-	7.739	(7.739)	66.363
Total Equity	76.225	-	7.739	(7.739)	68.486

1c) Statement of financial position (continued)

See table 1a for a list of activities outside of the appointed business. The statement of financial position reflects the balance sheet as at 31 March 2021. Both statutory financial statements and regulatory reporting is based on FRS 102, with the following adjustments to reflect the RAGs.

	Investments - loans to group companies £m	Trade & other receivables £m	Trade & other payables £m	Cash & cash equivalents £m	Borrowings £m	Net assets £m
Long term group debtor	25.000	(25.000)	-	-	-	-
Inter company alignments	-	6.045	(6.045)	-	-	-
Overdraft reclass	-	-	-	0.047	(0.047)	-
Net adjustments	25.000	(18.955)	(6.045)	0.047	(0.047)	-

1d) Statement of cash flows – for the 12 months ended 31 March 2021

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Operating activities					
Operating profit	28.181	(5.952)	1.823	(7.775)	20.406
Other income	-	5.952	0.088	5.864	5.864
Depreciation	26.661	-	0.210	(0.210)	26.451
Amortisation - G&C's	(3.228)	-	-	-	(3.228)
Changes in working capital	0.670	-	0.081	(0.081)	0.589
Pension contributions	-	-	-	-	-
Movement in provisions	-	-	-	-	-
Profit on sale of fixed assets	(0.004)	-	-	-	(0.004)
Cash generated from operations	52.280	-	2.202	(2.202)	50.078
Net interest paid	(6.655)	-	(0.010)	0.010	(6.645)
Tax paid	(1.791)	-	(0.362)	0.362	(1.429)
Net cash generated from operating activities	43.834	-	1.830	(1.830)	42.004
Investing activities					
Capital expenditure	(41.862)	-	(0.018)	0.018	(41.844)
Grants & Contributions	7.232	-	-	-	7.232
Disposal of fixed assets	0.045	-	-	-	0.045
Other	-	-	-	-	-
Net cash used in investing activities	(34.585)	-	(0.018)	0.018	(34.567)
Net cash generated before financing activities	9.249	-	1.812	(1.812)	7.437
Cashflows from financing activities					
Equity dividends paid	(6.178)	-	(1.541)	1.541	(4.637)
Net loans received	(25.190)	-	(0.271)	0.271	(24.919)
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	(31.368)	-	(1.812)	1.812	(29.556)
Increase (decrease) in net cash	(22.119)	-	0.000	(0.000)	(22.119)

Capital expenditure relates to the cash paid out in the year in relation to fixed asset additions. The difference in what was paid for in the appointed business (£41.844m) and additions reported in the fixed assets note 2d (£44.192m) is due to an increase in year of creditors relating to capital purchases of £2.348m.

1d) Statement of cash flows (continued)

	Operating profit £m	Other income £m	Changes in working capital £m	Increase / (decrease) in net cash £m
Revenue not recognised under FRS102	-	-	-	-
Rental income	(0.420)	0.420	-	-
Amortisation of capital contributions	(3.228)	3.228	-	-
IRE contributions	(2.304)	2.304	-	-
Net adjustments	(5.952)	5.952	-	-

1e) Net debt analysis – as at 31 March 2021

	Interest rate risk profile				
	Fixed rate	Floating rate	Index linked		Total
			RPI	CPI/CPIH	
	£m	£m	£m	£m	£m
Borrowings (excluding preference shares)	31.504	(0.055)	241.749	-	273.198
Preference share capital					-
Total borrowings					273.198
Cash					(4.352)
Short term deposits					-
Net Debt					**268.846**
Gearing					66.68%
Adjusted Gearing					61.15%
Full year equivalent nominal interest cost	1.068	0.203	14.118	-	15.389
Full year equivalent cash interest payment	1.068	0.203	7.320	-	8.591
Indicative interest rates					
Indicative weighted average nominal interest rate	3.40%	0.00%	6.40%	0.00%	6.10%
Indicative weighted average cash interest rate	3.40%	0.00%	3.30%	0.00%	3.10%
Weighted average years to maturity	3.308	2.600	25.984	-	23.374

Net debt comprises the book value of debt excluding accrued interest as defined by the RAGs. In addition to the coupons payable, interest costs include the impact of hedging.

Floating rate debt relates to undrawn facilities for which there are unamortised costs of £0.055m.

The adjusted gearing of 61.2% is based on the company's covenant net debt of £246.6m, which differs to the book net debt by £22.3m. Covenant debt is the key metric used by the Board, investors, lenders and rating agencies in assessing gearing.

We set out a full reconciliation between book net debt and covenant net debt below.

The difference between book net debt in table 1e of £268.8m and that stated in the table below at £268.6m is in relation to accrued interest of £0.225m, which is not recognised as part of net debt in accordance with the RAGs. The regulatory gearing ratio is at 66.62% (66.68% using statutory book debt below and 61.15% using covenant debt).

The difference between covenant and book net debt includes £11.0m, which relates to the unamortised premium and costs on issuance of the company's debt. The remaining £11.0m relates to the difference in the long-term inflation assumption to maturity used for the book value of index-linked debt compared to the lower actual inflation rate used for covenant reporting.

The table below explains the book net debt and net debt reported for borrowing covenants.

	Mar-21 £'000	Gearing %
Book net debt - statutory accounts	(268.846)	66.68%
Exclude accrued interest	0.225	(0.06%)
Book net debt (as reported above)	(268.621)	66.62%
Exclude book premium on issue of index linked debt	12.774	(3.17%)
Difference between long-term RPI assumption and actual RPI inflation	11.083	(2.75%)
Exclude unamortised issue costs	(1.801)	0.45%
Net debt reported for borrowing covenants	(246.565)	61.15%

1f) Financial flows – for the 12 months ended 31 March 2021

			12 Months ended 31 March 2021					
				%			£m	
	Units	DP	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	%	2	4.13%	3.34%	4.13%	6.230	5.046	5.046
Regulatory equity	%	2	151.015	151.015	122.312			
Financing								
Gearing	%	2	0.00%	0.78%	0.32%	0.000	0.390	0.390
Gearing benefits sharing	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Variance in corporation tax	%	2	0.00%	0.08%	0.10%	0.000	0.120	0.120
Group relief	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Cost of debt	%	2	0.00%	-2.93%	-4.14%	0.000	(4.430)	(5.063)
Hedging instruments	%	2	0.00%	-0.37%	-0.45%	0.000	(0.553)	(0.553)
Return on regulatory equity including Financing adjustments	%	2	4.13%	0.90%	-0.05%	6.230	0.572	(0.060)
Operational Performance								
Totex out / (under) performance	%	2	0.00%	-0.85%	-1.05%	0.000	(1.289)	(1.289)
ODI out / (under) performance	%	2	0.00%	-0.28%	-0.35%	0.000	(0.423)	(0.423)
C-Mex out / (under) performance	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
D-Mex out / (under) performance	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Retail out / (under) performance	%	2	0.00%	-0.37%	-0.46%	0.000	(0.559)	(0.559)
Other exceptional items	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Operational performance total	%	2	0.00%	-1.50%	-1.86%	0.000	(2.271)	(2.271)
RoRE	%	2	4.13%	-0.60%	-1.91%	6.230	(1.698)	(2.331)
Actual performance adjustment 2015-20	%	2	-0.67%	-0.67%	-0.82%	(1.008)	(1.008)	(1.008)

Total earnings	%	2	3.46%	-1.27%	-2.73%	5.222	(2.706)	(3.339)
RCV growth from inflation	%	2	1.01%	1.01%	1.01%	1.530	1.530	1.239
Voluntary sharing arrangements	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Total shareholder return	%	2	4.47%	-0.25%	-1.72%	6.752	(1.177)	(2.100)
Dividends								
Gross Dividend	%	2	2.16%	2.93%	3.62%	3.257	4.429	4.429
Interest Received on Intercompany loans	%	2	0.00%	-1.12%	-1.38%	0.000	(1.689)	(1.689)
Retained Value	%	2	2.31%	-2.07%	-3.96%	3.495	(3.917)	(4.840)

1f) Financial flows –for the price review to date

			Average 2020-25					
				%			£m	
	Units	DP	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	%	2	4.13%	3.34%	4.13%	6.230	5.046	5.046
Regulatory equity	%	2	151.02	151.015	122.312	0.00%	0.00%	0.00%
Financing								
Gearing	%	2	0.00%	0.78%	0.32%	0.000	0.390	0.390
Gearing benefits sharing	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Variance in corporation tax	%	2	0.00%	0.08%	0.10%	0.000	0.120	0.120
Group relief	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Cost of debt	%	2	0.00%	-2.93%	-4.14%	0.000	(4.430)	(5.063)
Hedging instruments	%	2	0.00%	-0.37%	-0.45%	0.000	(0.553)	(0.553)
Return on regulatory equity including Financing adjustments	%	2	4.13%	0.90%	-0.05%	6.230	0.572	(0.060)
Operational Performance								
Totex out / (under) performance	%	2	0.00%	-0.85%	-1.05%	0.000	(1.289)	(1.289)
ODI out / (under) performance	%	2	0.00%	-0.28%	-0.35%	0.000	(0.423)	(0.423)
C-Mex out / (under) performance	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
D-Mex out / (under) performance	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Retail out / (under) performance	%	2	0.00%	-0.37%	-0.46%	0.000	(0.559)	(0.559)
Other exceptional items	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Operational performance total	%	2	0.00%	-1.50%	-1.86%	0.000	(2.271)	(2.271)
RoRE	%	2	4.13%	-0.60%	-1.91%	6.230	(1.698)	(2.331)
Actual performance adjustment 2015-20	%	2	-0.67%	-0.67%	-0.82%	(1.008)	(1.008)	(1.008)
Total earnings	%	2	3.46%	-1.27%	-2.73%	5.222	(2.706)	(3.339)

RCV growth from inflation	%	2	1.01%	1.01%	1.01%	1.530	1.530	1.239
Voluntary sharing arrangements	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Total shareholder return	%	2	4.47%	-0.25%	-1.72%	6.752	(1.177)	(2.100)
Dividends								
Gross Dividend	%	2	2.16%	2.93%	3.62%	3.257	4.429	4.429
Interest Received on Intercompany loans	%	2	0.00%	-1.12%	-1.38%	0.000	(1.689)	(1.689)
Retained Value	%	2	2.31%	-2.07%	-3.96%	3.495	(3.917)	(4.840)

Commentary to the financial flows

The financial flows table above is based on book debt rather than covenant debt to be consistent with Ofwat's guidance.

As per RAG 4.09, totex performance has been adjusted for timing differences and the company cost sharing ratio with customers.

The actual shareholder return based on actual regulatory equity is -1.72%, 6.19% below the notional return of 4.47% in the final determination. This main variances are:

- increased returns from higher gearing (+0.3%) using the average book debt of 67.6% compared to the notional gearing of 60.0%;
- higher returns from a lower tax charge (+0.1%);
- lower returns from a higher actual cost of debt (-4.1%). The main driver is the difference between the interest rate assumed by Ofwat and the actual higher interest rate on our borrowings (which is predominantly made up of long-term RPI index-linked debt);
- underperformance on totex (-1.1%). We achieved an efficiency of £0.5m in relation to base costs. Net totex subject to cost sharing was £1.6m higher than allowed. In our Final Determination, £4.4m of costs for HS2 were incorrectly omitted. Ofwat have confirmed that this will be corrected at PR24. This was partly offset by lower income offset payments of £2.9m due to the impact of covid-19 on housebuilding;
- retail costs (-0.5%) predominantly in relation to higher debt management costs; and
- ODIs (-0.4%) which includes an underperformance on PCC of £1.4m as a result of the impact of COVID-19 on household consumption.

Based on book debt, actual dividend yield net of intercompany interest is 2.24% which is 0.08% above the final determination of 2.16%. Using covenant debt, the dividend yield is 1.94%

Our final determination dividend yield of 2.16% is below the notional dividend yield for the sector due to the high level of RCV growth over the 2020-25 period.

Calculating the financial flows using the more appropriate measure for gearing of covenant debt gives an actual shareholder return of -1.52% instead of -1.72%.

Section 2 – price review and segmental reporting

2a) Segmental income statement – for the 12 months ended 31 March 2021

	Retail Retail Household £m	Retail non-household £m	Wholesale Water resources £m	Water Network+ £m	Total £m
Revenue - price control	12.966	-	9.537	99.565	122.068
Revenue - non price control	-	-	0.066	2.716	2.782
Operating expenditure - excluding PU recharge impact	(12.114)				(12.114)
PU opex recharge	(0.029)				(0.029)
Operating expenditure - including PU recharge impact	(12.143)	-	(7.445)	(58.438)	(78.026)
Depreciation - tangible fixed assets	(0.671)	-	(0.557)	(25.223)	(26.451)
Amortisation - intangible fixed assets	-	-	-	-	-
PU recharge impact	-	-	-	0.029	0.029
Depreciation & amortisation - including PU recharge impact	(0.671)	-	(0.557)	(25.194)	(26.422)
Other operating income	-	-	-	0.004	0.004
Operating profit	0.152	-	1.601	18.653	20.406

2b) Totex analysis for the 12 months ended 31 March 2021 – wholesale

	Water resources £m	Water Network+ £m	Total £m
Base operating expenditure			
Power	2.505	10.412	12.917
Income treated as negative expenditure	-	-	-
Abstraction charges/ discharge consents	3.036	0.217	3.253
Bulk Supply/Bulk discharge	0.005	0.041	0.046
Renewals expensed in year (Infrastructure)	-	12.301	12.301
Renewals expensed in year (Non-Infrastructure)	-	-	-
Other operating expenditure	1.683	28.349	30.032
Local authority and Cumulo rates	0.156	4.903	5.059
Total base operating expenditure	7.385	56.223	63.608
Other operating expenditure			
Enhancement operating expenditure	-	-	-
Developer services operating expenditure	-	0.117	0.117
Total operating expenditure excluding third party services	7.385	56.340	63.725
Third party services	0.060	2.098	2.158
Total operating expenditure	7.445	58.438	65.883
Grants and contributions			
Grants and contributions - operating expenditure	-	2.304	2.304
Capital expenditure			
Base capital expenditure	1.419	16.763	18.182
Enhancement capital expenditure	1.847	12.724	14.571
Developer services capital expenditure	-	10.479	10.479
Total gross capital expenditure (excluding third party)	3.266	39.966	43.232
Third party services	-	-	-
Total gross capital expenditure	3.266	39.966	43.232
Grants and contributions			
Grants and contributions - capital expenditure	-	7.232	7.232
Net totex	10.711	88.868	99.579
Cash expenditure	-	-	-
Pension deficit recovery payments	-	-	-
Other cash items	-	-	-
Totex including cash items	10.711	88.868	99.579

2c) Cost analysis for the 12 months ended 31 March 2021 – retail

	Household - total	Non-household - total	Total
	£m	£m	£m
Operating expenditure			
Customer services	4.733	-	4.733
Debt management	1.173	-	1.173
Doubtful debts	3.299	-	3.299
Meter reading	0.833	-	0.833
Services to developers	-	-	-
Other operating expenditure	1.946	-	1.946
Local authority and Cumulo rates	0.130	-	0.130
Total operating expenditure excluding third party services	12.114	-	12.114
Depreciation			
Depreciation on tangible fixed assets existing at 31 March 2015	0.058	-	0.058
Depreciation on tangible fixed assets acquired after 1 April 2015	0.613	-	0.613
Amortisation on intangible fixed assets existing at 31 March 2015	-	-	-
Amortisation on intangible fixed assets acquired after 1 April 2015	-	-	-
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.010	-	0.010
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	-	-	-
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	0.019	-	0.019
Income from wholesale assets acquired after 1 April 2015 principally used by retail	-	-	-
Net recharges costs	0.029	-	0.029
Total retail costs excluding third party and pension deficit repair costs	12.814	-	12.814
Third party services operating expenditure	0.001	-	0.001
Pension deficit repair costs	-	-	-
Total retail costs including third party and pension deficit repair costs	12.815	-	12.815
Debt written off	16.290	-	16.290
Capital expenditure	0.960	-	0.960

Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale	
Demand-side water efficiency - gross expenditure	0.026
Demand-side water efficiency - expenditure funded by wholesale	0.020
Demand-side water efficiency - net retail expenditure	0.006
Customer-side leak repairs - gross expenditure	0.358
Customer-side leak repairs - expenditure funded by wholesale	0.358
Customer-side leak repairs - net retail expenditure	-

Total retail operating costs (before depreciation charges) of £12.1m compared to £11.6m allowed in price limits for the year.

The overspend is predominantly in relation to higher debt management costs. The business has made a strategic decision in the year to increase its efforts in reducing its bad debt provision, which has resulted in a greater focus being placed on debt management activities operationally

2d) Historic costs analysis of tangible fixed assets at 31 March 2021

`	Retail		Wholesale		
	Retail Household	Retail non-household	Water resources	Water Network+	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2020	12.962	-	20.842	972.780	1,006.584
Disposals	-	-	-	(7.068)	(7.068)
Additions	0.960	-	3.266	39.966	44.192
Adjustments	-	-	-	-	-
Assets adopted at nil cost	-	-	-	-	-
At 31 March 2021	13.922	-	24.108	1,005.678	1,043.708
Depreciation					
At 1 April 2020	(10.665)	-	(3.491)	(442.647)	(456.803)
Disposals	-	-	-	7.028	7.028
Adjustments	-	-	-	-	-
Charge for year	(0.671)	-	(0.557)	(25.223)	(26.451)
At 31 March 2021	(11.336)	-	(4.048)	(460.842)	(476.226)
Net book amount at 31 March 2021	2.586	-	20.060	544.836	567.482
Net book amount at 1 April 2020	2.297	-	17.351	530.133	549.781
Depreciation charge for year					
Principal services	(0.671)	-	(0.557)	(25.223)	(26.451)
Third party services	-	-	-	-	-
Total	(0.671)	-	(0.557)	(25.223)	(26.451)

The net book value includes £28.924m in respect of assets in the course of construction.

2e) Analysis of grants and contributions for 12 months ended 31 March 2021

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£m	£m	£m	£m
Grants and contributions - water resources				
Diversions - s185	-	-	-	-
Other contributions (price control)	-	-	-	-
Price control grants and contributions	-	-	-	-
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total	-	-	-	-
Value of adopted assets	-	-	-	-
Grants and contributions - water network+				
Connection charges	-	3.365	-	3.365
Infrastructure charge receipts	-	1.501	-	1.501
Requisitioned mains	-	0.943	-	0.943
Diversions - s185	0.059	-	-	0.059
Other contributions (price control)	-	0.947	-	0.947
Price control grants and contributions before deduction of income offset	0.059	6.756	-	6.815
Income offset	-	0.617	-	0.617
Price control grants and contributions after deduction of income offset	0.059	6.139	-	6.198
Diversions - NRSWA	1.813	-	-	1.813
Diversions - other non-price control	0.432	-	-	0.432
Other contributions (non-price control)	-	1.093	-	1.093
Total	2.304	7.232	-	9.536
Value of adopted assets	-	-	-	-

	Water resources	Water network+	Total
	£m	£m	£m
Movements in capitalised grants and contributions	-	-	-
b/f	-	159.328	159.328
Capitalised in year	-	7.232	7.232
Amortisation (in income statement)	-	(3.228)	(3.228)
c/f	-	163.332	163.332

2f) Residential retail for the 12 months ended 31 March 2021

	Revenue	Number of customers	Average residential revenues
	£m	000s	£
Residential revenue			
Wholesale charges	89.071	-	-
Retail revenue	12.966	-	-
Total residential revenue	102.037	-	-
Retail revenue			
Revenue Recovered ("RR")	12.966	-	-
Revenue sacrifice	-	-	-
Actual revenue (net)	12.966	-	-
Customer information			
Actual customers ("AC")	-	674.428	-
Reforecast customers	-	678.080	-
Adjustment			
Allowed revenue ("R")	13.373	-	-
Net adjustment	0.407	-	-
Other residential information			
Average residential retail revenue per customer	-	-	19.225

Household retail revenues are £0.4m lower than that assumed in the final determination. This is as a result of extending our Assure social tariff to more customers to support them during Covid-19. The support is provided through a discount to the retail charge.

2g) Non-household water – revenues by tariff type

This table is not applicable as we exited the non-household retail market in April 2017. Our wholesale revenue relating to non-household was £20.031m for the year.

2i) Revenue analysis for the 12 months ended 31 March 2021

	Household	Non-household	Total	Water resources	Water network+	Total
	£m	£m	£m	£m	£m	£m
Wholesale charge - water						
Unmeasured	46.967	0.967	47.934	4.499	43.435	47.934
Measured	42.104	19.064	61.168	5.038	56.130	61.168
Third party revenue	-	-	-	-	-	-
Total wholesale water revenue	89.071	20.031	109.102	9.537	99.565	109.102
Retail revenue						
Unmeasured	6.917	-	6.917			
Measured	6.049	-	6.049			
Other third party revenue	-	-	-			
Retail Total	12.966	-	12.966			
Third party revenue - non-price control						
Bulk supplies - water			0.767			
Other third party revenue			1.888			
Principal services - non-price control						
Other appointed revenue			0.127			
Total appointed revenue			124.850			

2j) Infrastructure network reinforcement costs for the 12 months ended 31 March 2021

	Network reinforcement capex £m	On site / site specific capex (memo only) £m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.831	-
Pumping and storage facilities	-	-
Other	-	-
Total	0.831	-

2k) Infrastructure charges reconciliation for the 12 months ended 31 March 2021

	Water £m
Impact of infrastructure charge discounts	
Infrastructure charges	1.501
Discounts applied to infrastructure charges	(0.015)
Gross Infrastructure charges	1.486
Comparison of revenue and costs	
Variance brought forward	1.440
Revenue	1.501
Costs	(0.831)
Variance carried forward	2.110

The variance carried forward on infrastructure charge revenues compared to costs as at March 2021 is £2.1m. The infrastructure charge is based on a five year average forecast of network reinforcement expenditure. This expenditure varies each year and we have significant investment projected to 2025 as set out in our PR19 business plan. It is expected that this over recovery will reverse as this investment is made.

2l) Analysis of land sales for the 12 months ended 31 March 2021

There were no land sales for the 12 months ended 31 March 2021.

2m) Revenue reconciliation for the 12 months ended 31 March 2021 – wholesale

`	Water resources £m	Water network+ £m	Total £m
Revenue recognised	-	-	-
Wholesale revenue governed by price control	9.537	99.565	109.102
Grants & contributions (price control)	-	6.198	6.198
Total revenue governed by wholesale price control	9.537	105.763	115.300
Calculation of the revenue cap			
Allowed wholesale revenue before adjustments	9.728	102.643	112.371
Allowed grants & contributions before adjustments	-	8.904	8.904
Revenue adjustment	-	-	-
Other adjustments	-	-	-
Revenue cap	9.728	111.547	121.275
Calculation of the revenue imbalance			
Revenue cap	9.728	111.547	121.275
Revenue Recovered	9.537	105.763	115.300
Revenue imbalance	0.191	5.783	5.974

Wholesale revenues were £3.3m lower than that assumed in the wholesale price control. As a result of COVID-19, businesses were particularly impacted resulting in a reduction of £5.8m in revenue. This was partly offset by an additional £2.5m of household revenues as people worked from home. This shortfall will be recovered from customers in future years.

Price control contributions were £2.7m lower than allowed in price limits. Contributions from Severn Trent for the joint investment at Hampton Loade was delayed as an alternative solution was considered. We submitted a green recovery proposal to secure additional funding, which was allowed in Ofwat's draft decision in May 2021.

Overall, developer contributions were in line with the final determination with lower mains requisition activity being offset by lower income offset as a result of the impact of COVID-19 on housebuilding.

2n) Residential retail – social tariffs

	Revenue	Number of customers	Average amount per customer
	£m	000s	£
Number of residential customers on social tariffs	-	-	-
Residential water only social tariffs	-	38.224	-
Residential wastewater only social tariffs	-	-	-
Residential dual service social tariffs	-	-	-
Number of residential customers not on social tariffs			
Residential water only no social tariffs	-	636.204	-
Residential wastewater only no social tariffs	-	-	-
Residential dual service no social tariffs	-	-	-
Social tariff discount			
Average discount per water only social tariffs customer	-	-	77.543
Average discount per wastewater only social tariffs customer	-	-	-
Average discount per dual service social tariffs customer	-	-	-
Social tariff cross-subsidy - residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	2.964	-	-
Total customer funded cross-subsidies for wastewater only social tariffs customers	-	-	-
Total customer funded cross-subsidies for dual service social tariffs customers	-	-	-
Average customer funded cross-subsidy per water only social tariffs customer	-	-	4.395
Average customer funded cross-subsidy per wastewater only social tariffs customer	-	-	-
Average customer funded cross-subsidy per dual service social tariffs customer	-	-	-
Social tariff cross-subsidy - company			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	-	-	-
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	-	-	-
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	-	-	-
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer	-	-	-
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer	-	-	-
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer	-	-	-
Social tariff support - willingness to pay			
Level of support for social tariff customers reflected in business plan	-	-	3.000
Maximum contribution to social tariffs supported by customer engagement	-	-	3.000

2o) Historic cost analysis of intangible fixed assets

	Water Resources	Water Network+	Retail Residential	Retail non-household	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2020	-	-	-	-	-
Disposals	-	-	-	-	-
Additions	-	-	-	-	-
Adjustments	-	-	-	-	-
Assets adopted at nil cost	-	-	-	-	-
At 31 March 2021	-	-	-	-	-
Amortisation					
At 1 April 2020	-	-	-	-	-
Disposals	-	-	-	-	-
Adjustments	-	-	-	-	-
Charge for year	-	-	-	-	-
At 31 March 2021	-	-	-	-	-
Net book amount at 31 March 2021	-	-	-	-	-
Net book amount at 1 April 2020	-	-	-	-	-
Amortisation for year					
Principal services	-	-	-	-	-
Third party services	-	-	-	-	-
Total	-	-	-	-	-

The net book value includes £nil in respect of assets in the course of construction.

Section 3 – performance summary

3a) Outcome performance

	Unit	Performance Level (actual)- Previous reporting year	Performance Level (actual)- Current reporting year	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020-25 outperformance or underperformance payment £m
Common PCs - Water (Financial)						
Water quality compliance (CRI)	number	3.60	1.09	No	-	(0.700)
Water supply interruptions	hh:mm:ss	0.002	0.003	Yes	0.383	1.253
Leakage- SST	%	n/a	3.3	Yes	0.216	0.216
Leakage- CAM	%	n/a	4.1	Yes	0.042	-
Per capita consumption- SST	%	n/a	(5.8)	No	(1.352)	(6.411)
Per capita consumption- CAM	%	n/a	(3.0)	No	(0.143)	(0.855)
Mains repairs	number	105.8	130.0	No	(0.022)	-
Unplanned outage	%	1.06	0.57	Yes	0.253	0.760
Bespoke PCs - Water and Retail (Financial)						
Financial support	nr	31,104	49,279	Yes	-	-
Extra Care assistance	%	n/a	5.0	Yes	-	-
Education activity	nr	n/a	9,648.000	Yes	0.008	-
Environmentally sensitive water abstraction	number	0.19	(0.07)	Yes	0.003	-
Protecting wildlife, plants, habitats and catchments	nr	169.0	245.8	Yes	0.044	0.044
Customer contact about water quality	nr	1.13	0.98	Yes	0.144	0.081
Visible leak repair time	text	n/a	6.000	Yes	-	-
Water treatment works delivery programme	%	n/a	8.000	Yes	-	-
Residential void properties and gap sites	%	n/a	100.000	Yes	-	-
Financial water performance commitments achieved	%			76		
Overall performance commitments achieved (excluding C-MEX and D-MEX)	%			63		

We discuss outcomes, ODIs, performance commitments and financial incentives in more detail on pages 11 to 24. We also summarise our performance in the customer-facing version of this APR. We have submitted a separate document to Ofwat as part of this APR submission which covers table 3S (shadow performance commitments). We have also submitted a document covering the leakage and water consumption performance commitments for 2020 to 2025.

3c) Customer measure of experience (C-MeX)

	Unit	Value
Annual customer satisfaction score for the customer service survey	Number	79.59
Annual customer satisfaction score for the customer experience survey	Number	84.19
Annual C-MeX score	Number	81.89
Annual net promoter score	Number	35.00
Total household complaints	Number	4,604
Total connected household properties	Number	704,013
Total household complaints per 10,000 connections	Number	65.397
Confirmation of communication channels offered	TRUE or FALSE	TRUE

3d) Developer Services measure of experience (D-MeX)

	Unit	Value
Qualitative component annual results	Number	69.96
Quantitative component annual results	Number	97.21
D-MeX score	Number	83.59
Developer services revenue (water)	£m	6.816

Calculating the D-MeX quantitative component

Water UK performance metric	**First reporting period (1 April to 30 September)**	**Second reporting period (1 October to 31 March)**
	%	**%**
W1.1 Pre-development enquiry – reports issued within target	88.24%	89.66%
W3.1 s45 quotations - within target	93.81%	97.01%
W4.1 s45 service pipe connections - within target	96.79%	98.10%
W6.1 Mains design <500 plots - quotations within target	96.55%	92.31%
W7.1 Mains design >500 plots - quotations within target	n/a	n/a
W8.1 Mains construction within target	100.00%	100.00%
W17.1 Mains diversions (without constraints) - quotations within target	100.00%	100.00%
W17.2 Mains diversions (with constraints) - quotations within target	n/a	n/a
W18.1 Mains diversions - construction/commissioning within target	100.00%	100.00%
W20.1 Self-lay Point of Connection report < 500 plots etc - reports issued within target	100.00%	100.00%
W21.1 Self-lay Point of Connection reports >500 plots etc - reports issued within target	n/a	100.00%
W23.1 Self-lay design and terms request <500 plots etc - quotations within target	75.00%	100.00%
W24.1 Self-lay design and terms request >500 plots etc - quotations within target	n/a	100.00%
W26.1 Self-lay water for pressure/bacteriological testing - provided within target	100.00%	100.00%
W27.1 Self-lay permanent water supply - provided within target	100.00%	100.00%
W30.1 Self-lay plot references and costing details - issued within target	100.00%	99.95%
WN1.1 % of confirmations issued to the applicant within target period	n/a	100.00%
WN2.2 % Bulk supply offer letters issued to the applicant within target period	n/a	100.00%
WN4.1 % of main laying schemes constructed and commissioned within the target period	n/a	n/a
WN4.2 % of testing supplies provided within target period	n/a	n/a
WN4.3 % of permanent supplies made available within the target period	n/a	n/a

		First reporting period (1 April to 30 September)	**Second reporting period (1 October to 31 March)**	**Quantitative score (annual)**
D-MeX quantitative score (for the relevant reporting period)	%	95.86%	98.56%	
D-MeX quantitative score (annual)	Number		0.972	

3e) Outcome performance – non-financial performance commitments

	Unit	Performance Level (actual)- Previous reporting year	Performance Level (actual)- Current reporting year	PCL met?
Common				
Risk of severe restrictions in a drought	%	0.00	0.00	Yes
Priority services for customers in vulnerable circumstances - PSR reach	%	2.20	5.81	No
Priority services for customers in vulnerable circumstances - Attempted contacts	%	0.00	53.57	Yes
Priority services for customers in vulnerable circumstances - Actual contacts	%	0.00	21.51	Yes
Bespoke PCs				
Retailer measure of experience	%	n/a	76.00	No
Supporting water efficient housebuilding	nr	0	2.2	Yes
Carbon emissions	nr	49.3	26.4	Yes
Bad debt level	%	10.38	3.23	No
Employee engagement	score	n/a	Not Met	No
Treating our suppliers fairly	%	n/a	29	No
Trust	nr	n/a	8.16	Yes
Value for money	%	75	74	No
WINEP Delivery	text	n/a	Not Met	No
Non-financial performance commitments achieved	%			46

3f) Underlying calculations for common performance commitments – water and retail

This table is set out here.

3h) Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding CMEX and DMEX) £m (2017-18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	0.052
Water network plus	(0.474)
Residential retail	-
Business retail	-
Dummy control	-
Initial calculation of end of period revenue adjustment by price control	
Water resources	-
Water network plus	-
Residential retail	-
Business retail	-
Dummy control	-
Initial calculation of end of period RCV adjustment by price control	
Water resources	-
Water network plus	-
Residential retail	-
Business retail	-
Dummy control	-

3i) Supplementary outcomes information

This table is set out here.

Section 4 – additional regulatory information

4a) Water bulk supply information for the 12 months ended 31 March 2021

	Volume Ml	Operating costs £m	Revenue £m
Bulk supply exports			
Non-qualifying bulks (pre 2015)	791.605	0.619	0.767
Total bulk supply exports	791.605	0.619	0.767
Bulk supply imports			
Non-qualifying bulks (pre 2015)	43.077	0.046	-
Total bulk supply imports	43.077	0.046	-

4b) Analysis of debt

This table is set out here.

4c) Impact of price control performance to date on RCV

	12 months ended 31 March 2021		Price control period to date	
	Water resources £m	Water network plus £m	Water resources £m	Water network plus £m
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	9.296	92.804	9.296	92.804
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	7.459	81.384	7.459	81.384
Transition expenditure	-	-	-	-
Disallowable costs	-	-	-	-
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	7.459	81.384	7.459	81.384
Variance	(1.837)	(11.420)	(1.837)	(11.420)
Variance due to timing of expenditure	(1.837)	(10.965)	(1.837)	(10.965)
Variance due to efficiency	(0.000)	(0.455)	(0.000)	(0.455)
Customer cost sharing rate	54.9%	54.9%	54.9%	54.9%
Customer share of totex over/underspend	(1.009)	(6.274)	(1.009)	(6.274)
Company share of totex over/underspend	(0.828)	(5.146)	(0.828)	(5.146)
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	3.341	5.141	3.341	5.141
Actual totex - business rates and abstraction licence fees	3.192	5.120	3.192	5.120
Variance - business rates and abstraction licence fees	(0.149)	(0.021)	(0.149)	(0.021)
Customer cost sharing rate - business rates and abstraction licence fees	75.0%	75.0%	75.0%	75.0%
Customer share of totex over/underspend - business rates and abstraction licence fees	(0.112)	(0.016)	(0.112)	(0.016)
Company share of totex over/underspend - business rates and abstraction licence fees	(0.037)	(0.005)	(0.037)	(0.005)
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	0.006	0.820	0.006	0.820
Actual totex - not subject to cost sharing	0.060	2.363	0.060	2.363
Variance - 100% company allocation	0.054	1.543	0.054	1.543
Total company share of totex over/under spend	(0.811)	(3.608)	(0.811)	(3.608)
RCV				
Total company share of totex over/under spend	(0.811)	(3.608)	(0.811)	(3.608)
PAYG rate	54.3%	65.4%	54.3%	65.4%
RCV element of totex over/underspend	(0.371)	(1.248)	(0.371)	(1.248)
Adjustment for ODI outperformance payment or underperformance payment	-	-	-	-
RCV determined at FD at 31 March	-	-	18.221	384.982
Projected 'shadow' RCV	-	-	17.850	383.734

Net totex subject to cost sharing was £13.3m lower than allowed in the final determination. The majority of the underspend is in relation to enhancement expenditure and is due to the upgrade of the company's Hampton Loade treatment works. This has been delayed in order to allow us to explore an alternative solution which was submitted for funding under green recovery proposals and will be recovered by the end of the AMP. There is an efficiency of £0.5m in relation to base totex.

Net totex not subject to cost sharing was £1.6m higher the allowed in the final determination. In our final determination, £4.4m of costs for HS2 were incorrectly omitted. Ofwat has confirmed that this will be corrected at PR24. In addition, bulk supply export costs were £0.6m higher as a result of higher demand from Severn Trent Water. These were partly offset by lower income offset payments of £2.9m due to the impact of COVID-19 on housebuilding.

The shadow RCV in the above table uses the company share of totex underspend as per Ofwat guidance. The appropriate calculation should use the customer share and Ofwat have proposed a change to the guidance for 2021/22 reporting.

The table also calculates the shadow RCV with the total variance on expenditure and does not distinguish between efficiency and timing. For table 1F, the totex performance has been calculated after adjusting for timing differences.

4d) Totex analysis for the 12 months ending 31 March 2021 – water resources and water network plus

	Water resources	Network+				Total
		Raw water transport	Raw water storage	Water treatment	Treated water distribution	
	£m	£m	£m	£m	£m	£m
Operating expenditure						
Base operating expenditure	7.385	1.259	0.002	8.050	46.912	63.608
Enhancement operating expenditure	-	-	-	-	-	-
Developer services operating expenditure	-	-	-	-	0.117	0.117
Total operating expenditure excluding third party services	7.385	1.259	0.002	8.050	47.029	63.725
Third party services	0.060	0.016	-	0.936	1.146	2.158
Total operating expenditure	7.445	1.275	0.002	8.986	48.175	65.883
Grants and contributions						
Grants and contributions - operating expenditure	-	-	-	-	2.304	2.304
Capital expenditure						
Base capital expenditure	1.419	0.003	-	2.603	14.157	18.182
Enhancement capital expenditure	1.847	-	-	10.147	2.577	14.571
Developer services capital expenditure	-	-	-	-	10.479	10.479
Total gross capital expenditure (excluding third party)	3.266	0.003	-	12.750	27.213	43.232
Third party services	-	-	-	-	-	-
Total gross capital expenditure	3.266	0.003	-	12.750	27.213	43.232
Grants and contributions						
Grants and contributions - capital expenditure	-	-	-	2.027	5.205	7.232
Net totex	10.711	1.278	0.002	19.709	67.879	99.579
Cash expenditure						
Pension deficit recovery payments	-	-	-	-	-	-
Other cash items	-	-	-	-	-	-
Totex including cash items	10.711	1.278	0.002	19.709	67.879	99.579
Atypical expenditure						
Item 1	0.120	-	0.035	0.068	0.496	0.719
Item 2	0.013	0.003	-	0.023	0.164	0.203
Item 3	-	-	-	-	-	-
Item 4	-	-	-	-	-	-
Item 5	-	-	-	-	-	-
Total atypical expenditure	0.133	0.003	0.035	0.091	0.660	0.922

4f) Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2021

The company did not have any major projects in the year as defined within RAG 4.09.

4h) Financial metrics for the 12 months ended 31 March 2021

	Units	Current year	AMP to date
Financial indicators			
Net debt	£m	268.846	
Regulatory equity	£m	134.357	
Regulatory gearing	%	66.68%	
Post tax return on regulatory equity	%	9.42%	
RORE (return on regulatory equity)	%	-0.60%	-0.60%
Dividend yield	%	-3.45%	
Retail profit margin - Household	%	1.17%	
Retail profit margin - Non household	%	0	
Credit rating - Fitch	Text	N/A	
Credit rating - Moody's	Text	Baa2 (Stable)	
Credit rating - Standard and Poor's	Text	BBB+ (Negative)	
Return on RCV	%	6.48%	
Dividend cover	dec	-2.352	
Funds from operations (FFO)	£m	41.415	
Interest cover (cash)	dec	5.92	
Adjusted interest cover (cash)	dec	2.52	
FFO/Net debt	dec	0.1540	
Effective tax rate	%	14.33%	
RCF	£m	46.052	
RCF/Net debt	dec	0.171	
Revenue and earnings			
Revenue (actual)	£m	122.068	
EBITDA (actual)	£m	44.042	
Borrowings			
Proportion of borrowings which are fixed rate	%	11.53%	
Proportion of borrowings which are floating rate	%	-0.02%	
Proportion of borrowings which are index linked	%	88.49%	
Proportion of borrowings due within 1 year or less	%	0.00%	
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%	
Proportion of borrowings due in more than 2 years but but no more than 5 years	%	10.98%	
Proportion of borrowings due in more than 5 years but no more than 20 years	%	0.00%	
Proportion of borrowings due in more than 20 years	%	89.02%	

RORE for 2020/2021 under actual returns and notional equity was -0.60%. This is 4.73% lower than that allowed in the final determination of 4.13%. The main driver for this is underperformance is the difference between the interest rate assumed by Ofwat and the actual higher interest rate on our borrowings (which is predominantly made up of long-term RPI index-linked debt). This has reduced RORE by 2.93%.

Totex is showing a £1.3m underperformance equating to 0.9% on RORE Net totex not subject to cost sharing was £1.6m higher than allowed. In our final determination, £4.4m of costs for HS2 were incorrectly omitted. Ofwat have confirmed that this will be corrected at PR24. In addition, bulk supply export costs were £0.6m higher as a result of higher demand from Severn Trent Water. These were partly offset by lower income offset payments of £2.9m due to the impact of COVID-19 on housebuilding.

Retail costs were £0.6m (0.4% of RORE) higher than allowed predominantly in relation to higher debt management costs.

Totex is showing a £1.3m underperformance equating to 0.9% on RORE Net totex not subject to cost sharing was £1.6m higher than allowed. In our final determination, £4.4m of costs for HS2 were incorrectly omitted. Ofwat have confirmed that this will be corrected at PR24. In addition, bulk supply export costs were £0.6m higher as a result of higher demand from Severn Trent Water. These were partly offset by lower income offset payments of £2.9m due to the impact of COVID-19 on housebuilding.

Retail costs were £0.6m (0.4% of RORE) higher than allowed predominantly in relation to higher debt management costs.

4i) Financial derivatives

	Nominal value by maturity (net) at 31 March			Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March 2021)	
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable
	£m	£m	£m	£m	£m	£m	%	%
Interest rate swap (sterling)								
Floating to fixed rate	-	30.000	-	30.000	(2.271)	(2.271)	2%	0%
Floating from fixed rate	-	-	-	-	-	-	0%	0%
Floating to index linked	-	-	-	-	-	-	0%	0%
Floating from index linked	-	-	-	-	-	-	0%	0%
Fixed to index-linked	-	-	-	-	-	-	0%	0%
Fixed from index-linked	-	-	-	-	-	-	0%	0%
Total	-	30.000	-	30.000	(2.271)	(2.271)	0%	0%
Foreign Exchange								
Cross currency swap USD	-	-	-	-	-	-	0%	0%
Cross currency swap EUR	-	-	-	-	-	-	0%	0%
Cross currency swap YEN	-	-	-	-	-	-	0%	0%
Cross currency swap Other	-	-	-	-	-	-	0%	0%
Total	-	-	-	-	-	-	0%	0%
Currency interest rate								
Currency interest rate swaps USD	-	-	-	-	-	-	0%	0%
Currency interest rate swaps EUR	-	-	-	-	-	-	0%	0%
Currency interest rate swaps YEN	-	-	-	-	-	-	0%	0%
Currency interest rate swaps Other	-	-	-	-	-	-	0%	0%
Total	-	-	-	-	-	-	0%	0%
Forward currency contracts								
Forward currency contracts USD	-	-	-	-	-	-	0%	0%
Forward currency contracts EUR	-	-	-	-	-	-	0%	0%
Forward currency contracts YEN	-	-	-	-	-	-	0%	0%
Forward currency contracts CAD	-	-	-	-	-	-	0%	0%

Forward currency contracts AUD	-	-	-	-	-	-	0%	0%
Forward currency contracts HKD	-	-	-	-	-	-	0%	0%
Forward currency contracts Other	-	-	-	-	-	-	0%	0%
Total	-	-	-	-	-	-	0%	0%
Other financial derivatives								
Other financial derivatives	-	-	-	-	-	-	0%	0%
Total financial derivatives	-	30.000	-	30.000	(2.271)	(2.271)	0%	0%

Nominal values (net) above represent the nominal value of the interest rate swap of £30.0m, which hedges the interest rate payments on £30.0m of bank loans. This does not equal the value reflected in total financial instruments in table 1c of £2.271m as the balance sheet value of the swap is recorded at mark to market value as described above. The fixed payable element of the interest rate swap is 2.135% and the receivable floating rate element is three-month LIBOR, shown above as the average for the 12 months to 31 March 2021 of 0.140%. The receivable floating rate element of the swap exactly offsets the payable floating rate element (three-month LIBOR interest payment) of the related £30.000m bank loan. The effect of this is that the interest payable on the loan, when combined with the cash flows on the swap, is fixed to 2.135% a year plus the agreed fixed bank margin percentage per annum.

4j) Base expenditure analysis for the 12 months ended 31 March 2021 – water resources and water network+

	Water resources	Water network+				Total
		Raw water distribution	Raw water storage	Water treatment	Treated water distribution	
	£m	£m	£m	£m	£m	£m
Operating expenditure						
Power	2.505	0.739	0.001	0.819	8.853	12.917
Income treated as negative expenditure	-	-	-	-	-	-
Bulk supply	0.005	0.001	-	0.008	0.032	0.046
Renewals expensed in year (infrastructure)	-	-	-	-	12.301	12.301
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-
Other operating expenditure	1.683	0.331	0.001	6.627	20.841	29.483
Local authority and Cumulo rates	0.156	0.188	-	0.379	4.336	5.059
Service Charges						
Canal & River Trust abstraction charges/ discharge consents	-	-	-	0.020	-	0.020
Environment Agency / NRW abstraction charges/ discharge consents	3.036	-	-	0.091	-	3.127
Other abstraction charges/ discharge consents	-	-	-	0.106	-	0.106
Other operating expenditure						
Costs associated with Traffic Management Act	-	-	-	-	0.325	0.325
Costs associated with lane rental schemes	-	-	-	-	0.224	0.224
Statutory water softening	-	-	-	-	-	-
Total base operating expenditure	7.385	1.259	0.002	8.050	46.912	63.608
Capital expenditure	-	-	-	-	-	-
Maintaining the long term capability of the assets - infra	-	-	-	-	-	-
Maintaining the long term capability of the assets - non-infra	1.419	0.003	-	2.603	14.157	18.182
Total base capital expenditure	1.419	0.003	-	2.603	14.157	18.182
Traffic Management Act						
Projects incurring costs associated with Traffic Management Act	-	-	-	-	6,108	6,108

4l) Enhancement expenditure for the 12 months ended 31 March 2021 – water resources and water network+

This table is set out here.

4n) Developer services expenditure for the 12 months ended 31 March 2021 – water resources and water network+

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		Expenditure in report year					
		Water resources	Water network+				Total
			Raw water transport	Raw water storage	Water treatment	Treated water distribution	
		£m	£m	£m	£m	£m	£m
New connections	Capex	-	-	-	-	3.830	3.830
New connections	Opex	-	-	-	-	-	-
Requisition mains	Capex	-	-	-	-	3.447	3.447
Requisition mains	Opex	-	-	-	-	-	-
Infrastructure network reinforcement	Capex	-	-	-	-	0.831	0.831
Infrastructure network reinforcement	Opex	-	-	-	-	-	-
s185 diversions	Capex	-	-	-	-	-	-
s185 diversions	Opex	-	-	-	-	0.117	0.117
Other price controlled activities	Capex	-	-	-	-	2.371	2.371
Other price controlled activities	Opex	-	-	-	-	-	-
Total developer services expenditure - capex	Capex	-	-	-	-	10.479	10.479
Total developer services expenditure - opex	Opex	-	-	-	-	0.117	0.117
Total developer services expenditure	Totex	-	-	-	-	10.596	10.596

Other price controlled activities of £2.371m relate to self-lay asset payments

4p) Expenditure on non-price control diversions for 12 months ended 31 March 2021

	Water resources £m	Water network+ £m	Total £m
Non-price control diversions			
Diversions - NRSWA	-	2.609	2.609
Diversions - other non-price control	-	0.377	0.377
Total expenditure on non-price control diversions	-	2.986	2.986

4q) Developer services – new connections, properties and mains

	Water nr
Connections volume data	
New connections (residential – excluding NAVs)	3491
New connections (business – excluding NAVs)	135
Total new connections served by incumbent	3626
New connections – SLPs	1237.7
Properties volume data	
New properties (residential - excluding NAVs)	3627
New properties (business - excluding NAVs)	135
Total new properties served by incumbent	3762
New residential properties served by NAVs	49
New business properties served by NAVs	0
Total new properties served by NAVs	49
Total new properties	3811
New properties – SLP connections	1238
New water mains data	
Length of new mains (km) - requisitions	20.91
Length of new mains (km) - SLPs	21.7

4r) Connected properties, customers and population

	Unmeasured 000s	Measured 000s	Total 000s	Voids 000s
Customer numbers - average during the year				
Residential water only customers	350.325	324.103	674.428	27.636
Residential wastewater only customers	0	0	0	0
Residential water and wastewater customers	0	0	0	0
Total residential customers	350.325	324.103	674.428	27.636
Business water only customers	3.343	34.653	37.996	4.7
Business wastewater only customers	0	0	0	0
Business water & wastewater customers	0	0	0	0
Total business customers	3.343	34.653	37.996	4.7
Total customers	353.668	358.756	712.424	32.336

	Unmeasured 000s	Measured 000s	Total 000s
Property numbers - average during the year			
Residential properties billed	350.325	324.103	674.428
Residential void properties	0	0	27.636
Total connected residential properties	0	0	702.064
Business properties billed	3.343	34.653	37.996
Business void properties	0	0	4.7
Total connected business properties	0	0	42.696
Total connected properties	0	0	744.76

	Unmeasured				Measured				Total
	No meter 000s	Basic meter 000s	Smart meter 000s	Total 000s	No meter 000s	Basic meter 000s	Smart meter 000s	Total 000s	000s
Property and meter numbers - at end of year									
Total new residential properties connected in year	0	0	0	0	0	0	4.914	4.914	4.914
Total new business properties connected in year	0	0	0	0	0	0	0.135	0.135	0.135
Residential properties billed at year end	343.787	0.776	1.943	346.506	3.928	108.429	215.01	327.367	673.873
Residential void properties at year end	0	0	0	19.098	0	0	0	11.042	30.14
Total connected residential properties at year end	0	0	0	365.604	0	0	0	338.409	704.013
Business properties billed at year end	3.366	0	0	3.366	0	23.306	11.497	34.803	38.169
Business void properties at year end	0	0	0	1.14	0	0	0	3.361	4.501
Total connected business properties at year end	0	0	0	4.506	0	0	0	38.164	42.67
Total connected properties at year end	0	0	0	370.11	0	0	0	376.573	746.683

	Water 000s

Population data	
Resident population	1714.088
Business population	0

	Unmeasured 000s	Measured 000s	Total 000s	Voids 000s
Customer numbers - average during the year				
Residential water only customers	350.325	324.103	674.428	27.636
Residential wastewater only customers	0	0	0	0
Residential water and wastewater customers	0	0	0	0
Total residential customers	350.325	324.103	674.428	27.636
Business water only customers	3.343	34.653	37.996	4.7
Business wastewater only customers	0	0	0	0
Business water & wastewater customers	0	0	0	0
Total business customers	3.343	34.653	37.996	4.7
Total customers	353.668	358.756	712.424	32.336

	Unmeasured 000s	Measured 000s	Total 000s
Property numbers - average during the year			
Residential properties billed	350.325	324.103	674.428
Residential void properties	0	0	27.636
Total connected residential properties	0	0	702.064
Business properties billed	3.343	34.653	37.996
Business void properties	0	0	4.7
Total connected business properties	0	0	42.696
Total connected properties	0	0	744.76

	Unmeasured				Measured				Total
	No meter	Basic meter	Smart meter	Total	No meter	Basic meter	Smart meter	Total	
	000s	000s	000s	000s	000s	000s	000s	000s	000s
Property and meter numbers - at end of year									
Total new residential properties connected in year	0	0	0	0	0	0	4.914	4.914	4.914

Total new business properties connected in year	0	0	0	0	0	0	0.135	0.135	0.135
Residential properties billed at year end	343.787	0.776	1.943	346.506	3.928	108.429	215.01	327.367	673.873
Residential void properties at year end	0	0	0	19.098	0	0	0	11.042	30.14
Total connected residential properties at year end	0	0	0	365.604	0	0	0	338.409	704.013
Business properties billed at year end	3.366	0	0	3.366	0	23.306	11.497	34.803	38.169
Business void properties at year end	0	0	0	1.14	0	0	0	3.361	4.501
Total connected business properties at year end	0	0	0	4.506	0	0	0	38.164	42.67
Total connected properties at year end	0	0	0	370.11	0	0	0	376.573	746.683

	Water 000s
Population data	
Resident population	1714.088
Business population	0

Section 5 – additional regulatory information (water resources)

The relevant tables are set out here.

Section 6 – additional regulatory information (network plus)

The relevant tables are set out here.

Section 9 – additional regulatory information (innovation competition)

9a Innovation competition

	Current year £m
Allowed	
Allowed innovation competition fund price control revenue	0.433
Revenue collected for the purposes of the innovation competition	
Price control revenue collected from customers	0.433
Non-price control revenue (e.g. royalties)	-
Revenue collected from customers and transferred into the innovation competition fund	-

	Bids accepted and awarded funding for innovation competition	Forecast expenditure on innovation projects funded through the innovation competition	Actual expenditure on innovation projects funded through the innovation competition in year	Difference between actual and forecast expenditure	Cumulative spend on innovation projects	Allowed future expenditure on innovation projects funded through the innovation competition	Expenditure on innovation projects funded by shareholders
	nr	£m	£m	£m	£m	£m	£m
Total	-	-	-	-	-	-	-

Administration	**Value**
Administration charge for innovation partner	-

The cash balance of £4.352m reported in table 1c includes £0.433m of revenue collected for the purposes of innovation competition. There are two competitions, Innovation in Water Challenge (IWC) and the Water Breakthrough Challenge (WBC). The IWC was not concluded until after the 31 March 2021 and subsequent payments of £0.022m have been made to winning bidders. The WBC is currently underway with successful bidders expected to be notified in September 2021, after which further payments will be made.

Appendix 1: Information sources – performance against our targets

Information for the content on pages 13 to 24 has come from the following sources. Additional information has also come from the South Staffordshire Water internal communications portal and internal briefings.

Page no.	Story	Source
14	Making it easy for customers to find information quickly	Conduit internal e-newsletter – May 2020, October 2020 and March 2021.
14	Encouraging customers to get water fit	Get Water Fit web content – Get Water Fit |Free water-efficiency devices (south-staffs-water.co.uk); Get Water Fit | Free water-efficiency devices (cambridge-water.co.uk). Additional content from Get Water Fit website – www.getwaterfit.co.uk/#/faq Conduit – November 2020. Numbers from internal data.
15	Delivering for our communities – how we performed during 2020/21	Coronavirus web content – Coronavirus (south-staffs-water.co.uk); www.cambridge-water.co.uk/household/coronavirus. Numbers from internal data and year-end customer tracker.
16	Making a difference and adding value in our communities	News story – 'Local food banks receive donations from company fundraiser': Local food banks receive donations from company fundraiser (south-staffs-water.co.uk); Local food banks receive donations from company fundraiser (cambridge-water.co.uk). Conduit – July 2020, October 2020, November 2020, January 2021, February 2021, March 2021.
16	H2Online goes from strength to strength	Internal email.
17	Growing communities with PEBBLE	News story – 'Christmas boost for community groups to help biodiversity': Christmas boost for community groups to help biodiversity (south-staffs-water.co.uk); www.cambridge-water.co.uk/news/christmas-boost-for-community-groups-to-help-biodiversity.
18	Delivering a reliable service – how we performed during 2020/21	Mains repair/rehab scheme metrics from internal data.
19	Building resilience for the future	Conduit – June 2020, October 2020. Water production figures from newsletter shared with key stakeholders, June 2020.
19	Building back better – investing in green recovery	Green recovery bid submission to Ofwat, February 2021.
20	Dealing with bursts on the network	Conduit – August 2020, September 2020, January 2021, February 2021.

Page no.	Story	Source
22	Using satellite technology to help detect leaks	News story – 'Satellites helping to detect leaks: Satellites helping to detect leaks (south-staffs-water.co.uk); Satellites helping to detect leaks (cambridge-water.co.uk). Conduit – March 2021.
22	Protecting rare habitats for future generations	News story – 'New chalk stream assessment to take place': New chalk stream assessment to take place (cambridge-water.co.uk). 'Greater Cambridge Chalk Streams Project Report', December 2020. Conduit – June 2020.
22	Farming scheme benefits the environment and drinking water quality	News story – 'Farming scheme to benefit the environment, drinking water and soil health': www.cambridge-water.co.uk/news/farming-scheme-to-benefit-the-environment-drinking-water-and-soil-health. News story – 'Successful cover crops scheme expanded': Successful cover crops scheme expanded (cambridge-water.co.uk). EnTrade website – www.entrade.co.uk/.
23	Delivering for our business – how we performed in 2020/21	News story – 'We invest in people!': We invest in people! (south-staffs-water.co.uk); We invest in people! (cambridge-water.co.uk). IIP final report (internal document).
24	Enhancing our ways of working	Conduit – July 2020, March 2021.

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