South Staffs Water

Cambridge Water

South Staffordshire Water PLC

Unaudited interim report and financial statements

For the six months ended 30 September 2021

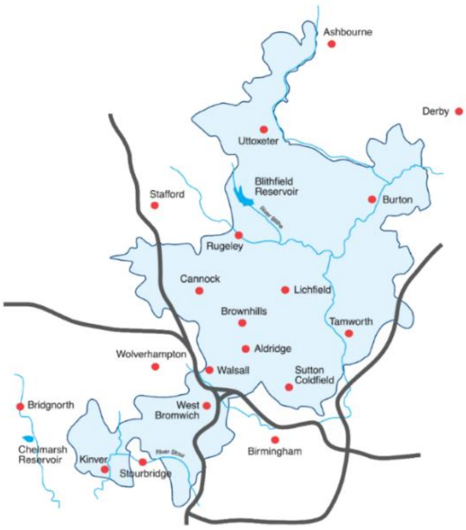
September 2021

About South Staffordshire Water

We supply 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. The Cambridge Water operating area stretches from Ramsey in the north to beyond Melbourn in the south, and from Gamlingay in the west to the east of Cambridge city. Our South Staffs Water operating area extends from Ashbourne in the north to Halesowen in the south, and from Burton-upon-Trent in the east to Kinver in the west.

Cambridge region

South Staffs region



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

Note: the numbers stated are for the year ended 31 March 2021.

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Chair's foreword

A year ago we were all fervently hoping that the COVID-19 pandemic would be firmly behind us. Alas, it's endured far longer than any of us thought possible, and it is still virulently with us now. It's affected everyone throughout society. Many have experienced illness or have lost loved ones. Our daily habits have been turned on their head. Those least able to afford it have been hit hardest. And the operations of the water sector have been hit hard too. A substantial fall in business use of water for a sustained period. An increased use of water in households. A constant eye on the affordability of water for our customers.

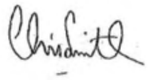
Through it all, our staff have gone the extra mile to make sure we continue to deliver a good service, and good quality water, to everyone. I'm enormously grateful to all of our staff for the fantastic way in which they have responded, in all parts of the company. It hasn't been an easy time, but they have risen to the challenge. Thank you.

At the same time as we've been facing the challenges of COVID-19, the looming environmental crisis we all face has been rapidly and rightly raising public concern and awareness. The gathering of world leaders in Glasgow for COP26 emphasised how vitally important tackling climate change is going to be for everyone across the globe. We're already seeing the impact of climate change on our own weather patterns: more extremes of wet and dry, hot and cold; high demands for water in periods of high summer temperatures; and a serious threat to river flows in our wonderful chalk streams, especially in Cambridgeshire.

The new Environment Act imposes additional duties of care for the environment on water companies, and rightly so. We all need to think increasingly carefully about how we steward the water resources that we depend on, and this is especially important for South Staffordshire Water. In particular for our Cambridge region, where we are totally dependent on groundwater sources, we need to plan for the long term in ensuring the sustainability of water resources, and the environment, into the future. We are working very actively on this, together with other partners.

In the South Staffs region we have always depended on two principal plants, at Seedy Mill and at Hampton Loade. In the next couple of years we will be carrying out major work at both locations, in order to upgrade our facilities, make them more environmentally efficient, and secure a long-term future for both.

The water sector as a whole has set a 'net zero' carbon target for 2030, and we want to play our part in achieving this. It won't be easy, because of the configuration of water resources in our two areas, but we will be doing everything we can to reach the target and make our own contribution as a company to addressing the challenges of climate change. The next few years will present us with many difficult tasks, but we are well placed to meet them, in good heart and with an increasingly good track record. We are determined to do even better in the next couple of years.



Lord Chris Smith

Managing Director's introduction

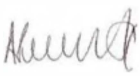
Welcome to this interim report covering the first six months of the 2021/22 financial year – the second year of our current five-year planning and investment period. I hope you enjoy reading about some of the work we've been doing to deliver clean water services to all our customers, and also how we're performing against our key targets.

This time last year I wrote about the impact the first six months of the COVID-19 pandemic was having – both on the business and on our customers, some of whom were experiencing real financial hardship. Little did I know then that 12 months later we would still be feeling the direct impacts of the pandemic, with our targets around individual water use and our education outreach programme the main casualties of this. I remain very proud of the resilience our people have shown throughout this time and the way they have continued to deliver excellent service for our customers despite the continuing challenges presented by the pandemic. I'm pleased that we've been seeing more people return to our offices and embracing hybrid working practices. This is certainly something I'm keen for us to build on for the future.

I'm also pleased with our performance against our targets for the year to date. We've made a really encouraging start to the year and are performing well against our targets in a number of key areas, including the number of people helped with our financial and other support packages, water quality, supply interruptions and leakage. In addition, we're performing well for the key customer measures of service and experience – C-MeX and D-MeX. Strong performance in quarter 2 for C-MeX saw us ranked 4th in the sector, a massive improvement from the same point last year when we were ranked 14th. I'd like to thank all our people for the part they've played in delivering this excellent result. The challenge for us now is to keep up the hard work to ensure we continue to deliver an exemplary experience for all our customers.

Looking ahead, we'll continue to strive towards our ambition of delivering upper quartile performance across our key commitments, and are aiming to meet or exceed most of our targets for the year. We'll also continue to consider the needs of our communities and the environment. This includes how we are collaborating with others across the sector to ensure the long-term resilience of our water resources – most notably through our work as key members of the Water Resources East and Water Resources West regional planning groups. If there's one thing we've learned from the COVID-19 pandemic, it's that our blue and green spaces are essential for the health and wellbeing of people and communities, and that we've got a crucially important role to play in ensuring those spaces are enhanced and protected now and in the future.

Before I finish, I'd like to take this opportunity once again to thank all our people for their continued hard work and commitment over year to date. We're still facing some challenges, not least with the ongoing uncertainty around the COVID-19 pandemic. But I'm sure we'll continue to overcome these and continue to lead by example to drive the business forward.



Andy Willicott

Strategic report

Financial performance

We have made an encouraging start to the year, building on our strong performance from 2020; the impact of the COVID-19 pandemic on the UK economy has been uncertain and changeable, and continues to have an impact on our business. We have continued to provide support to our customers and ensured uninterrupted supply while mitigating the associated cost impacts.

We use several financial key performance indicators (KPIs), which include, but are not limited to the following.

	September 2021	September 2020
Turnover £m	68.3	63.5
Operating costs £m	(52.2)	(55.1)
EBITDA[1] £m	29.7	23.4
Operating profit £m	18.9	11.8
Net debt £m[2]	239.2	236.0
Gearing[3]	55.6%	57.9%

1. EBITDA reconciliation is shown below.

	2021	2020
Operating profit £m	18.9	11.8
Depreciation : non-infrastructure assets £m	10.8	11.2
Depreciation : infrastructure assets £m	1.7	2.0
Capital contributions £m	(1.7)	(1.6)
EBITDA £m	29.7	23.4

2. Net debt £m is reported for borrowing covenants.
3. Gearing reported on a covenant basis and based on year end projected regulatory capital value (RCV).

Turnover

Our turnover shows an increase of £4.8m when compared to 2020; appointed income is £65.3m. As a result of the impact of the COVID-19 pandemic in 2020 we observed a significant shift in consumption from non-household to household customers, with the closure of businesses in specified sectors and the UK Government's message for households to spend more time at home during periods of either local or national lockdowns.

We have started to see a shift back to non-household from household during 2021. Non-household revenues have started to return towards pre-COVID levels by around 33% as properties were no longer vacant throughout the year to comply with Government advice to return to trade. This led to an increase of revenues from the non-household sector of approximately £2.9m when compared to the prior year. Business meter reading activity continued throughout the period where it was safe to do so and readings have supported the return to trade in non-household consumption.

We continued to see an increase in household measured consumption – giving an increase in measured income of 7% when compared to the prior period. This was due in part to the increased appointed revenue allowance coupled with the with customers continuing to work from home.

Operating profit

Operating profit has increased by £7.1m due to an increase on turnover and a reduction in costs when compared to the prior period.

The main reduction in operating costs is due to infrastructure renewals expenditure. During 2020 we were able to accelerate our infrastructure renewals expenditure, particularly at points when we observed reduced traffic flow and temporary business closures, which limited the impact on road users, customers and business owners. In 2021 infrastructure renewals expenditure has returned to planned levels.

The current economic circumstances have meant that bad debt has continued to be monitored closely, with consideration given to the impact of COVID-19 on customers' ability to pay. We have worked extensively to promote our financial support initiatives for those struggling to pay their bills. This includes through payment breaks and the various tariffs that are available – such as the Assure tariff and the Assure COVID-19 tariff, which offer bill discounts for eligible customers. We have also continued to make sure our customers in vulnerable circumstances knew we were there for them with targeted communications and support through our Priority Services Register.

Capital investment

We have continued to make slow but steady progress in delivering our ambitious capital programme to ensure our assets remain in good condition so that we can continue to provide high-quality, reliable water supplies to our customers.

As part of this investment programme, we have made progress on work to upgrade our two largest water treatment works at Hampton Loade and Seedy Mill. In July Ofwat approved our proposal for additional funding to install an innovative ceramic membrane-based filtration system at Hampton Loade and we are continuing to work with the supply chain to deliver this solution.

Although it falls just outside the half-year reporting period, in October we were sad to learn that nmcn, our construction partner for the upgrade programme at our Hampton Loade and Seedy Mill water treatment works, had gone into administration. We are now working with a new construction partner, Galliford Try, at Seedy Mill and on our base capital maintenance programme.

Treasury, net debt and borrowing covenants

The main purpose of our financial instruments, including derivatives, is to finance our operations and limit risk from fluctuations in external indices outside our control. This includes entering floating to fixed interest rate swaps, where this is considered appropriate. During the reporting year and the previous year, our policy has been not to carry out any trading in financial instruments. Our policy in relation to cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating rates of interest, and long- and short-term borrowings.

Our funding position continues to be strong and we are carefully monitoring our liquidity and working capital. During the year we agreed a new £60 million facility with Pricoa Private Capital ('Pricoa'), of which £20 million was drawn down in September 2021 with the remaining £40 million to be drawn in the next financial year. As a business we are committed to strengthening our financial resilience and within the new facilities with Pricoa we have made a binding commitment to maintain our gearing below the 75% of regulatory capital value (RCV) at the covenanted level. Our budgeted capital investment programme and other cash flow needs are covered by cash or committed facilities through to March 2023.

Our net debt includes index-linked debt, bank loans and debenture stock less cash. The reconciliation between covenant net debt and book net debt is shown in the notes to the financial statements, along with a full analysis of our borrowings. Standard & Poor's (S&P) continues to rate the company as BBB+ with Moody's rating us at Baa2; both are within investment grade.

Dividend payment

The business usually makes two dividend payments: one interim and one final. In 2020 the Board took the difficult decision not to pay an interim dividend until the impact of COVID-19 was better understood. As we set out in last year's annual accounts, the business has agreed a new dividend framework. The aim was to ensure that dividends reflect the equity value created by the business. In light of the strong performance in the services delivered to customers and our strong operational performance, the Board confirmed its intention to pay an interim dividend of £5.3 million (2020: nil).

More information about our operational performance is set out in the following chapter.

Taxation

On 3 March 2021 the Chancellor announced an increase in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. The impact of the rate change from 19% to 25% has resulted in an increase of the net deferred tax liability from £45.7m to £60.1m with a corresponding debit to deferred tax expense in the profit and loss account of £14.9m and a credit to the statement of other comprehensive income of £0.4m. The above is the main driver of the movement on profit after tax.

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Operational performance

Performance against our targets

Overall, we are pleased with our performance during the year to date and are currently on track to achieve or exceed the year-end targets for most of our performance commitments.

On the retail side, the key regulatory measures that we report against are C-MeX and D-MeX. These are indicators of the level of satisfaction for the services we deliver among our household customers and developer services customers, respectively. We have continued to focus our resources on these critically important measures and are targeting upper quartile performance.

We are delighted to report a strong second quarter performance for C-MeX, which has placed us 4th in the sector overall. This represents a significant improvement in our performance against this measure – at the same point last year we were ranked 14th in the sector – and is testament to the hard work and commitment of our people, all of whom have an objective to always ensure we deliver the best service and experience for our customers. The fact that we are also on track to meet our year end D-MeX target is also testament to this and shows how importantly we view our relationships with our developer services customers.

In addition, we have continued to exceed our target for the number of customers receiving some form of financial support from us; to date, we are helping more than 51,000 people. We are also on course to meet our target for the percentage of customers on our Priority Services Register (PSR) – and for the percentage of those customers already on the PSR who receive additional help through our Extra Care support package.

In terms of our wholesale services, we have continued to provide our customers with high quality and reliable water supplies. In addition, our network remains in a healthy state and we have an ongoing rolling programme of maintenance investment in place. The impact of this investment is seen across the all parts of the business.

For example, we are currently performing better than our target for the number of contacts from customers about the quality of the water we supply them, with a year to date total of 0.6 contacts for every thousand of population (our target for the year is 1.11). We are also continuing to deliver excellent performance in the area of supply interruptions and are on track to exceed our target for the year of 6 minutes and 8 seconds. And we are on track to exceed our target for unplanned outages. These are any unforeseen or unavoidable events that can affect part or all of one of our water sources.

A crucial performance commitment for us is our Compliance Risk Index (CRI) score. This is the key regulatory measure of water quality – as well as the most important priority for our customers. So it is essential that we perform well in this area. We have worked hard to ensure that our CRI score remains within acceptable levels and we are continuing to drive it down further to our target of zero, meaning our customers always receive water of the highest quality from us.

Reducing leakage is another key priority for our customers. During the year to date we have continued to deliver sustained leakage reduction performance, narrowly beating our three-year rolling average targets across both our Cambridge and South Staffs regions. We will continue to build on this success during the second half of the year.

Other areas where we have performed well against our targets during the year to date include our mains repair programme, the time it takes to repair visible leaks in our roads and highways, and our carbon emissions. We are also on track to meet all our environmental obligations as laid down in the Water Industry National Environment Programme (WINEP) and are looking to exceed our target in the area of land (in hectares) that we actively manage to protect wildlife and habitats across our Cambridge and South Staffs regions.

But there are some areas of our performance where we are still seeing the impacts of the COVID-19 pandemic. For example, individual water usage – or per capita consumption (PCC) – across both our Cambridge and South Staffs regions is still far higher than our targets at 141.3 litres per person per day (l/p/d) and 140.1 l/p/d, respectively. We believe this is the result of sustained home working during the first half of the year, coupled with the continued prevalence of messages from the UK Government around hand washing and hygiene. We are looking at different ways to encourage customers to be more water efficient, including campaigns designed to raise more awareness of the value of water.

Another area where our performance to date suggests we are likely to miss our year-end target is our education outreach programme. This is also a direct consequence of the COVID-19 pandemic as we have been unable to deliver our usual number of in-person assemblies and workshops in schools across our Cambridge and South Staffs regions. Again, we are looking at different ways to deliver our exciting education programme and are working hard to get our performance in this area back on track.

Delivering for our customers and communities





We are proud to be a company with a strong focus on the communities we serve. Being at the heart of these communities is really important for us, so we were pleased to be able to re-open our award-winning community hub once COVID-19 restrictions were lifted. Our community hub is located in one of the more deprived parts of our South Staffs region and in the three years since it first opened has become firmly established as a key feature of life in the community.

During the year to date, we have been involved with a number of local campaigns and initiatives. For example, we launched our weekly 'Places of Welcome' and 'Crafts Corner' sessions for customers who want to meet others for a drink and a chat. We also launched a 'Baby Bank' project and provided donations of baby clothes, nappies and toiletries to parents in need, and welcomed back our popular uniform swap for families with children attending schools in the Sandwell area. And we used the hub as a donation point for dog and cat food, toys, blankets and treats, which we then passed on to local animal rescue charities.

But our community activity is about more than the hub. Through our popular PEBBLE fund, for example, we work with a wide range of schools, charities and other organisations on projects to enhance the biodiversity in local communities. Among the projects we have supported this year is a tree-planting scheme with Lichfield and Hatherton Canals Trust in our South Staffs region and a project to benefit hedgehogs in Cherry Hinton and Chesterton in our Cambridge region.

Another way we serve our communities is through H2Online. We launched H2Online in 2019 as an online space for our customers to engage in conversations and collaborate. By taking part in weekly discussions and polls, customers can 'earn' points for their contributions towards a target. This in turn translates to monetary donations for local charities. Two such charities that have benefited from these donations are Acorns Children's Hospice in our South Staffs region, which received £250 earlier this year; and Jimmy's, the first all-year-round night shelter in Cambridge, which received a donation of £500 from H2Online members.

Delivering a reliable service





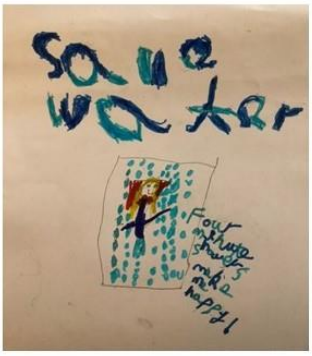
As the provider of an essential public service, we are always looking for new and resilient ways to deliver the clean, high-quality water supplies our customers expect and pay for. In July Ofwat approved our proposal for additional funding to install an innovative ceramic membrane-based filtration system at the Hampton Loade water treatment works in our South Staffs region. We submitted our bid as part of the UK Government's green recovery initiative, which aims to encourage economic growth post-COVID. We were the only water only company to submit a bid under the green recovery initiative – other successful bids in Ofwat's process came from Severn Trent Water, South West Water, Thames Water and United Utilities.

We know how important it is for our customers that we always deliver reliable water services. To ensure the state of our network remains healthy we continually invest in our all our assets. Every so often, we get the opportunity to undertake work that is a bit out of the ordinary. In June, for example, we replaced a defective valve on a 400mm trunk main at Hinksford Pumping Station in our South Staffs region without first having to drain the main, which could have affected customers' water supplies. To repair the defective valve we used specialist equipment to carry out a process called 'line stopping'. This is a means of isolating a pipe system and putting in place a temporary control that can be removed after a permanent valve replacement has been made. A number of teams from across the business worked with our contractors to successfully carry out the repair.

Making sure we maintain our assets also helps us to reduce leakage from our network of pipes. This is another key priority for our customers. In May we launched an animation, which we produced entirely in house, to help customers understand how we fix leaks on public highways – bringing the process to life in an accessible and user-friendly way. We have also been working on a project with SME Water in our Cambridge region to help us identify areas of our network that are more susceptible to bursts. Using QGIS technology, SME Water has been analysing and monitoring water pressure patterns within the Cambridge region, helping to pinpoint vulnerable areas of the network. The project will enable us to implement pressure management schemes that will help to reduce leakage on the network over the long term.

Another way we ensure a reliable water service is to take action against businesses and organisations that take water from our network illegally. This is important for our customers because such illegal connections could compromise the quality and pressure of the water we supply. We do not think this is acceptable. During the year to date, we successfully prosecuted five businesses for illegally taking water from our network through the unauthorised use of standpipes. In total, these businesses were required to pay nearly £32,000 in fines and legal costs.

Protecting the environment



As a regulated monopoly water company we have a duty to protect and enhance the environment. This is something we take very seriously.

We think the role that young people play is really important in helping us to deliver our environmental ambition. One of the ways we engaged with them during the summer was with our annual competition to design a water-saving poster. The competition was open to children across our Cambridge and South Staffs regions in two age categories – 5 to 7 years old and 8 to 11 years old – and encouraged bold designs with a water efficiency theme. Each of the winners received a £30 book token and we featured their entries on our website.

When it comes to protecting and enhancing the environment that we all rely on and enjoy, we know that partnership working is crucial. So in July we fully endorsed the Leisure Associations Water Charter to demonstrate our commitment to sustainable and responsible water use. The aim is identify alternative sustainable water sources for irrigation on leisure amenities such as golf courses and horse racing tracks, thereby reducing the impact on public water supplies. We are working with the Racecourse Association and the Grounds Management Association among others to highlight the need to prevent or reduce irrigation use from negatively impacting public water supplies and the ecology of local wildlife habitats.

In another example of partnership working, in August we renewed our sponsorship of the Dry Garden at Cambridge University's Botanic Garden. As our Cambridge region is classed as a 'water stressed' area and Cambridge itself only receives 557 mm of rainfall a year on average, the plants in the Dry Garden have been selected for their ability to survive in areas of low rainfall. They also demonstrate that a garden can be beautiful without the need for additional watering. The Botanic Garden is one of the largest university-owned botanic gardens in the world, with more than 8,000 species spread across more than 16 hectares of landscaped gardens. The collections supports a wide range of research in the areas of food security, medicine and climate change.

And we welcomed Anthony Browne, the Conservative MP for South Cambridgeshire, to our Cambridge office in September. Mr Browne has a keen interest in environmental issues – he is Chair of the All-Party Parliamentary Environment Group and a member of the All-Party Parliamentary Chalk Streams Group. He met with Andy Willicott, our Managing Director; Caroline Cooper, Director of Regulation and Strategy; and Natalie Akroyd, Head of Water Strategy. We were pleased to be able to share some of the work we have been doing in the environment space, including the role we are playing as a key member of Water Resources East and some of the collaborative work we are doing with Anglian Water.

Delivering for the business

As an efficient water only company, we are always looking for ways to improve our systems and processes to help our people work in more agile and flexible ways. Recently, we have been working to introduce a new billing software called Aptumo. Developed by colleagues in Echo Managed Services' software services team, Aptumo is Cloud-based water billing software that is designed to help water companies improve the experience of their customers and the efficiency of their retail teams.

We believe Aptumo will deliver a number of benefits for our business. First, it is easier to navigate than our current billing system, with screen changes that are designed to help our people and our customers. It also includes all billing and collection information in the same system, which will reduce the need for contact with other teams or colleagues for help. And it includes options for personalised home screens, so that our people can quickly access the information and reports that are specific to their particular needs. Finally, changes to the system can be made much quicker.

We have already tested the new system thoroughly and have migrated the data from our old billing system. In addition, we are making sure that all our people who currently use our existing billing software are trained to use Aptumo. We will share more information about the Aptumo roll out in our end-of-year annual report and financial statements.

One of the key things we have learned during the COVID-19 pandemic is that our people want to receive information and updates from and about the business in different ways. This is particularly true for our field-based teams. We have been exploring the effectiveness of different digital channels and launched several WhatsApp groups specifically for our field-based people during the summer. The aim is to ensure that everyone across the business is able to receive our internal communications and access them at a time that is convenient to individuals. We are currently exploring the possibility of extending WhatsApp to all colleagues across the business in the future.

Another area where we have focused our attention during the first half of the year is our corporate visual identity. We believe that having a strong visual identity is important if we are to raise our profile and become more embedded in the communities we serve. In August we launched our new corporate visual identity to help strengthen our brand. This included replacing our old Cambridge Water logo with a new one designed in house. Our aim was to more closely align the Cambridge logo with the South Staffs one, creating a more cohesive visual identity for the business.

Before launching the new logo, we tested it with customers in our Cambridge region; 64% preferred it to the old one, telling us it was more modern and easier to read on screen. We have adopted a phased changeover approach – starting with our digital channels before moving on to our bills, leaflets, signs and vehicles. This was to avoid any unnecessary expense and to ensure there was no impact on our customers. We will continue with the changeover during the second half of the year.

Governance

Board, Directors and Executive team

Board structure

Board of Directors

The Board comprises the independent Chair; the Managing Director; the Group Chief Executive; and six Non-executive Directors. Three of the Non-executive Directors are considered to be independent in addition to the independent Chair. The largest single group of Directors on the Board during the year to date was that of Independent Non-executive Directors, including the Independent Chair.

Rt Hon Lord Chris Smith of Finsbury – Independent Non-executive Chair

Lord Smith was appointed as an Independent Non-executive Director in October 2018. He is a Life Peer in the House of Lords. Lord Smith has extensive senior leadership experience in both the political world and the public sector, having previously held the posts of Chair of the Environment Agency and Founding Chair of the UK Water Partnership. He is also a Cambridge Water customer.

External appointments: Since 2015, Lord Smith has been Master of Pembroke College, Cambridge, and is responsible for the strategy and planning for the college. He is also Chair of the Intellectual Property Regulation Board, Chair of the Art Fund, and a Non-executive Director of Phonographic Performance Ltd.

Andy Willicott – Managing Director

Appointed Managing Director in May 2020, having previously been Transformation Director at Bristol Water. Past roles include Executive Director with Pennon Group and Chief Operating Officer at Sydney Water, with responsibility for all aspects of frontline water and wastewater treatment, network operations and customer delivery.

External appointments: Board member, Water Resources East; Board member, Water Resources West.

Phil Newland – Group Chief Executive, South Staffordshire Plc

Appointed Group Chief Executive of South Staffordshire Plc in April 2020. Previously Managing Director of South Staffordshire Water PLC from April 2014. From 2006, Phil worked within the South Staffordshire Plc Group as Managing Director of Echo Managed Services Ltd, supplying technology and retail services to the water sector. He was previously a management consultant with Automatic Data Processing (ADP) and Terence Chapman Associates.

External appointments: Director, Pennon Water Services Ltd.

Catherine May – Senior Independent Non-executive Director

Appointed as an Independent Non-executive Director in October 2018. Catherine has ten years' experience as a Non-executive Director, Senior Independent Director, finance, remunerations and nominations committee member and chair. Previously, she served on the Executive Committees of RELX plc, Centrica plc and SAB Miller plc.

External appointments: Independent Non-executive Director and Remunerations and Nominations Committee Chair, Pensions and Life Savings Association (PLSA); Trustee, English National Opera Trust; Senior Adviser, board practice, Stonehaven International. She is also principal of an executive coaching practice.

Stephen Kay – Independent Non-executive Director

Appointed as an Independent Non-executive Director in April 2013. Stephen is a Chartered Engineer who has spent his career in the water sector, both in the UK and internationally. He was the Managing Director of Cambridge Water PLC until March 2013 and brings strong water industry, engineering and compliance experience to the Board.

External appointments: Senior Independent Non-executive Director of Jersey Water; Director of the Water Companies Pension Scheme Trustee Company; Trustee of the Arthur Rank Hospice Charity; Director of Watersafe Ltd.

Alice Cummings – Independent Non-executive Director

Appointed as an Independent Non-executive Director in May 2020. Alice has relevant commercial, financial and governance experience in regulated service industries. Previously, she was Group CFO at the InHealth Group and Group CFO at the AEA Group. Her earlier career was with South West Water plc and Price Waterhouse. She has a BEng degree in Chemical Engineering from Imperial College, London, and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments: Non-executive Director, Chair of Audit Committee and Remuneration Committee Member of Idox plc; Non-executive Director, Vice Chair and Chair of Audit and Risk Committee of Cottsway Housing Association; Non-executive Director and Chair of Audit Committee of Recycling Technologies Group Ltd.

Keith Harris – Non-executive Director and Arjun Infrastructure Partners Representative

Appointed as an Independent Non-executive Director in April 2015. Keith became a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018, following the sale of the Group and the company. Keith is the owner of the advisory business Lorraine House and spent 20 years at Wessex Water, including a period of time at ENRON/AZURIX, where he was global Head of Regulation. At Wessex Water he held various senior executive and Board positions, including CFO and deputy CEO, and brings strong financial and regulatory experience to the Board.

External appointments: Independent Non-executive Director of Ervia, the parent company of Irish Water; Gas Networks Ireland and Aurora Telecom Industry Partner with Arjun Infrastructure Partners; Associate with OXERA.

Peter Antolik – Non-executive Director and Arjun Infrastructure Partners Representative

Peter was appointed as a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018. He is a Partner of Arjun Infrastructure Partners and his background covers regulated companies, transport regulation, and the management of infrastructure funds and investments.

Peter joined Arjun Infrastructure Partners from the Office of Rail and Road, and was previously Strategy and Regulation Director at Thames Water.

Keita Saito – Non-executive Director and Mitsubishi Corporation Representative

Keita was appointed as a Non-executive Director and Mitsubishi Corporation Representative in June 2020. He is the Head of Water Business Team at Mitsubishi Corporation and his background covers business development, project management, M&A and investment management in the renewable energy and water sectors across Europe, Asia Pacific and the Middle East. Keita has been with Mitsubishi Corporation for 17 years.

External appointments: Director of Cleanairtech Sudamérica S.A., a desalination and water transmission company in Chile.

Executive team

Andrew McGeoghan – Finance and Commercial Director

Andrew was appointed to the Executive team in March 2019, having previously worked at Jacobs as Head of Economic Regulation and Assurance. Andrew is a Chartered Management Account and a member of the Association of Corporate Treasurers. He has diverse experience in both the public and private sectors, having held a variety of senior finance positions.

Andrew spent several years with Ofwat as an Associate Director developing the Annual Performance reporting, implementing accounting separation and leading data governance and financial modelling for PR14. In 2015 Andrew joined Jacobs to set up and lead a specialist team advising regulated companies on their reporting and control processes.

Rachael Merrell – Customer Delivery Director

Rachael was appointed to the Executive team in 2020, and in 2021 added wholesale planning and scheduling to her directorate. Rachael has a wide range of experience working in utilities, having previously worked with us for three years as Head of Retail Services and previously at npower, First Utility and Virgin Media, plus eight years as operations manager/director with RSA insurance group.

Rachael is passionate about ensuring an excellent customer experience is delivered across the business, providing the right level of service now and in the future, using transformational change to make continual improvements for customers and colleagues.

Caroline Cooper – Strategy and Regulation Director

Caroline was appointed to the Executive team in 2020 having previously been responsible for our successful PR19 submission, developing a business plan which delivers for our customers and the environment. This saw us secure more than £660 million of funding for the five years from 2020 to 2025.

Caroline has spent all of her career in the water sector, previously working for Severn Trent Water until she joined South Staffordshire Water in 2003. She originally joined as an analyst in asset management and has progressed through a number of roles within the business, and has extensive knowledge of asset management, business planning and strategy development.

Andrew Lobley – Operations Director

Andrew was appointed to the Executive team in 2021. He started his career 16 years ago at Cambridge Water, in the engineering office. Andrew then moved into water quality, which saw him achieve a PhD in water quality risk management. In 2008 Andrew joined Welsh Water – initially overseeing its drinking water safety plans, and later its clean water risk processes. In 2014 Andrew joined South Staffordshire Water as head of water quality, and in 2017 took on the role of director of operations.

Marcella Nash – Director of Human Resources

Marcella was appointed to the Executive team in January 2014, having previously worked within South Staffordshire Plc as head of human resources for Echo. She has extensive generalist HR experience and is currently responsible for organisational capability and people performance, as well as health and safety standards, performance and culture.

Prior to this, she was a senior HR manager at Severn Trent Group and Severn Trent Water.

Directors' responsibilities statement

The Directors confirm that these condensed interim financial statements represent a fair view of our performance for the six months to 30 September 2021.

A list of the current Directors of South Staffordshire Water PLC is available on our website at www.south-staffs-water.co.uk/about-us/our-business/management-team.

Assurance

These accounts have been reviewed by our independent Group Internal Audit function and by our Board.

Financial statements

Financial statements

Profit and loss account – for the 6 months ended 30 September 2021

	30 Sep 21 Unaudited £'000	30 Sep 20 Unaudited £'000
Turnover	68,303	63,476
Operating costs	(52,227)	(55,095)
Other operating income	2,780	3,390
Operating profit	**18,856**	**11,771**
Finance costs (net)	(6,939)	(6,693)
Profit before taxation	**11,917**	**5,078**
Tax on profit	(17,241)	(955)
Profit/(loss) for financial period attributable to the equity shareholders of the Company	**(5,324)**	**4,123**
Earnings per share		
Basic	(250.8p)	194.2p
Diluted	(250.8p)	194.2p

Balance sheet – as at 30 September 2021

	30 Sep 21 Unaudited £'000	31 Mar 21 £'000
Fixed Assets		
Tangible assets	578,824	569,088
Current Assets		
Stocks	2,939	2,978
Debtors - amounts recoverable within one year	36,753	31,233
Debtors - amounts recoverable in more than one year	27,574	27,857
Investments	2	2
Cash at bank and in hand	33,743	4,306
	101,011	66,376
Borrowings - amounts falling due within one year	-	-
Other creditors - amounts falling due within one year	(74,941)	(63,564)
Net current assets/(liabilities)	**26,070**	**2,812**
Total assets less current liabilities	**604,894**	**571,900**
Borrowings - amounts falling due after more than one year	(296,314)	(273,198)
Other creditors - amounts falling due after more than one year	(11,794)	(13,027)
Accruals and deferred income - falling due after more than one year	(165,584)	(163,332)
Provisions for liabilities - falling due after more than one year	(64,662)	(46,118)
Net Assets	**66,540**	**76,225**
Capital and reserves		
Called up share capital	2,123	2,123
Share premium account	495	495
Capital redemption reserve	4,450	4,450
Revaluation reserve	30,800	33,494
Profit and loss account	33,759	41,727
Hedging reserve	(5,087)	(6,064)
Shareholders' Funds	**66,540**	**76,225**

Statement of comprehensive income – for the 6 months ended 30 September 2021

	30 Sep 21 Unaudited £'000	30 Sep 20 Unaudited £'000
Profit after taxation	(5,324)	4,123
Movement in hedging reserve (gross of deferred tax)	705	(270)
Deferred tax impact of movement in hedging reserve	(177)	52
Deferred tax rate move impact in year	449	-
Total comprehensive income	**(4,347)**	**3,905**

Statement of changes in equity – as at 30 September 2021

	Called up Share Capital	Share Premium Account	Capital Redemption Reserve	Revaluation Reserve	Profit and Loss Account	Hedging Reserve	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2020	2,123	495	4,450	33,954	34,999	(6,694)	69,327
Profit for financial period	-	-	-	-	12,446	-	12,446
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	604	604
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(115)	(115)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	174	174
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(33)	(33)
Deferred tax rate move	-	-	-	-	-	-	-
Amounts transferred to profit and loss	-	-	-	(460)	460	-	-
Total comprehensive income/(loss)	2,123	495	4,450	33,494	47,905	(6,064)	82,403
Dividends	-	-	-	-	(6,178)	-	(6,178)
Balance at 31 March 2021	**2,123**	**495**	**4,450**	**33,494**	**41,727**	**(6,064)**	**76,225**

Statement of changes in equity – as at 31 September 2021 (continued)

	Called up Share Capital	Share Premium Account	Capital Redemption Reserve	Revaluation Reserve	Profit and Loss Account	Hedging Reserve	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2021	2,123	495	4,450	33,494	41,727	(6,064)	76,225
Profit for financial period	-	-	-	-	(5,324)	-	(5,324)
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	619	619
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	(155)	(155)
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	86	86
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(22)	(22)
Deferred tax rate move	-	-	-	-	-	449	449
Amounts transferred to profit and loss	-	-	-	(2,694)	2,694	-	-
Total comprehensive income/(loss)	2,123	495	4,450	30,800	39,097	(5,087)	71,878
Dividends	-	-	-	-	(5,338)	-	(5,338)
Balance at 30 September 2021	**2,123**	**495**	**4,450**	**30,800**	**33,759**	**(5,087)**	**66,540**

Called up share capital

The equity reserve represents the equity component of convertible debt instruments.

Share premium account

The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Capital redemption reserve

On 1 July 2000, the company redeemed 1,200,000 redeemable preference shares of £1 each at par. On 15 July 2002, the company repurchased 3,250,000 (nominal value £1 each) of its shares from South Staffordshire Water Holdings Limited.

Revaluation reserve

The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 gave rise to a revaluation reserve of £36 million, net of deferred tax, which is being depreciated on a straight-line basis over the estimated remaining economic life of 80 years.

Profit and loss account

The profit and loss reserve represents cumulative profits, net of dividends paid and other adjustments.

Hedging reserve

The company has entered into derivative financial instruments to hedge exposure to floating interest rates.

Cash flow statement – as at 30 September 2021

	Note	30 Sep 21 Unaudited £'000	£'000	30 Sep 20 Unaudited £'000	£'000
Cash inflow from operating activities			**39,969**		**32,249**
Corporation tax paid			**600**		**(162)**
Net cash inflow from operating activities	(a)		**40,569**		**32,087**
Cash flows from investing activities					
Purchase of tangible fixed assets		(21,663)		(16,929)	
Proceeds from sale of tangible fixed assets		77		30	
Interest received		877		1,778	
Net cash outflow from investing activities			**(20,709)**		**(15,121)**
Cash flows from financing activities					
Interest paid		(5,043)		(4,803)	
Equity dividends paid		(5,338)		-	
Repayment of bank loans		-		(30,000)	
Draw down of RCF		-		5,000	
Additions to Private placement loans (cash)		20,000		-	
Repayments of bank loans (cash)		-		(188)	
Private placement loan issue costs paid		(42)		-	
Net cash outflow from financing activities			9,577		(29,991)
(Decrease)/Increase in cash			**29,437**		**(13,025)**
Cash and cash equivalents at the beginning of the year (1 April)			**4,306**		**26,425**
Cash and cash equivalents at the end of the period (30 September)			**33,743**		**13,400**

Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	30 Sep 21 Unaudited		30 Sep 20 Unaudited	
	£'000	£'000	£'000	£'000
Total operating profit		18,856		11,771
Depreciation	12,557		13,245	
Amortisation of capital contributions	(1,696)		(1,630)	
Profit on disposal of tangible fixed assets	(30)		(6)	
Contributions and grants received	3,947		2,889	
		14,778		14,498
Decrease/(Increase) in stocks	39		(120)	
Decrease/(Increase) in debtors	(3,524)		(7,351)	
(Decrease)/Increase in creditors	9,820		13,451	
Cash inflow from operating activities		6,335		5,980
Corporation tax paid		600		(162)
Net cash inflow from operating activities		40,569		32,087

(b) Reconciliation in movement in net debt

	30 Sep 21 Unaudited £'000	30 Sep 20 Unaudited £'000
(Decrease)/increase in cash	29,437	(13,025)
Draw down of RCF	-	25,188
Bank term issue cost amortisation (non-cash)	(40)	(37)
Private placement loan (cash)	(20,000)	-
Private placement issue cost amortisation (cash)	42	-
Movement on index-linked debt (non-cash)	(3,118)	(3,031)
Decrease/(Increase) in net debt in period	6,321	9,095
Net debt brought forward	(268,893)	(265,770)
Net debt carried forward	(262,572)	(256,675)

Notes to the cash flow statement (continued)

	Balance at 31 Mar 2021	Cash Flow	Non-Cash Movements	Balance at 30 Sep 2021
	£'000	£'000	£'000	£'000
Cash at bank and in hand	4,306	29,437	-	33,743
Short-term bank loans	-	-	-	0
	4,306	29,437	-	33,743
Irredeemable debenture stock	(1,652)	-	-	(1,652)
Bank loans (net of issue costs)	(29,799)	-	(40)	(29,839)
Private placement loans (net of issue costs)	-	(19,958)	-	(19,958)
Index-linked debt (net of issue costs and including premium)	(241,748)	-	(3,118)	(244,866)
Net debt	(268,893)	9,479	(3,158)	(262,572)

It is noted that the covenant net debt value as opposed to the book net debt value is used by stakeholders, including investors, lenders and rating agencies, to monitor key financial metrics such as the net debt/RCV as shown above and below.

	30 Sep 21 Unaudited	30 Sep 20 Unaudited
	£'000	£'000
Book net debt (as reported above)	(262,572)	(256,675)
Exclude book premium on issue of index linked debt	12,599	12,946
Difference between long-term RPI assumption and actual RPI inflation	12,337	9,650
Exclude unamortised issue costs	(1,578)	(1,859)
Exclude accrued interest	26	(12)
Net debt reported for borrowing covenants	(239,188)	(235,950)
Regulatory Capital Value	430,012	407,574
Covenant Net Debt/Regulatory Capital Value	55.6%	57.9%

Notes to the financial statements

The interim results for the six months to 30 September 2021 have been prepared under FRS102 and on the basis of accounting policies consistent with those adopted for the year ended 31 March 2021.

The interim financial information is unaudited and does not constitute statutory accounts as defined in section 44 of the Companies Act 2006. The balance sheet for the year to 31 March 2021 has been extracted from the latest published audited accounts, which have been filed with the Registrar of Companies and on which the report of the auditors was unqualified.

The tax charge is based on the estimated effective rate of tax, including deferred tax for the full year to 31 March 2022.

During April 2021 the IFRS Interpretations Committee finalised their agenda decision regarding the configuration and customisation costs in Cloud Computing Arrangements (Software as a Service, or 'SaaS') under ISA 38. We report under FRS 102 and are currently undertaking a detailed assessment to determine the amount of costs that may need to be accounted for differently. Given the complexities, it has not been possible to complete the assessment in time for those adjustments to be reflected in the interim financial statements.

Copies of the interim report are available from our Registered Office (South Staffordshire Water PLC, Green Lane, Walsall, WS2 7PD) or from our website at www.south-staffs-water.co.uk/publications/annual-reports.

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