



South Staffs Water



Cambridge Water

# South Staffordshire Water PLC Annual report and financial statements

For the year ended 31 March 2021



July 2021

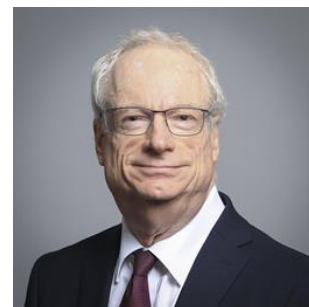
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## Chair's foreword

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 that 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, has been 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.

A handwritten signature in black ink, appearing to read '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 through our education outreach programme – 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 continue to be an issue for some customers and will continue to 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.

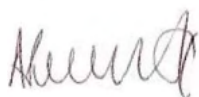
But there have been some serious challenges for us during the year, a number of which are directly attributable to the impact of the COVID-19 pandemic. For example we deliberately scaled back our normal debt collection practices as a result of the income pressures on some households caused by the pandemic.

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**

# Strategic report

## Financial performance

We have had a strong performance during unprecedented social and economic circumstances; the impact of the COVID-19 pandemic on the UK economy was uncertain and changeable. We have closely managed our customers' water consumption needs and ensured uninterrupted supply while mitigating the associated cost impacts and spend where necessary to ensure our sites are COVID-compliant.

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

	2021	2020
Turnover £m	130.3	129.8
Operating costs £m	(108.1)	(112.8)
EBITDA <sup>1</sup> £m	51.6	45.0
Operating profit £m	28.2	22.4
Net debt £m <sup>2</sup>	246.6	246.1
Gearing <sup>3</sup>	61.2%	62.1%
Regulatory capital value £m (RCV) <sup>4</sup>	403.2	396.0
Return on regulated equity (RORE) <sup>5</sup>	(0.60%)	4.80%
Water resources <sup>6</sup>	10.7	9.7
Network plus <sup>6</sup>	88.9	87.0
Total expenditure £m (totex) <sup>6</sup>	99.6	96.7

1. EBITDA reconciliation is shown below.

	2021	2020
Operating profit £m	28.2	22.4
Depreciation : non-infrastructure assets £m	22.6	21.3
Depreciation : infrastructure assets £m	4.0	4.2
Capital contributions £m	(3.2)	(2.9)
EBITDA £m	51.6	45.0

2. Operating profit less depreciation and amortisation of capital contributions.

3. Net debt £m is reported for borrowing covenants (see pages 10 and 92).

4. Gearing reported on a covenant basis (see the note to the cash flow statement on page 92 for details).

5. Regulatory capital value (RCV) is an Ofwat measure used to assess a company's market value plus the value of accumulated capital investment assumed as each price review (see page 92).

6. This is a measure Ofwat uses to assess the impact of regulation and price controls on water companies' performance and returns. See page 10).

7. This is a regulatory financial KPI that combines capital and operating expenditure and capital investment net of grants and contributions. Please refer to table 2b of the annual performance report, which is published as a separate document.



## Turnover

Our turnover shows an increase of £0.4m when compared to 2020, although during the year we observed a material shortfall in appointed income of £3.7m when compared to our allowances. Due to the impact of the COVID-19 pandemic 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 message for households to spend more time at home during periods of either local or national lockdowns. The non-household revenues declined by around 18% as properties became vacant throughout the year to comply with Government advice to cease trade. This led to a reduction of revenues recovered during the year from the non-household sector of approximately £3.9m when compared to the prior year. Business meter reading activity continued throughout the reporting year where it was safe to do so and readings have supported the decline in non-household consumption. In contrast we observed an increase in household measured consumption giving an increase in measured income of £4.6m when compared to the prior year. This was due in part to the increased appointed revenue allowance coupled with the combination of the exceptional dry weather over the year and Government guidance to stay home and stay local.

Additional information on the movement in our turnover by category is set out on page 98.

## Operating profit

The COVID-19 pandemic has left its footprint across the financial performance of the business. Our sites have been made COVID safe, with measures in place to protect our workforce and supply chain partners. The main impact on the business was from the material and sustained increase in water demand. During the year we observed an increase of approximately 5% across both the South Staffs and Cambridge regions for the entire year as the population followed UK Government advice to stay at home. We also experienced several peaks in

demand and 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. The higher water demand resulted in a rise in production costs such as power and chemicals of approximately £1m.

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 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 made sure our customers in vulnerable circumstances knew we were there for them with targeted communications and support through our Priority Services Register.

We made significant additional bad debt provisions at the end of the 2019/20 financial year, including a catch up on the deterioration of cumulative historic cash collections alongside an uplift for the potential impact of COVID-19. This in part included an anticipated impact of the economic downturn during this year on cash collections. Although we observed some minor deterioration in collections performance, the combination of our support packages and extended government support for customers has helped to limit the impact.

We altered our approach to collections during the year recognising the financial situations of some of our customers. Although the deliberate pause on usual debt collection activity and the older uncollected balances have influenced the movement in the provision overall, we continued to perform well in collecting recent debt. As a consequence of the change in 2019/20 bad debt charge, the bad debt charge has decreased by £6.9m this year; and represents 3% of household revenues (2020: 10%).

During the year 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.

## Capital investment

We have made slow but steady progress in delivering our ambitious capital programme to ensure our assets remain in good condition so that we continue to provide high-quality, reliable water supplies to our customers. During the periods of higher demand throughout the year, the need to protect the resilience of supply to our customers has been key. As a result, there has been outage limitations on essential assets, as well as further COVID-19 restrictions affecting capital schemes such as metering.

We have made good progress on works to upgrade our two largest water treatment works at Hampton Loade and Seedy Mill. We have also looked again at our upgrade plans for Hampton Loade, our largest water treatment works, supporting the UK Government's green recovery initiatives. We are pleased to report that Ofwat approved our proposal, subject to consultation (see page 20).

Overall capital expenditure for the year was £44.2m (2020: £45.3m), net of contributions and IRE.

## 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 £30m facility, refinancing two facilities that expired in December 2020. Our balance sheet on 31 March

2021 showed net cash of £4.3m (2020: £26.4m) and we had undrawn facilities amounting to £25m. This gives us total liquidity headroom of £29.3m (2020: £26.4m). Our budgeted capital investment programme and other cash flow needs are covered by cash or committed facilities through to July 2022. To support the long term financing needs of the business commercial terms for £60m of new long-term fixed rate funding from Pricoa Private Capital ('Pricoa') has been agreed in principle. Finalisation of the legal agreement is expected in Q2 of the 2021/22 financial year.

Our net debt includes index-linked debt, bank loans and debenture stock less cash. For covenant reporting purposes, our net debt was £246.6m at 31 March 2021 (2020: £246.1m) and represented a ratio of 61.2% (2020: 62.1%) of our regulatory capital value (RCV). 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. Last year as a precaution we arranged access to the UK Government's COVID Commercial Finance Facility by establishing a European Commercial Paper (ECP) programme. This facility remained undrawn during the year covered by his report and has now expired.

The return on regulated equity (RORE) is a key performance indicator for our business and reflects the combined performance on totex, customer ODIs (Outcome Delivery Incentives) and financing against the base return allowed in our PR19 final determination from Ofwat.

We have delivered RORE of -0.57% in the year. Despite a strong performance on ODIs and on totex based on the Ofwat calculation we have underperformed the base return by 4.70%. The main driver for this 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 4.20%.

A detailed reconciliation on RORE is shown on page 109 of our annual performance report (APR).

## Dividend payment

During the year the Board reviewed our dividend policy following the outcome of our final determination and in light of the recent changes in economic circumstances as a result of the COVID-19 pandemic. The business usually makes two dividend payments: one interim and one final. In light of the impacts to the economy resulting from the COVID-19 pandemic the Board confirmed its intention to not pay an interim dividend until the impact of COVID-19 was better understood.

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.

Ahead of the business making the decision on a final dividend payment, the Board considered carefully the financial position of the business. Given the strong wholesale performance and the overall strong financial position of the business, the Board approved the final March payment of £6.2m (2020: £8m).

The dividend comprised:

- £2.9m from the appointed business (2020: £4.3m);
- £1.5m from the non-appointed business (2020: £1.8m); and
- £1.8m from intra-group interest to be paid back to the company (2020: £1.9m).

This represents approximately 1.9% of regulated equity (2020: 2.9%). No further dividends are proposed.

## Approach to taxation

We take the legal and social responsibilities for meeting our tax obligations seriously. We have no

operations outside the United Kingdom (UK). As a result, the following information has specific reference to UK taxation only.

We are also committed to complying with tax laws in a responsible manner. This means balancing our obligations to the UK Government and the public with our duty to manage our affairs efficiently so that we can deliver cost-effective services to customers, while generating an economic return to investors.

We make timely and accurate tax returns that reflect our fiscal obligations to the UK Government. In particular, we:

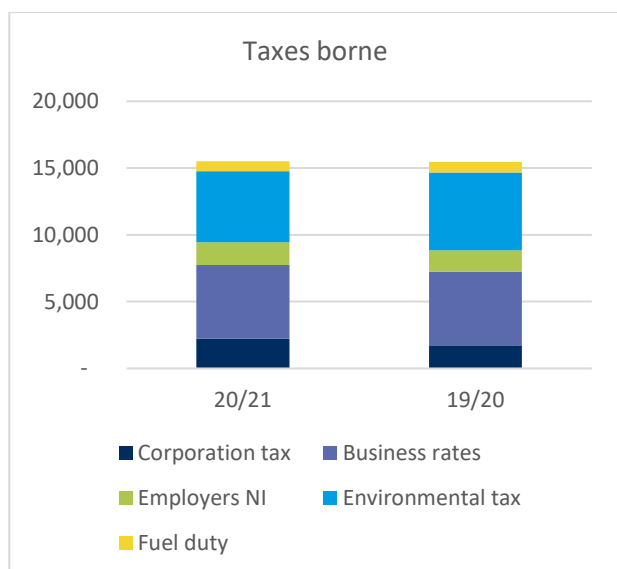
- do not engage in aggressive tax planning;
- do not engage in artificial tax arrangements;
- seek to maintain a transparent and collaborative relationship with HM Revenue & Customs (HMRC), principally through our Customer Compliance Manager; and
- seek independent professional tax advice on material matters, where the application of tax law is complex or uncertain.

We make use of applicable tax incentives provided by the UK Government within the terms outlined above. These may include, for example, preferential rates of capital allowances or enhanced tax relief for research and development costs, and certain designated capital assets that add efficiency to our operations. Such incentives have been put in place to encourage appropriate business investment. For our regulated water supply business these incentives have the effect of reducing customers' water bills.

As well as corporation tax, we contribute to the UK Exchequer by means of a number of other taxes and levies. This includes, but is not limited to:

- employment taxes, National Insurance and the Apprenticeship Levy;
- carbon taxes and other energy-related taxes and levies;
- fuel duty and other vehicle-related taxes;
- business rates; and
- regulatory charges and licences, such as water abstraction charges.

We are committed to paying the right amount of tax at the right time. Alongside corporation tax on profits we pay a range of other taxes and charges required by Government agencies. These taxes approximately total £15.6m (2020: 15.5m). The graph below shows a split of the main taxes. In addition, we also pay Environmental Agency charges (which are not included in the graph).







Our approach to risk management applies to tax as it does to other business areas, with key issues escalated to the Board. All material tax matters are discussed with our Finance team and significant issues are escalated to the Board. The Group Internal Audit function also reviews significant risk areas where appropriate.



We have identified economic uncertainty as a risk area (within financial risk). This includes risk in relation to the possibility of unexpected tax law and policy changes by the UK Government. We carefully monitor published tax legislation, guidance and policy documents to ensure we can assess the compliance requirements and the economic implications for us. We also engage with HMRC, where our tax position is likely to be materially affected by policy changes.

The corporation tax charge has decreased from last year to £2.4m (2020: £6.7m), based on the impact of change in deferred tax rate (2020: £4.8m) in the prior year, offset by higher profits in the current year predominantly owing to the reduced bad debt charge.

## Operational performance

### Performance against our targets

Outcome	Customer promise	Performance commitment	Unit of measurement	2020/21 target	2020/21 performance	Target met
<b>Core outcomes</b> 	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	✓
<b>Our customers</b> 	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		
<b>Our community</b> 	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	✗
<b>Our service</b> 	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
<b>Our environment</b> 	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	✗
<b>Our business</b> 	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's (CCW) '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 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 meet 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.

### Encouraging customers to get water fit

We know that water is a precious and finite resource and 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, 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 annual report and financial statements.

### 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 annual report and financial statements.

## 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 is 'You said, we did', where we provide updates on how we have 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 an 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 annual report and financial statements.

## 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 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. For the 2020/21 financial year we acted to source all of our grid electricity from zero carbon sources. This action has significant benefits for progress towards our carbon emissions target.

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 annual report and financial statements 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 annual report and financial statements.

## 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.

## Our people



### Gender, equality and diversity

As a company with more than 250 employees, we are legally required to publish a gender pay gap report each year.

Our report for the 2020/21 financial year is based on the snapshot date of April 2020. At the time, we directly employed 439 people across our South Staffs and Cambridge regions in a directorate structure comprising:

- wholesale services;
- retail and customer services;
- finance, regulation and business support;
- water quality and compliance; and
- human resources, and health and safety.

Overall, our workforce gender split is 337 (77% male) and 102 (23% female); 72% of our people are based in our wholesale directorate, including water production and field operations.

In terms of the difference between the hourly pay of our men and women, the mean difference is 4% (2020: 7.5%), while the median difference is 5% (2020: 12%). This represents a significant improvement on the 2019/20 financial year. The proportion of male and female people who received a bonus during the year is 20% and 11%, respectively.

In general, pay for our women has improved over the past year. We remain committed to doing everything we can to reduce the gender pay gap further, and have taken the following steps to promote gender diversity in all areas of our workforce.

- We have continued to re-shape the way in which we attract new talent and how we present ourselves as a business in our communities. All our job vacancies are gender neutral – focusing on skills, abilities and opportunities for development. Our strategy with this approach is to attract a more diverse range of applicants.
- We work proactively with local schools, colleges and universities – attending careers fairs and sharing information about the wide range of job roles available both within our business and the wider South Staffordshire Plc group.

In terms of diversity, we are mindful that the water sector in England and Wales is not yet representative of the UK work force for gender; black, Asian and minority ethnic communities; disability and under-24s. To address this, we have committed to work collaboratively with others in the sector to drive change. We work with Energy and Utilities Skills to share job opportunities and have signed up to its Inclusion Commitment. We have also committed to play our part to ensure the work force in the energy and utilities sectors are more inclusive and diverse. This is important because:

- being inclusive enables the water sector to attract and retain the diverse talent that is crucial to making sure our workforce is resilient;
- being inclusive will help us to be more innovative and achieve greater productivity; and
- having a diverse workforce ensures our business is reflective and inclusive of the customers and communities it serves.

In addition, we are a signatory of the Social Mobility Pledge. This is a coalition of 450 businesses and more than 50 universities around the world. It encourages organisations to be a force for good by putting social mobility at the heart of their purpose, focusing on:

- outreach, which is about providing coaching to local schools and colleges through quality careers advice, enrichment experience and mentoring opportunities;
- access, through structured work experience and apprenticeship opportunities; and

- recruitment, through open employee recruitment practices that promote a level playing field.

We also have an equality, diversity and inclusion policy in place. We make every reasonable effort to provide disabled people with equal opportunities for employment, training and promotion.

Our application process are designed to provide the basis for an equitable and instructive recruitment and selection of applicants. We are committed to making reasonable adjustments, where appropriate, for disabled employees and applicants. Our training programmes are designed to support equal opportunities. Steps will be taken to ensure stereotyping, prejudice or any other form of discrimination is eliminated from all internal courses and also to select external courses that also meet these requirements.

## Promoting positive health and wellbeing

We take the health and wellbeing of our people very seriously and have an ambition to be a zero accident workplace. Our safety performance during 2020/21 remained stable – with ten minor accidents and one reportable incident under the Health and Safety Executive's RIDDOR. We have learned the lessons of this incident and remain committed to our 'safety first' culture and to changing behaviours associated with work-related accidents. We have also continued to ensure that our people are appropriately trained for the roles they carry out and that they have an understanding of the risks associated with their work.

The impact of the COVID-19 pandemic and the resulting three national lockdowns and school closures during 2020/21 has been a huge challenge for us. As many of our people have been working remotely throughout the year, we have been acutely aware of the effect this isolation could have on their mental health and wellbeing. We have also been mindful of the challenging conditions faced by our field-based people, many of whom have had

to work in full PPE while observing social distancing. We followed UK Government guidance and put in place the measures necessary to support and protect our people. We did not take advantage of the Government's furlough scheme and continued to deliver our essential public service throughout the year. In addition, we introduced lateral flow testing and carried out some PCR testing for a local variant of the Coronavirus. At the time of writing we had carried out 2,540 lateral flow tests across the business.

We also ran a number of wellbeing initiatives during the year. In May, for example, we carried out a pulse survey to help us understand more about how our people were coping with the first lockdown and to learn more about their views around things like levels of support, communication and engagement. We were pleased with the results of the survey overall, with most of our office- and field-based people responding positively to questions around

engagement with their line managers and the regularity of the communications they received.

As well as encouraging anyone needing additional support to ask for help, we also set up a Health and Wellbeing community on our internal engagement platform, with posts from our people on nutrition, exercise and fitness. In addition, we held training sessions for our mental health first aiders, whose role is to support our people and make sure they get access to whatever help they need – be it formal support, self-help books or websites, therapy services and support groups. We also continued with our 'Wellbeing Wednesdays', offering tips and hints to help our people keep well during lockdown. And in October, we launched 'Revitalised', an upgraded version of our Wellbeing Zone that includes new wellbeing assessments and an improved user journey. We will continue to prioritise the wellbeing of our people in the coming year.

## Risk review

We recognise that risks exist in all businesses. Our approach to risk reflects our status as a regulated and licensed water company providing an essential public service. We accept that not all risks can be mitigated entirely; our 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 our long-term viability.

We have embedded risk management in all our day-to-day business activities. To facilitate the risk management process every six months the Executive team reviews our principal business risks as identified and documented by senior managers. They consider the impact of 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. We then present these risks 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 process are to:

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

We assess and score each identified risk (from 1 to 25) against the impact of the risk on the business and the likelihood of this risk occurring.

The impact assessment considers the estimated consequences of the risk on our net assets. But we also take into account other factors, such as the loss of our customers' trust, or damage to our reputation



or brand. The overall risk rating is determined by taking the product of the impact and probability scores (impact x probability). The score between 1 (lowest risk) and 25 (highest risk) allows us to focus on the most important risks.



If the assessment of the risk score changes between six-monthly assessments, we highlight this to the Executive team and the Audit and Risk Assurance Committee, along with recommended actions.

### Key risks 2020/21



Below we set out our key risks, as identified using the process described above. We detail what each risk means for us, the actions we are taking to mitigate its impacts and any change in the risk.



It is worth noting that exposure to cyber security risks continues to grow as externally, criminal activity around areas such as ransomware, phishing and data theft are on the rise, alongside the continued threat from hacking and denial of service type attacks. The National Cyber Security Centre (NCSC) also recognises that due to the nature of our water treatment assets and related control systems, there is risk associated with state-sponsored terrorist attacks. Internally we also recognise the threat posed by accidental or wilful data sharing to external parties.



What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
<p><b>Resilient supply of good quality water</b></p>	<p>We are legally required to meet regulatory standards for water quality and to ensure our customers always receive a reliable water supply.</p> <p>Failing to provide a secure supply of clean, safe drinking water or meet long-term demand requirements may impact public health, result in regulatory enforcement action, and damage our customers' trust and confidence in us.</p>	<p>We have carried out significant work to mitigate the water quality and safety risks. This includes installing ultraviolet (UV) treatment at our Hampton Loade and Seedy Mill water treatment works, and having an ambitious, long-term capital investment and asset maintenance programme.</p> <p>In addition, we have a number of controls in place to reduce the probability of having insufficient water resources. This includes our long-term water resources management plans (WRMP) for both our South Staffs and Cambridge regions, and having drought plans consistent with our WRMPs and business plan for 2020 to 2025.</p> <p>We are also collaborating with other water companies and key stakeholders on regional water resources plans through Water Resources East (WRE) and Water Resources West (WRW).</p>	
<p><b>Water resources</b></p>	<p>There is a risk that the demand for water may exceed the volume we have available for supply – for example, during a severe drought. The impact of running out of water is high because of the potential impact on public health, and the long-term financial and reputational damage that could arise as a result.</p> <p>Incidences of prolonged hot, dry weather – such as that experienced in summer 2018 – can pose challenges to our supply/demand balance over the longer term; underlying drivers such as climate change, population growth and the need to ensure environmentally sustainable abstractions will affect this risk.</p> <p>There is a low residual that our selected options – for example, large-scale leakage reduction, per capita consumption (PCC) and more household metering will not deliver the water savings expected.</p>	<p>We have a number of controls in place to mitigate the impact or reduce the probability of having insufficient water resources. These include our WRMPs and drought plans collaborative regional engagement through WRE and WRW, tracking our leakage and PCC metrics, and our ongoing asset maintenance programme to minimise the risks of short-term supply interruptions.</p> <p>To mitigate this risk, we are continuing to work with the Environment Agency to produce our WRMPs, regional water resources plans and on the delivery of our environmental programme (WINEP). We have also updated our drought plans, which we submitted to the Secretary of State at Defra on 30 March 2021, and we have focused particularly on our Cambridge region through our work with WRE to identify medium- and long-term solutions for additional water resources – for example, the Fenlands reservoir opportunity.</p>	



What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
<p><b>Health and safety</b></p>	<p>Our risks associated with health and safety include things that affect the wellbeing of our people, our contractors and members of the public, including injuries and fatalities. They also include non-compliance prosecutions, and the reputational damage that could result from failing to meet our own health and safety standards.</p> <p>These risks could result in incidents leading to a loss of life and could impact on families and our people. They could also result in damaging press coverage, Board involvement, stress and the risk of imprisonment for members of the Executive team. A Health and Safety Executive (HSE) enquiry could impact on resources and morale.</p>	<p>As well as continuing to make health and safety interventions during the year, we also focused on practices and guidance related to the COVID-19 pandemic. This includes having most of our office-based people working from home, and putting key worker rostering in place to maintain the planning and assigning of our operational activities. We also have risk assessments in place for our field-based people.</p> <p>We aspire to be a zero injury workplace. In a continuing drive to reduce this risk further, among other things we have:</p> <ul style="list-style-type: none"> <li>introduced a new 2-2-2 reporting system;</li> <li>focused our attention on high-priority safety risks, such as lone working, and prompt hazard identification and reporting; and</li> <li>placed more emphasis on health and safety management systems, audits and processes.</li> </ul>	
<p><b>Failure to meet regulatory performance commitments</b></p>	<p>There is a risk that we could underperform against the commitments agreed by Ofwat in our PR19 final determination. Out of 30 performance commitments, 19 have financial incentives attached.</p> <p>Performance targets have been deliberately set at stretching levels by Ofwat – their purpose is to drive service levels forward. This policy has led to challenging step change targets to achieve in the areas of leakage, bursts, supply interruptions and the Compliance Risk Index (CRI) water quality measure. Some performance commitments are exposed to significant volatility from factors outside of direct management control.</p> <p>There are revenue, reputational and regulatory impacts associated with this risk.</p>	<p>We have implemented a number of actions to help us achieve our performance commitment targets, including improving our reporting/assurance processes, and having greater exposure of our performance at Executive and Board level on a regular basis.</p> <p>We are also mitigating the risk of a net under-performance penalty by making sure we maximise the reward opportunity for other measures. The action plans we have in place for each measure take this into account. Some performance commitments continue to be susceptible to the current COVID-19 situation. This will require a representation to Ofwat on these impacts, which are substantially outside of management control. We are involved in some cross-sector collaborative work to help build this case.</p>	





What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
<p><b>Asset reliability and resilience</b></p>	<p>We have a number of assets that are critical to the supply of clean drinking water to customers. The reliability and resilience of our assets are fundamental in ensuring we are able to abstract, treat, store and distribute sufficient volumes of clean water to maintain supplies to all our customers and deliver against our agreed performance commitment targets.</p> <p>We make funding decisions that enable us to maintain our assets as reactive failures can impact our customer measure of service and experience (C-MeX) performance and attract negative media or regulatory attention.</p>	<p>We recognise the need to improve our assets. Our long-term plans are set in the wider context of managing and maintaining our assets and supply capabilities.</p> <p>Our business plan has modelled an identification of needs and solutions to support optimum investment strategies to mitigate this risk. This includes making significant investment in Hampton Loade and Seedy Mill, carrying out proactive maintenance programmes, and reducing network failure through targeted mains rehabilitation.</p> <p>During 2020/21 we started work to align our asset management function with proactive interventions based on continuous performance monitoring. We also implemented mechanisms to encourage efficient reporting, which the Executive team reviews each month.</p>	
<p><b>Achieving our AMP7 leakage reduction target</b></p>	<p>The risk is that we do not achieve specific regulatory measures across our South Staffs and Cambridge regions. Under-performance in this area will incur a reputational and financial impact. We have a commitment within our WRMPs to reduce leakage and mitigate the environmental impact of our abstraction. Ofwat, the Environment Agency and CCW, among others, scrutinise our performance in this area very closely.</p>	<p>We have put a strategy in place to achieve our leakage targets across both regions, including:</p> <ul style="list-style-type: none"> <li>• continuous monitoring of our performance;</li> <li>• sufficient resourcing of leak detection and repair activity;</li> <li>• prioritising prompt leak repairs;</li> <li>• replacing ageing assets; and</li> <li>• investing in a proactive live operating network.</li> </ul> <p>The COVID-19 pandemic has impacted our work to reduce leaks on customers' supply pipes. But our overall detection performance has improved and leaks are being repaired quickly.</p> <p>At the time of writing both our South Staffs and Cambridge regions are currently performing ahead of or in line with our leakage targets.</p>	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
<p><b>Impact of our activities on the environment</b></p>	<p>The risk is that our activities could cause harm to the environment. This risk relates to the negative consequences associated with harming the environment, as well as the risk of non-compliance with legal or regulatory environmental obligations. This could include pollution incidents or failure to comply with permits and licences.</p> <p>This risk also covers the reputational impact – both real and perceived – of our operations on habitats such as chalk streams and rivers.</p> <p>As well as MCERTS environmental certification conditions, which are now included on some discharge permits in our South Staffs region, the Environmental Performance Assessment came into force for water only companies in January 2021. This covers our activities in relation to permit and abstraction licence compliance, pollution events and the delivery of WINEP.</p>	<p>We summarise all our environmental obligations in our WISER regulatory submission made to the Environment Agency in August 2018. Specific risk mitigations in this area include fast mobilisation of on-the-ground teams when incidents occur and our WINEP delivery work. In addition, our catchment management team is well-established and making good progress in both regions, while our PEBBLE biodiversity fund delivers both environmental and community benefits.</p> <p>Other mitigations include:</p> <ul style="list-style-type: none"> <li>the Abstraction Incentive Mechanism (AIM), which helps us to maintain sustainable abstraction practices;</li> <li>cross-team working to ensure MCERTS compliance;</li> <li>monitoring our abstraction licences and discharge permits to ensure compliance; and.</li> <li>identifying alternative abstraction sources in our Cambridge region to reduce the impact on chalk streams in the area.</li> </ul>	
<p><b>Non-compliance with regulatory obligations</b></p>	<p>The risk is that we fail to comply with our statutory or regulatory obligations as a licensed water undertaker.</p> <p>Examples of breaches include:</p> <ul style="list-style-type: none"> <li>our annual data returns not complying with Ofwat’s guidelines, leading to the data having to be re-published;</li> <li>failing to operate a level playing field for retailers, developers and new markets, in breach of competition rules; and</li> <li>not complying with our licence conditions, leading to regulatory enforcement action and fines of up to 10% of turnover.</li> </ul>	<p>Each year, we consider our obligations as a licensed water undertaker, and that we understand and comply with them. We do this in a number of ways, including assessing the impact of any licence or legislative changes made during the year and making sure we adopt any new obligations.</p> <p>In addition, we review and publish any documents as required under our licence, making use of appropriate internal and external assurance as required. We also require Board sign off of all significant obligations – such as our customer charges and annual performance report.</p>	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
<p><b>UK exit from the European Union</b></p>	<p>There is a significant risk of loss of critical supply or disruption to the delivery of things like:</p> <ul style="list-style-type: none"> <li>chemicals, which we require to treat the water we abstract to the regulated standards;</li> <li>critical component spares, which could impact on the operation of critical equipment, such as pumps for water distribution;</li> <li>stock consumable items, such as pipes and fittings, which could impact planned maintenance and repair work; and</li> <li>fuels, which could have a wide range of impacts on our operations.</li> </ul> <p>These risks may affect our ability to produce and supply clean drinking water for our customers.</p>	<p>We have worked with Defra, Water UK, local resilience forums and associated sub-groups to mitigate risks based on Defra's worst case scenario. We also set up a Steering Group to lead actions internally. In addition, we reviewed our business continuity plans, increased the number of people on our incident team and carried out additional training. We use all our internal communications channels to engage with our people and keep them informed.</p> <p>While the risk of a disorderly EU exit has reduced significantly, we are continuing to monitor the situation, as there is still the chance of disruption to supply while new processes are implemented at the borders. We are also continuing to monitor supplier deliveries and report through working groups to ensure early identification of any issues arising from this situation.</p>	
<p><b>Technology, systems and security</b></p>	<p>There is a risk of loss of critical information technology (IT) or operational technology (OT) infrastructure, which could result in reputational damage or regulatory fines. These risks fall into the following categories.</p> <ul style="list-style-type: none"> <li>Disaster recovery capabilities, which includes the risk of the Green Lane data centre going offline, impacting our ability to access our email, financial and network data sharing systems.</li> <li>Legacy system support and management, with a specific focus on the lack of access to either internal or external capabilities to support legacy systems.</li> <li>Data integrity (including loss or corruption), which includes the risk of inadequate controls resulting in the loss of data or information, or an external data breach.</li> </ul>	<p>We are mitigating these risks in a number of ways, including:</p> <ul style="list-style-type: none"> <li>having an Information Security Steering Group (ISSG) and compliance framework for security of Network and Information Systems (NIS) Regulations in place;</li> <li>having ISO 27001 certification for our Group IT operations;</li> <li>using our Group Cloud strategy to reduce legacy impacts;</li> <li>having managed services for monitoring and security operations centre (SOC) provision in place;</li> <li>implementing new firewalls as part of our ongoing IT transformation. Every single rule we have in place today is being validated, and our firewall and key parts of the network are monitored 24/7 by an external vendor;</li> <li>implementing a new SCADA system across both our South Staffs and Cambridge regions;</li> </ul>	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
		<ul style="list-style-type: none"> <li>having a privacy team and Data Protection Officer in place, and implementing a sustainability plan;</li> <li>segregating our IT and OT infrastructure. All our PCs are encrypted and have active anti-virus software; all emails are scanned for malicious content or attachments; and</li> <li>providing training and communication to all employees.</li> </ul>	
<b>Finance</b>	<p>The key risks for us are around:</p> <ul style="list-style-type: none"> <li>having insufficient financial resources to finance the business;</li> <li>reduced access to capital markets;</li> <li>the potential for lower credit ratings;</li> <li>higher funding costs;</li> <li>the levels of fixed cost embedded debt; and</li> <li>changes in risk scoring by rating agencies, which could lead to some or all of the above.</li> </ul>	<p>To mitigate this risk, we have:</p> <ul style="list-style-type: none"> <li>engaged with external advisors on options for reducing our cost of embedded debt;</li> <li>reduced gearing levels;</li> <li>refinanced;</li> <li>employed hedging strategies;</li> <li>put new rolling credit facilities (RCF) in place;</li> <li>carried out regular cash flow reporting and management;</li> <li>carried out regular monitoring of markets; and</li> <li>started work to develop a long-term financing strategy.</li> </ul>	
<b>Customer service</b>	<p>There is a risk around the demand for a service provision that is multi-channel and accessible 24/7 as customer expectations continue to increase. As the implementation of our digital channels is a recent change for us, we have experienced a high level of phone contact, which also increases our cost to serve.</p> <p>In addition, the C-MeX measure of customer service and experience monitors both customer service and customer engagement. Our performance in this area has been declining – in-year penalties could be incurred unless performance improves.</p>	<p>Insight gained from our customer engagement activity has helped to shape our customer experience strategy. In addition, we have set up a monthly Customer Experience Steering Group and have put improvement plans in place. We also monitor our performance and customer satisfaction on a daily basis.</p> <p>Other actions to mitigate this risk include:</p> <ul style="list-style-type: none"> <li>making improvements to MyAccount and our mobile app;</li> <li>putting in place a clearly defined digital change plan; and</li> <li>looking at how we provide suitable customer support packages and how this may affect our debt performance.</li> </ul>	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Risk profile
<p><b>Customer affordability</b></p>	<p>There is a revenue risk as a result of levels of customer bad debt and the associated costs of collection delivery. There is also a risk that the economic climate created by the COVID-19 pandemic continues to worsen throughout 2020/21 and into the next financial year. This may lead to more customers experiencing financial difficulties and worsening debt recovery performance.</p>	<p>We hold monthly Debt Steering Group meetings, which monitors performance and agrees strategy. In addition, we have launched a debt transformation project, using a debt best practice framework to deliver changes focusing on debt prevention, data use and sharing, and standard and advanced collection activity. We have also set up weekly review meetings to monitor activity and debt performance, and enable us to make informed decisions quickly.</p> <p>Other actions to mitigate this risk include:</p> <ul style="list-style-type: none"> <li>• putting in place and promoting customer support tariffs;</li> <li>• trialling customer debt payment matching schemes;</li> <li>• introducing litigation methods to the advanced recovery process; and</li> <li>• increasing/changing activity within the standard recovery process.</li> </ul>	<p style="text-align: center;"></p>
<p><b>Failure or increased cost of capital projects/ exposure to contract failures</b></p>	<p>There is a risk around the business experiencing additional costs and delays that impact the condition or performance of our assets. This in turn could impact on customer service, water quality, efficiency or environmental performance.</p>	<p>We have brought into closer alignment our asset management and investment delivery functions. This gives us more clarity around priorities and ensures that enabling works (scope, pricing and justification) are completed before projects start.</p> <p>In addition, we have put additional resources and cost controls in place to facilitate the increased levels of activity associated with our Hampton Loade and Seedy Mill upgrade programmes.</p> <p>We have also set up an Investment Programme Steering Group to monitor current performance against our forecast investment programme.</p>	<p style="text-align: center;"></p>

## Long-term viability statement

We have carried out an assessment of the company's long-term financial viability. As there is significant uncertainty post Covid-19 on the economy (for example, inflation and interest rates) we have performed Monte Carlo modelling on base plans for the period to 2031 by selecting a plausible range of scenarios. For the downside scenario, which has a 10% chance of occurring, we have considered what mitigations we could take to ensure we maintain an investment grade credit rating.

### Stress testing

We have stress-tested our PR19 final determination and subsequent plans for the 2025 to 2031 period by performing Monte Carlo modelling against a number of plausible scenarios that could realistically impact our business. We have taken into account the key risks facing the business and the impact they could have on customers and other stakeholders. These are set out in the previous section and consider financial, operational and regulatory risks.

For the downside scenario, which has a 10% chance of occurring, we have considered the actions we would take to mitigate the impact and maintain our target credit rating.

Consistent with the Board's objective of maintaining a strong investment grade, we are targeting a credit rating with Moody's of Baa1. We believe this maintains our current level of credit quality and provides some headroom to enable the company to

remain financially resilient. Moody's current guidance ranges for RCV gearing and Adjusted Interest Cover Ratio (AICR) are set out in the table below.

Moody's credit rating	RCV gearing	AICR
Baa1	65% – 72%	1.5x – 1.7x
Baa2	72% – 80%	1.3x – 1.5x

Moody's also takes specific sector factors into account – for example, more headroom as a result of the strong regulatory framework. Any breach of these ratios would also need to be "persistent" to trigger a possible downgrade. But in our assessment, an AICR of >1.5 is considered the standard to achieve the target credit rating, while maintaining covenant net debt to RCV below 72%.

Below we set out the specific scenarios we have modelled.

Scenario	Size of the impact	Explanation
<b>Botex over/underspend</b>	+/- 5% of allowed botex	We could overspend our botex compared to the final determination due to the cost of delivering schemes being more expensive than planned or further investment required to meet our service targets. We could also underspend our botex through new innovative solutions or cost efficiencies.
<b>Enhancement capex over/underspend</b>	5% underspend/ 15% overspend	In our final determination Ofwat disallowed a significant amount of enhancement expenditure. There is a risk that these schemes will still need to be delivered and that it will not be possible to offset this additional costs with efficiencies. There is also a risk that new emerging risks could require additional investment to maintain service.

Scenario	Size of the impact	Explanation
<b>Cash collection rates</b>	+/- 2% of household revenue	Collection of outstanding debt could lower due to the impact of COVID-19 on the economy. It is also possible that new collection processes or systems could help to improve collections performance.
<b>Inflation</b>	Average CPIH +/- 2%	There is a risk that inflation could be lower if the economy does not recover quickly after the pandemic and that this is not seen in relation to specific industry costs. This could lead to a real terms overspend in totex. Equally, inflation could be higher. The rate of CPIH has tripled since February 2021 and stands at 2.1% at May 2021. As lockdown restrictions end, demand for goods and services could outstrip supply and push inflation even higher.
<b>Cost of capital</b>	+/- 50bps change in wholesale WACC for AMP8	During the AMP7 period, there is a need to fund the significant investment in our treatment works. This will require us to raise new finance. The interest rate on this new debt could be higher or lower than that allowed in the final determination.
<b>Cost of capital</b>	+/- 50bps change in wholesale WACC for AMP8	There is a risk that the cost of capital set at PR24 is lower than that at PR19. There is also the possibility that the cost of capital could be higher depending on prevailing market returns.
<b>Interest rates</b>	+/- 2% increase in the cost of new debt	During the AMP7 period, there is a need to fund the significant investment in our treatment works. This will require us to raise new finance. The interest rate on this new debt could be higher or lower than that allowed in the final determination.
<b>ODIs</b>	AMP 7: +/- £2m AMP 8: + 2m/- £9m	Our final determination has stretching performance commitments. Excluding PCC, we have earned a reward of £1.1 million (17/18 prices) in 2020-21. We will continue to target outperformance and have assumed that in the upside scenario we achieve £2 million of rewards for the 2020/25 period. There is a risk that we fail to achieve our targets, resulting in a penalty being incurred. Two of our performance commitments (CRI and leakage) carry the largest risks and we have run a scenario assuming we hit the penalty on these that incur £2 million of penalties in the 2020/25 period. Our PCC performance has been significantly impacted by COVID-19. Ofwat has deferred the assessment on PPC until PR24. Based on extrapolation of current performance, we have forecast a potential £7 million penalty on PCC that will be applied in the 2025/30 period based on the existing methodology with no adjustment for COVID-19.

## Monte Carlo outputs

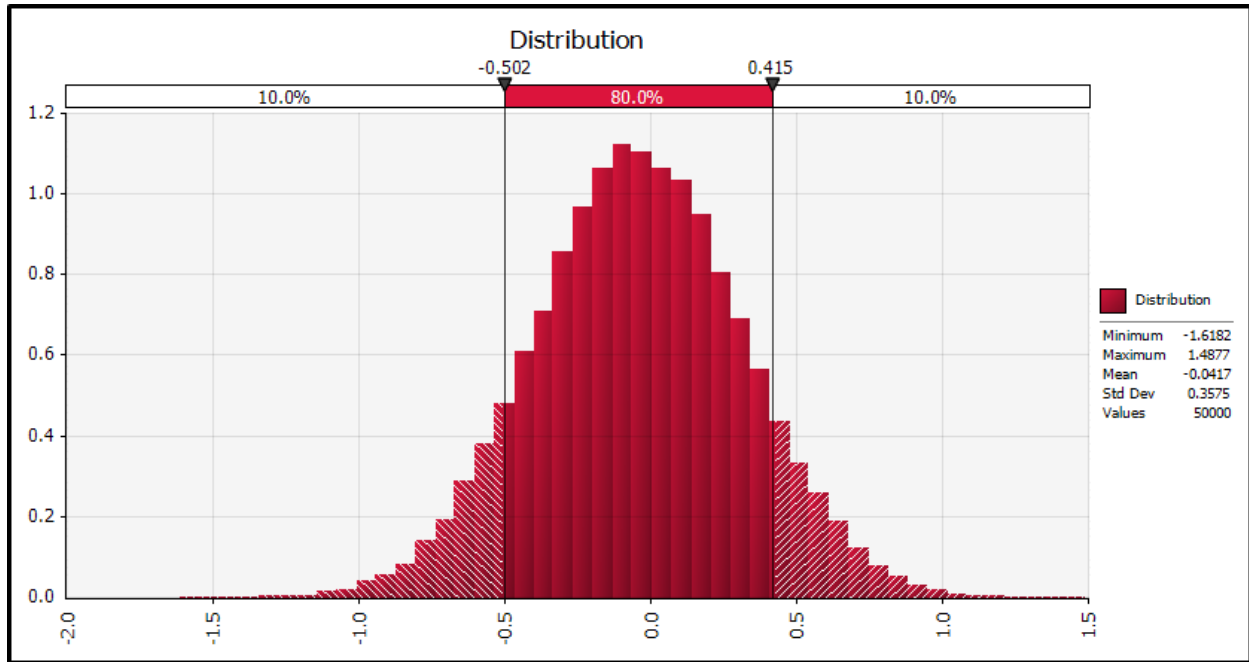
To understand the range of possible impacts on our financial resilience, we have carried out Monte Carlo simulation. This is a modelling approach which

predicts the probability of different events happening by performing random sampling thousands of time to construct a probability distribution. This shows the likelihood of each outcome occurring. We have carried out this modelling on both AICR and gearing as these

impact on our ability to maintain an investment grade credit rating. We have done this by considering the impact based on a 10% chance of

the outcome occurring. Below are the modelling outputs for the ten-year period to 2031.

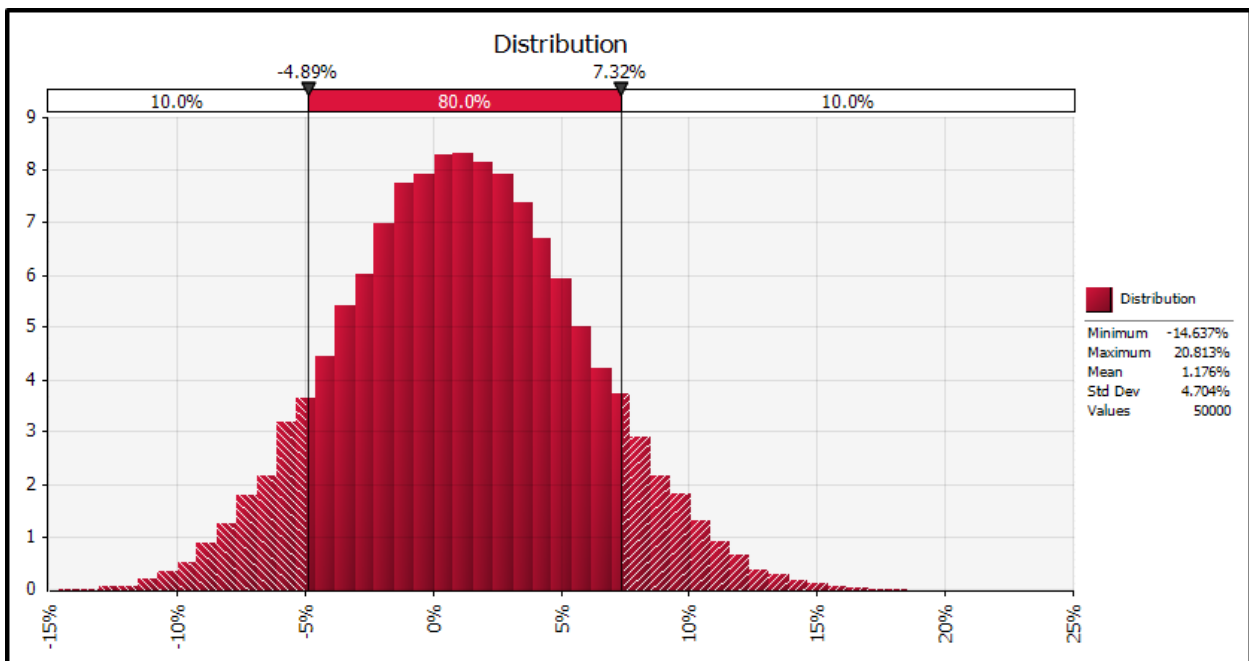
### AICR



Our base AICR is 1.7 and the modelling output shows a 10% chance that this is as high as 2.1 and a 10% chance that it is as low as 1.2. At this level, we

would be below the level required to maintain an investment grade credit rating.

### Gearing





The gearing figures are based on our covenant debt, which is used by credit rating agencies in their assessment. Where the gearing on a book debt basis is above the threshold for Ofwat's gearing outperformance sharing mechanism, we have included the adjustment in the modelling. Our base gearing is 66% and the modelling output shows that there is a 10% chance this is as low as 61% and a 10% chance that it is as high as 73% which is above that required to maintain our target credit rating, although it would still be within investment grade.

## Mitigations considered

We have considered the actions senior management could take to ensure we maintain our investment grade credit rating at the 10% chance of occurrence where AICR is 1.2 and gearing is 73%. We believe that one or a combination of them would restore the financial metrics to an acceptable range.

Mitigation	Explanation
<b>Risk management</b>	We have a risk management process in place to ensure we understand the key risks facing our business. We assess each identified risk against the impact it has on our business and the likelihood of the risk occurring. We determine the overall rating of each risk by multiplying the impact and likelihood scores. This enables us to focus on the most important risks and ensure that appropriate controls are put in place to minimise them.
<b>Totex outperformance</b>	To ensure we maintain our credit rating, we could target a level of totex outperformance by, for example, using new innovative solutions or changing the way that we work. In AMP6 (2015/20), where we experienced unexpected cost increases, we were able to take actions to manage this and reprioritise our overall programme to ensure we could offset these costs while still delivering for customers.
<b>Lower dividends/capital injection</b>	We could restrict dividend payments further to save cash and maintain investment grade credit metrics.
<b>Regulatory mechanisms</b>	There are a number of regulatory mechanisms in place for water companies that protect them from significant shocks. These include: <ul style="list-style-type: none"> <li>• totex sharing allowances that share the out- or underperformance of costs between customers and investors;</li> <li>• a revenue true-up mechanism for wholesale over- or under-recovery;</li> <li>• the impact of indexation of the cost of new debt mechanism introduced in this price control period (2020/25);</li> <li>• uncertainty mechanisms; and</li> <li>• the substantial effects determination.</li> </ul>
<b>Non-regulated business</b>	The metrics set out above relate to the regulated part of our business, operating as a completely ring-fenced entity from any non-regulated activity. Rating agencies determine their ratings based on the whole company, including the non-regulated parts of the business. This gives us an additional buffer on the key metrics as including the non-regulated business adds around 0.2 to the AICR metric. So in extreme circumstances, this could act as short-term protection.

Where we would be below the targeted credit metric, we have set out the most appropriate mitigations we could use.

Scenario	Risk management	Reprioritise capex	Lower dividend	Regulatory mechanism
Inflation				✓
Botex and enhancement capex	✓	✓		✓
Cost of capital			✓	✓
Cash collections		✓	✓	✓
Interest rates	✓		✓	✓

Overall, we believe that the mitigations outlined above would enable us to maintain our investment grade credit rating while still delivering on our commitments to customers.

## Assurance

We have followed a two-stage process to assuring our long-term viability statement.

We have used senior management to carry out a review of all the calculations of the stress testing outputs to ensure that the change from the base position is consistent with what would be expected from the particular scenario.

We have then carried out external assurance using Jacobs to ensure that our statement is consistent with these calculations and that it covers the requirements set out by Ofwat.

## Board statement on long-term viability

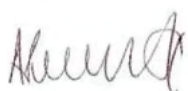
Based on the financial projections, the stress tests performed and the mitigations available, the Board declares that, in its opinion, the company is financially viable for the ten years to 2031.

The ten-year period has been selected because:

- the four years from April 2021 are covered by the final determination
- specific stress testing has been performed for the five years to March 2030, largely based on assumptions used in the company's PR19 business plan submission; and
- the Board has confidence that the regulatory system, under which the company is licensed, will ensure that it will remain financeable in future periods provided the business operates efficiently and Ofwat continues to make proportionate decisions regarding the weighted average cost of capital (WACC) and other key factors. On this basis, the first year of the subsequent price control period to 2035 has been projected.

The Directors also declare that the company has carried out appropriate stress testing of its proposed performance over the next ten years using Monte Carlo modelling, and that the results of these tests show the business to be financially resilient once the range of mitigations are taken into account. Details of the tests carried out are described on pages 37 and 38 above.

This strategic report 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**

These tests are considered to cover, severe, plausible and reasonable scenarios for key variables relevant to the company.

Appropriate multiple scenarios have been considered through Monte Carlo modelling.

The stress testing considers the need for and availability of new funding and is based on the realistic assumption that the company continues to have its existing access to capital markets to fund its required investment programme and provide sufficient liquidity.

The stress testing considers the implications on key metrics utilised by rating agencies.

The Directors also declare that they have received appropriate assurance that the testing carried out is both appropriate and accurately performed.

Testing has been performed internally by expert staff within the company. The calculations used in this testing have been verified by senior management. The basis and logic for the scenarios tested has also been verified by Jacobs.

# Governance

## Section 172(1) statement

The Directors, in line with their duties under section 172(1) of the Companies Act 2006, act in a way they consider would be most likely to promote the company's success for the benefit of its employees, customers and other stakeholders, and in doing so have regard to – among other things – the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

As a result of the open and transparent dialogue with its different stakeholder groups, the company has developed a clear understanding of their needs and monitors the impact their input has had on its strategic decision-making. The Directors have considered the potential impact of their decisions on relevant stakeholders, while also having regard to the factors listed above and the likely long-term consequences of their decisions.

Examples of how the company has taken account of the section 172(1) factors can be found in the strategic report, and include the following.

Key stakeholder group	How we have engaged with these stakeholders
Customers	<p>We continued to engage regularly with our household and non-household customers during the year, using a range of different channels, including our website, H2Online customer community, social media and YouTube. We also engaged regularly with the Independent Customer Panel, sharing information and asking for the Panel's input on the quality of our customer engagement and customer-facing corporate documents. Non-executive Directors regularly attend the quarterly Customer Panel meetings.</p> <p>For our household customers, we provided targeted communications in response to the ongoing COVID-19 pandemic. This included sharing information about the range of financial support and help available, such as our Assure COVID-19 tariff for customers experiencing financial hardship as a direct result of the pandemic, our flexible payment plans and payment breaks, and our Priority Services Register for those who may need extra help because of their age, or because of medical, learning, physical disabilities or financial difficulties. See pages 16 and 17 for more information.</p> <p>We continued to engage with developers We have a dedicated section on our website devoted to developer services, which includes information on connections and water regulations, as well as information specifically for self-lay providers. We updated the content during the year to make it more user friendly and easier to navigate. See pages 15 and 16 for more information.</p> <p>We are keen to embrace competition within the developer services market. We have already created a level playing field by giving customers the information they need to choose the service that best suits their particular circumstances.</p>

Key stakeholder group	How we have engaged with these stakeholders
Community	<p>The COVID-19 pandemic seriously curtailed some of our community engagement during the year. For example, we took the difficult decision in spring 2020 to temporarily close our award-winning community hub in Wednesbury in our South Staffs region. While we were aware of the impact this would have on our customers in the area, we felt that the decision to close was in their best interests. But we continued to remain in contact with regular visitors to the hub and our partner organisations, albeit remotely. In addition, school closures and COVID-19 restrictions meant we had to adapt our successful education outreach programme, creating online activity packs and worksheets, and offering virtual assemblies. See pages 16 to 18 for more information.</p> <p>We continued to share regular updates with more than 400 local community groups and organisations that we work with, particularly about our full range of financial and support packages. We also continued to engage with a number of local charities and community organisations through our PEBBLE biodiversity fund. In December, we awarded more than £40,000 to fund biodiversity enhancements across both regions, including for projects to provide habitats for bees, community gardens, creating wildflower meadows and restoring chalk streams. See page 18 for more information.</p> <p>We also continued to grow H2Online, our online customer community, during the year. We use a range of approaches to engage with H2Online members, including polls, surveys, video diaries and discussions. During 2020/21 topics discussed included the acceptability of our investment programme and the introduction of smart metering, among other things. We also fed back to members on the impact of their input. See pages 17 and 18 for more information.</p>
Employees	<p>We continued to engage our people regularly during the year – this was all the more important, given that most of our office-based people were working remotely. A key commitment for us during the year was to attain Investors in People (IIP) accreditation, which considered how we lead, support and improve our people. We achieved accreditation at the Standard level, demonstrating that we have the principles and processes in place to support our people. We will continue to build on this in the coming year. See pages 24 and 25 for more information.</p> <p>We also introduced a number of new engagement tools in 2020/21, including:</p> <ul style="list-style-type: none"> <li>• regular updates from the Executive team, to which the whole business is invited and where everyone has the opportunity to ask questions and suggest topics for discussion;</li> <li>• a Senior Leaders’ Forum, which meets every six weeks; and</li> <li>• Yammer, an internal engagement, sharing and collaboration platform. At the time of writing 77% of our people had signed up to Yammer.</li> </ul> <p>And we continued to use the full range of tools at our disposal to engage our people and keep them informed, including:</p> <ul style="list-style-type: none"> <li>• daily internal communications emails on a range of different topics;</li> <li>• our monthly e-newsletter, sharing success stories from across the business;</li> <li>• a quarterly ‘Talent pipeline’ newsletter, with information about new starters, promotions and leavers; and</li> <li>• regular wellbeing surveys.</li> </ul>

Key stakeholder group	How we have engaged with these stakeholders
Regulators/government	<p>Engagement with these stakeholders during 2020/21 was primarily through regulatory submissions, meetings and membership of relevant groups and organisations, including:</p> <ul style="list-style-type: none"> <li>• Water UK’s Regulatory and Strategy Committee, which is attended by Strategy and Regulation Directors and discusses future regulation policy;</li> <li>• Ofwat’s regulatory working groups (such as the cost assessment working group) to help shape future decisions; and</li> <li>• Various Environment Agency technical advisory groups.</li> </ul> <p>In addition, as a key member of Water Resources East (WRE) in our Cambridge region and Water Resources West (WRW) in our South Staffs region, we engaged with other water companies and key stakeholders on the development of long-term regional water resources plans allowed for in the Environment Agency’s national framework for water resources. These regional plans are due to be published in 2023.</p>
Shareholders	<p>As with previous years engagement directly with shareholders was through Board meetings. We also engaged with shareholders regularly on key issues affecting the business, such as our financial performance, key risks, and our compliance with environmental, social and governance (ESG) indicators.</p>
Suppliers/partners	<p>We continued to work with a range of companies across a number of disciplines and sectors during the year. This is so that we can be sure we use the right suppliers and skills to support us in maintaining our water supplies and serving our customers.</p> <p>We use a range of competitive processes to appoint our suppliers, which allows us to check that they provide value for money, while delivering high-quality goods and services. We also work closely with our supply chain to ensure they understand the importance of ethical procurement and review their health and safety, cyber security and insurance policies.</p> <p>In response to the COVID-19 outbreak we also continued to work with Ofwat and MOSL, the non-household retail market operator, to implement a number of interim market code modifications to support the liquidity of the business retail market. We will continue to engage with Ofwat and MOSL on the appropriate longer-term measures.</p>

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

## Board, Directors and Executive team

### Board structure



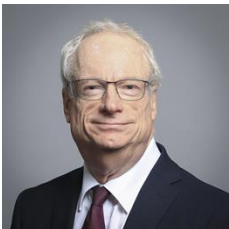
Details of the terms of reference of all the committees their membership and activities during the year are reported on pages 63 to 70.

### 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 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 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 Accountant 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.

### Pete Aspley – Wholesale Director



Pete has a well-established background in the water sector, having worked within the South Staffordshire Plc group for more than 25 years. He trained as a mechanical and electrical engineer within the manufacturing sector, before joining the Group as a water treatment manager in 1990.

Pete has a wealth of operational and management experience in the abstraction, treatment, storage and distribution of potable water. In 2004 he set up and became managing director of Integrated Water Services Ltd (IWS) – a new Group company providing a wide range of specialist support services to water and related industries. IWS has since gone from strength to strength and in 2015 saw its revenue increase to £48 million. Pete joined South Staffordshire Water in 2015.

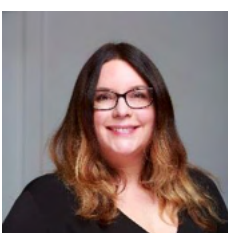
### Rachael Merrell – Customer Delivery Director



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' report

The Directors are pleased to present their annual report and financial statements for the year ended 31 March 2021. The Directors confirm that they consider the annual report and financial statements to be fairly presented and understandable. It provides investors and other stakeholders with the necessary information to assess South Staffordshire Water's performance for the year ended 31 March 2021, its business model and its strategy.

### Directors

The Directors who held office during the year and subsequently, along with the number of Board

meetings attended by each Director, while holding office during the year, are as follows.

Director	Director type	Date appointed	Date resigned	Meetings attended <sup>1</sup>
Rt Hon Lord Smith of Finsbury	Independent Non-executive Director and Chair from 27/03/2020	25/10/2018		11/11
Phil Newland	Group Chief Executive – South Staffordshire Plc	29/04/2020		11/11
Andy Willicott	Managing Director	11/05/2020		10/11
Catherine May	Senior Independent Non-executive Director	25/10/2018		11/11
Stephen Kay	Independent Non-executive Director	01/04/2013		11/11
Alice Cummings	Independent Non-executive Director	14/05/2020		10/11
Keith Harris	Non-executive Director	30/04/2015		11/11
Peter Antolik	Non-executive Director	25/10/2018		11/11
Michi Ogawa	Non-executive Director	25/10/2018	26/06/2020	2/11
Keita Saito	Non-executive Director	29/06/2020		9/11

1. In addition to the nine scheduled Board meetings, there were two Board calls, one in August to approve a contract and one in January to approve annual end user charges.
2. Phil Newland resigned as Managing Director of South Staffordshire Water on 29 April 2020 and was appointed Group Chief Executive of South Staffordshire Plc on the same day.
3. Michihiko Ogawa resigned on 26 June 2020.
4. Andy Willicott, Alice Cummings and Keita Saito attended all meetings since the commencement of their employment.

No Director had any material interest in any contract of significance with the company.

The largest single group of Directors on the Board are Independent Non-executive Directors, including the Independent Chair.

## Financial results

The company's financial results are shown in the financial statements on pages 79 to 123.

Dividends of £6.2m were paid during the year (2020: £8.0m), including appointed dividends of £2.9m (2020: £4.3m). A breakdown of the dividend payment for the year along with a comparison to the prior period is contained in the financial performance section on pages 7 to 11.

Details of future developments can be found in the strategic report.

## Payment of creditors and commercial arrangements

The company's policy is to pay suppliers in line with the terms of payment agreed with each of them, when contracting for their products or services. Trade creditors at 31 March 2021 represent 53 days (2020: 40 days) of purchases. The company is not reliant on any single commercial arrangement.

No political donations were made during the financial year (2020: nil).

## Corporate social responsibility

The company regards the implementation of responsible social and ethical standards and the health, safety, wellbeing and fair treatment of its people, including disabled persons, and those who become disabled while in the company's employment, as fundamental to it. Compliance with relevant environmental laws is also integral.

The company places considerable value on the engagement of its people and has continued to keep them informed on matters affecting them as employees and on the various factors affecting its performance. This is achieved through formal and informal meetings, internal communications channels and a regular e-newsletter. Employee representatives are consulted regularly on a wide

range of matters affecting their current and future interests through the SSC People Forum.

The company does not consider human rights issues to be a material risk for the business. This is because of existing regulatory requirements in the UK and the nature of the supply chain.

Further information on the company's corporate social responsibility activities is set out in the strategic report on pages 6 to 42.

## Energy use and carbon emissions

The UK water sector is leading the world in its commitment to achieve net zero carbon emissions by 2030. This goal forms part of Water UK's Public Interest Commitment, which sets out five stretching social and environmental ambitions that each of the water companies is contributing towards.

The company is required to publish the following information about its carbon emissions.

### Methodology

These figures have been prepared broadly in compliance with the principles of the Greenhouse Gas Protocol (GHGP), which was developed by the World Resources Institute and the World Business Council for Sustainable Development. They have been collated and summarised through the use of the UKWIR Carbon Accounting Workbook, which was developed to be used as a standard process for carbon accounting within the UK water sector and audited by an external auditor appointed by Ofwat. The company has also used UK Carbon Factors for Greenhouse Gas Emissions produced by the Department for Business, Energy and Industrial Strategy (BEIS).

### Scope 1 energy use and emissions

Scope 1 energy use and emissions are directly associated with the company's operations. This includes the use of natural gas and fuel oils to operate its site generator plant and fuel for

transportation on direct company business, such as transportation to its sites. The company's Scope 1

energy use and carbon dioxide emissions for the year were as follows.

Fuel	2020/21		2019/20	
	kWh	Tonnes CO <sub>2</sub> e	kWh	Tonnes CO <sub>2</sub> e
Natural gas	81,986,780	15,075	871,928	161
Diesel BS EN 590	5,836,043	1,492	586,073	143
Gasoil (Class A2)	9,739,780	2,660	200,715	51.5
Kerosene	-	-	35,966	9
Hydrogenated vegetable oil (HVO)	524,198	10	0	0
Petrol	78,470	19	18,202	4.25
<b>Total</b>	<b>98,165,271</b>	<b>19,256</b>	<b>1,712,844</b>	<b>368.75</b>

At our Hampton Loade water treatment works we have commissioned a new natural gas fired engine to reinforce the supply of electricity through the generation of 5.6MW of electrical power. The new plant has significantly benefitted the reliability of water production, which had suffered as a result of power supply quality issues. But it has increased carbon emissions resulting from the on-site combustion of natural gas to generate power for the site.

The company consumed around 103,776,614kWh of grid electricity, with associated emissions of 24,194 tonnes of CO<sub>2</sub>e using location-based factors. However, during 2020/21 it procured its electricity supplies from a tariff guaranteeing UK clean renewables sources, backed 100% by REGO Certificates. Using market-based factors, which take account of our procurement strategy, the company's emissions resulting from grid electricity were zero.

## Scope 2 energy use and emissions

Scope 2 emissions are those associated with the company's direct consumption of grid electricity for pumping and water treatment in addition to relatively small amounts used to operate its buildings.

## Total emissions

Scope 1 and 2 emissions are those directly associated with the operation of the company's business. They are summarised below both using location- and market-based factors for electricity (taking into account its certified clean renewable energy sources).

Year	Emissions (tonnes CO <sub>2</sub> e)	Emissions (kg CO <sub>2</sub> e per Ml of treated water)
2019/20	32,800	203
2020/21 (location-based electricity factor)	43,450	263
2020/21 (market-based electricity factor)	19,256	117

## Efficiency measures

During the reporting year, the company has continued to invest in the efficiency of its network through ongoing pump efficiency and leak reduction programmes, by improving production efficiency and by reducing our demand for energy,

respectively. The company also completed the process to convert the diesel generators at the Hampton Loade water treatment works to operate on Hydrogenated Vegetable Oil, which it believes will deliver air quality benefits in the form of reduced emissions. The company is in the process of preparing a strategy to achieve net zero

operational carbon emissions by 2030 and is assessing and estate-wide renewable energy strategy for on-site generation as a key component of this commitment.

## Corporate governance

A detailed corporate governance report is set out on pages 56 to 63. The Group structure is shown in the chart on page 58.

## Risk management

The company's practices in respect of risk management are set out on pages 29 to 36 of the strategic report.

## Going concern

The company's statement on going concern and the basis for the going concern assumption are set out on pages 62 and 63.



**Andrew McGeoghan**  
Company Secretary

Registered Office: Green Lane, Walsall, West Midlands, WS2 7PD. Registered in England and Wales, number 02662742.

## Subsequent events

The company's statement on subsequent events are set out on page 112.

## Independent Auditor

In accordance with the provisions of section 418 of the Companies Act 2006, the Directors confirm that, as far as they are aware, there is no relevant audit information of which the company's auditor is unaware. The Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the company's auditor is aware of that information. A resolution proposing the appointment of Deloitte LLP as independent auditor for 2021/22 was approved at the Annual General meeting.

Approved by the Board and signed on its behalf by:



## Corporate governance report

The Directors of South Staffordshire Water have always placed good governance at the core of the business. They are aware of their obligations to ensure effective leadership and appropriate governance arrangements are in place.

Although the company is not publicly listed, its Board of Directors recognises that because of public interest in how the company performs and the regulated environment in which it operates, it should act as if it were. A summary on how the company follows these principles are set out below. The company also applies the Walker Guidelines on transparency and disclosure. The company frequently monitors corporate governance best

practice and the appropriateness of developments to it. Any changes to the company's governance arrangements are implemented within agreed timescales.

Details of how the company preserves value over the long term, its business model and how it delivers this and its strategy are provided in the strategic report on pages 6 to 42.

## Compliance with the 2018 Corporate Governance Code

The company is committed to delivering good corporate governance and believes it is essential to give customers confidence in its performance. Some

of the ways in which the company can demonstrate its compliance with the Corporate Governance Code are set out below.

Corporate Governance Code requirement	How the company demonstrates compliance
Board leadership and company purpose	<ul style="list-style-type: none"> <li>Company vision and purpose (see annual performance report, page 4).</li> <li>Section 172(1) statement (page 44).</li> <li>Corporate social responsibility (page 53).</li> <li>Company direction and performance statement (see annual performance report, page 29).</li> </ul>
Division of responsibilities	<ul style="list-style-type: none"> <li>Functions of the Board (page 60).</li> <li>Board Committees (pages 63 to 70).</li> <li>Directors' responsibilities statement (page 77).</li> <li>Statement of Directors' responsibilities for regulatory information (see annual performance report, page 31).</li> </ul>
Composition, succession and evaluation	<ul style="list-style-type: none"> <li>Board structure (page 47).</li> <li>Board effectiveness (page 76).</li> </ul>

Corporate Governance Code requirement	How the company demonstrates compliance
Audit, risk and internal control	<ul style="list-style-type: none"> <li>• Risk review and analysis of key risks for the business (pages 29 to 36).</li> <li>• Long-term viability statement (page 37).</li> <li>• Board statement on long-term viability (page 42).</li> <li>• Statement on accuracy and completeness of data and information (see annual performance report, page 42).</li> <li>• Risk and compliance statement (see annual performance report, page 38).</li> </ul>
Remuneration	<ul style="list-style-type: none"> <li>• Remuneration report (page 71).</li> </ul>

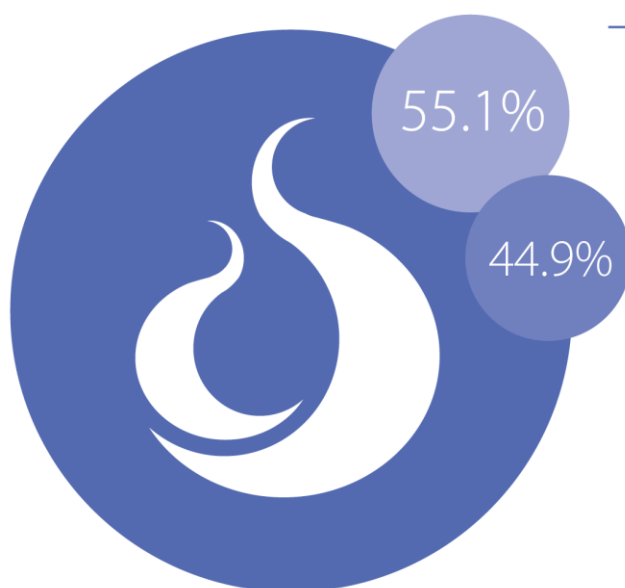
## Group structure

South Staffordshire Plc, as the immediate parent company of South Staffordshire Water, ensures through its comprehensive knowledge of its subsidiaries and the water sector that it understands the duties and obligations of a regulated company. This includes Condition P of its licence and, although some Directors sit on both Boards, South Staffordshire Water acts, with the support of the Group, as if it were a separate listed company. South Staffordshire Plc provides management, professional

and administrative support services to South Staffordshire Water and its other subsidiaries at cost. There was no direct interaction between South Staffs Water and the ultimate controlling party, Arjun Infrastructure Partners Limited.

Details of the company's borrowings are provided in the accompanying reported financial statements and the financial performance section of the strategic report. Similarly, details of the borrowings of South Staffordshire Plc are provided in its own annual report and accounts. Details of the Group structure are set out below.

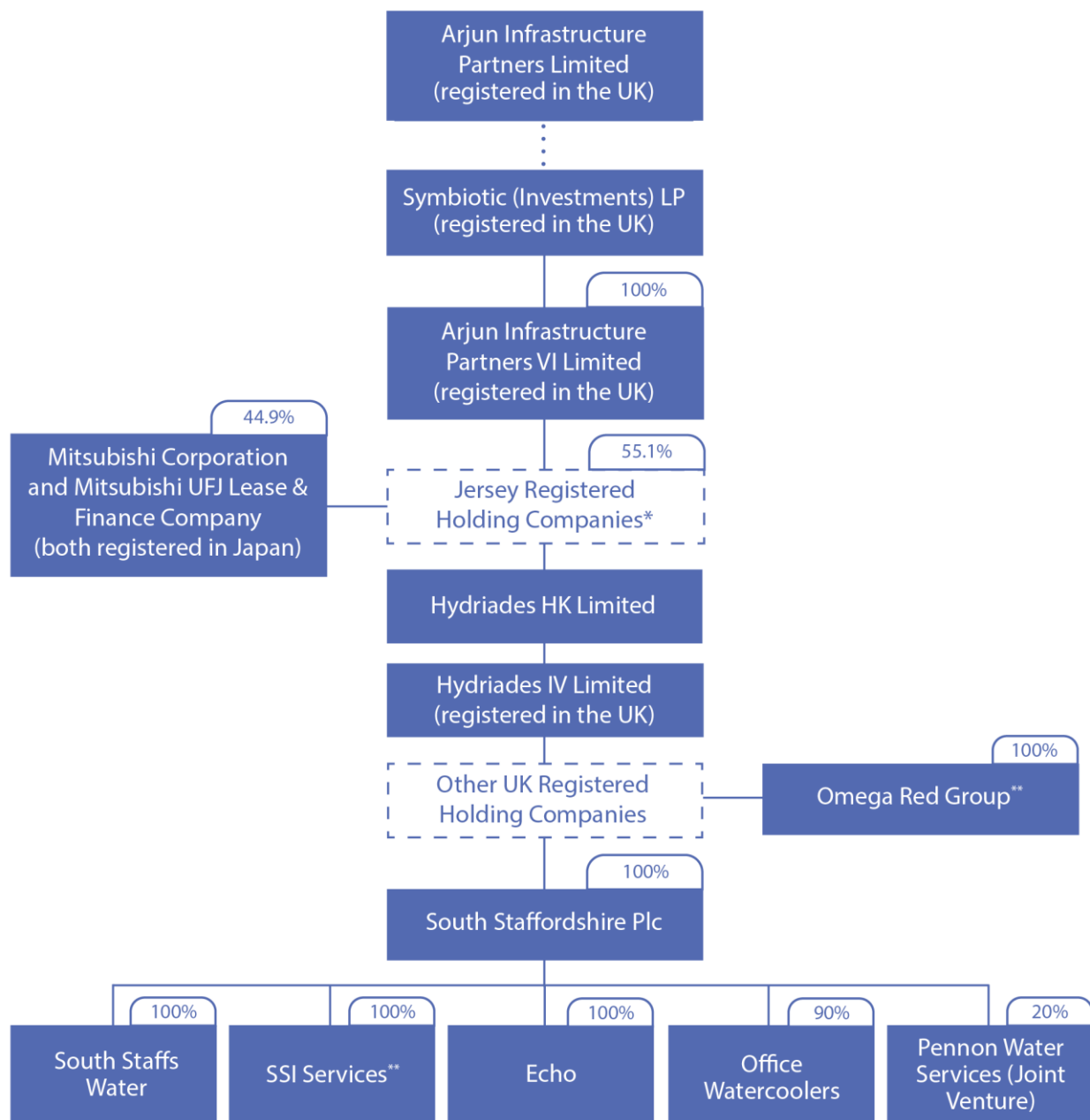
## Who are our investors?



Long-term pension scheme and institutional investors, advised by Arjun Infrastructure Partners, which acquired a majority controlling interest in the Group from KKR in July 2018

Mitsubishi Corporation, a global integrated trading business, which acquired a 25% equity interest in the Group in March 2016 and now manages a 44.9% stake in the Group following a further 19.9% investment by Mitsubishi UFJ Lease & Finance Company in July 2018

Note: Post the year end Mitsubishi UFJ Lease (MUL) merged with Hitachi Capital Corporation and the new trading name is Mitsubishi HC Capital Inc.



\* Jersey registered holding companies are UK resident for tax purposes.

\*\* Omega Red Group is managed within the SSI Services division.

% represents economic equity interest held.

## Relations with investors and the immediate holding companies

During the year there were a number of UK registered intermediate holding companies above the immediate parent South Staffordshire Plc in the

Group structure, headed by Hydriades IV Limited. There are intermediate holding companies above Hydriades IV Limited, which are registered in Jersey, but are resident in the UK for tax purposes, and one intermediate holding company, which is registered in Hong Kong. There are a number of UK registered entities above the companies registered in Jersey

and the ultimate controlling party is Arjun Infrastructure Partners Limited, a company registered in the UK.

One of the UK-registered holding companies has a loan payable to South Staffordshire Water which bears interest that is paid in full each year. Any UK tax losses surrendered to South Staffordshire Water from other companies in the structure are paid for at their net tax value.

Arjun Infrastructure Partners Limited, AIP Holdings Limited (the controlling shareholder of Arjun Infrastructure Partners Limited) and Mitsubishi Corporation have signed Condition P undertakings in accordance with the company's Instrument of Appointment. The companies giving the Condition P undertakings agree to:

- i) provide the company with all information needed to comply with its obligations; and to procure that their subsidiaries will;
- ii) refrain from taking any action which might cause the company to breach any of its obligations; and
- iii) ensure that the Board of the company contains no less than three Independent Non-executive Directors, or such higher number to ensure that the Independent Non-executive Director are the largest single group on the Board, who are persons of standing with relevant experience.

There is a regular dialogue between the Board and investors to ensure that their objectives and priorities are carefully considered. This dialogue is achieved through Board meetings, with investors having representation on the Board of Directors, and through other less formal communication.

## The Board of Directors

The Directors are collectively responsible for the company's long-term success. They may be appointed by the company by Ordinary Resolution or by the Board. As set out in the company's Articles of Association, a Director appointed by the Board will hold office until the next Annual General Meeting (AGM). At each AGM, one-third of the Directors will

retire by rotation and will submit themselves for re-election at least once every three years.

All Directors are aware of the procedure to seek independent legal and other professional advice. The Board also has access to the advice and services of the Company Secretary, who is also responsible for monitoring corporate governance matters.

## Insurance and indemnities

The company and its subsidiaries maintain Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors and Officers. As permitted by the company's Articles of Association, and to the extent permitted by law, the company indemnifies each of its Directors and other Officers against certain liabilities that may be incurred because of their positions with the company. The indemnity was in force throughout the tenure of each Director during the last financial year, and is currently in force.

## Board membership

A full list of Board members can be found on pages 47 to 49.

Rt Hon Lord Smith of Finsbury was appointed Independent Non-executive Chair on 27 March 2020.

Peter Antolik is a Director of all of the UK and Hong Kong holding companies above South Staffordshire Plc in the Group structure as at 31 March 2021.

Alice Cummings was appointed as an Independent Non-executive Director on 14 May 2020. Keita Saito was appointed as a Non-executive Director on 29 June 2020.

Adrian Page was an Executive Director of the immediate parent and all of its UK subsidiaries and holding companies. He resigned on 29 April 2020 and was replaced by Phil Newland as an Executive Director of the immediate company on the same date. Andy Willicott, South Staffordshire Water's Managing Director joined the Board on 11 May 2020 as an Executive Director.

Stephen Kay is considered by the Board to be independent in both character and judgement. While Stephen was a former Managing Director of Cambridge Water PLC until 2013, he has never served as an Executive Director of South Staffordshire Water. It is considered that he brings to the Board valuable industry knowledge, engineering skills and experience, and extensive links and knowledge of the Cambridge supply region, all of which are important attributes to the balance of the Board's composition. In addition, the appointment of Stephen Kay is consistent with the commitment given to the Competition Commission (now the Markets and Competition Authority) to have a Non-executive Director on the Board with links to the Cambridge region.

## Functions of the Board

The Board's primary focus is to develop, implement and fulfil the strategy to deliver the service and performance to meet the needs of:

- customers;
- the environment;
- the business;
- employees;
- investors; and
- other stakeholders.

The Board should also be in a position to make well-informed, high-quality and sustainable decisions, which are in the company's best interests, and that are consistent with its statutory and regulatory duties.

The Board sets standards of conduct to promote the company's success, provide leadership, and review the company's internal controls and governance structure. It approves major financial and investment decisions above senior management thresholds, and evaluates the company's performance as a whole by monitoring reports received directly from Directors and senior management. The Non-executive Directors, led by the Independent Chair, are responsible for overseeing this work and scrutinising management performance. They constructively challenge and help develop proposals on strategy.

In conjunction with the Audit and Risk Assurance Committee, the Board is also responsible for the company's systems of internal control, and for evaluating and managing significant risks.

On joining the Board, Directors receive an induction appropriate to their needs and responsibilities. This may include, but is not limited to:

- information on the regulatory framework in which the company operates;
- operational activities;
- financing structure;
- strategic and financial plans; and
- the wider Group structure.

The Directors and Executive team carry out site visits to maintain familiarity with the company's operations and to refresh their skills and knowledge. The Directors also keep up to date with legal and regulatory changes and developments by receiving written and verbal updates from both internal and external advisers and regulators.

The Directors are supported by an Executive team and by other senior managers, who are responsible for assisting them in the development and achievement of the company's strategy, and in reviewing its financial and operational performance. Along with the Directors, the Executive team is responsible for monitoring policies, procedures and other matters that are not reserved for the Board. There are procedures providing a framework of authorisation levels for key decision-making. Details of the Executive team's skills and experience can be found in their biographies on pages 50 and 51.

A formal evaluation of Board and individual members' performance is carried out by reviewing the effectiveness of the Board as a whole and of the individual members of the Board. This year, the Chair carried out an internal evaluation. We are pleased to report that the Board, its Committees, and individual Directors continue to operate effectively. Further details on the outcome and subsequent recommendations from this review can be found on page 76.

## Matters reserved for the Board

A schedule of matters specifically reserved for the Board's decision has been adopted based on the Institute of Chartered Secretaries and Administrators (ICSA) best practice. The terms include, but are not limited to:

- approval of the annual report and financial statements.
- ensuring observance of all matters required by the company's Instrument of Appointment;
- approval of the Directors' assurance statements to Ofwat, including but not limited to:
  - the annual performance report;
  - the annual statement of business viability;
  - the setting of water tariffs; and
  - other regulatory assurance as required;
- material submissions to Ofwat, the Competition and Markets Authority and similar regulators, agencies or bodies;
- reviewing and approving capital and operating budgets;
- reviewing and approving the company's strategy and performance;
- reviewing and approving any significant changes to the company's capital structure and borrowings;
- reviewing and approving financial reports;
- contracts that are material, either strategically or by reason of size, according to specified limits;
- appointment and removal of any Director;
- prosecution, defence, or settlement of litigation above £1 million, or being otherwise material;
- material changes to the company's pension arrangements;
- ensuring maintenance of a sound system of internal control and risk management;
- considering the balance of interests between investors, employees, customers, and the community; and
- powers to delegate authority.

The Directors maintain a flexible approach to Board matters, with the delegation of power to a

Committee, with precise terms of reference, being used for specific routine purposes. Both the terms of reference and composition of the Committees are reviewed regularly to ensure their ongoing effectiveness.

While South Staffordshire Water acts as though it were a separate public listed company, a limited number of matters in respect of this subsidiary company also need the approval of the Board of South Staffordshire Plc, its immediate parent company. These include:

- material submissions to Ofwat, particularly in respect of price reviews and major structural reform;
- contracts that are material either strategically or by reason of size, according to specified limits;
- the appointment and removal of any Director, in its role as shareholder;
- prosecution, defence or settlement of litigation above £1 million or being otherwise material; and
- material changes to pension arrangements, where operated on a Group basis.

## Board meetings

The Board holds regular scheduled meetings throughout the year. During the year ended 31 March 2020, there were 11 Board meetings (nine scheduled and two additional meetings).

All Directors are provided with sufficient information before a Board meeting to allow appropriate preparation to ensure that they can properly discharge their duties.

The attendance by individual Directors at scheduled meetings of the Board during the year, is shown in the table in the Directors' report on page 52.

Throughout the COVID-19 pandemic, the Board has received regular updates on business performance, including customers, employee wellbeing, and current liquidity and forecasts.

## Organisational structure

A defined organisational structure exists for the company, with clear lines of responsibility, accountability, and appropriate division of duties.

The Directors set an overall strategy for the business. They have delegated the necessary authority to the Executive team and business departments to deliver that strategy. This is communicated to employees through published policies and procedures, and regular management and employee briefings.

The company's extensive financial regulations specify authorisation limits for individual managers, with all material transactions being approved by a member of the Executive team, a Director or by the Board collectively. In addition, formal Treasury policies are in place. Where appropriate, commercial, and financial responsibility is clearly delegated to the Executive team and supported by the Directors.

## Risk management

The company's approach to risk reflects its status as a regulated and licensed water undertaker providing an essential public service. It balances the need to effectively manage exposure to risk, while aiming to deliver high standards of operational and financial performance. A strong risk management and control framework is in place to understand and manage identified risks. The Board and Audit and Risk Assurance Committee discuss and review the effectiveness of the company's risk management and internal control systems on a regular basis. The company's Executive team is required to monitor risk and its management, with any significant changes in business risk and any subsequent procedures or controls to mitigate the risk being reported to the Board and the Audit and Risk Assurance Committee.

Further details of risk management and key risks are set out on pages 29 to 36 of the strategic report.

## Regulatory reporting

South Staffordshire Water makes significant efforts to produce regulatory documentation and information that is reliable, robust and accurate, and that is supported by suitable systems and procedures. The Board, including Independent Non-executive Directors, are involved in the approval process for key regulatory information. This process supports the:

- the governance in place;
- the review of information by an independent technical auditor (Jacobs);
- the audit work; and
- certain agreed-upon procedures in respect of the extraction of specific information performed by the external independent auditor (Deloitte LLP).

Where identified as necessary by the company's assurance framework, the Group's Internal Audit function will review processes and data to provide appropriate assurance.

The company places great emphasis on regulatory reporting to ensure it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat, other regulators and stakeholders. It is important to the company that this information is robust, not just for its external credibility, but to also allow it to manage the performance of the business and make appropriate decisions with reference to this data.

The company's regulatory accounts are set out in the annual performance report on pages 70 to 116.

## Going concern and basis for assumption

The Directors consider that it is appropriate to prepare the financial statements on a going concern

basis. This view is based on a review of the company's budget for the year ending 31 March 2022, the longer-term plan and financial forecasts to 31 March 2025, and the related stress testing performed on this plan as detailed in the long-term viability statement on pages 37 to 41.

This assertion is also based on:

- the company's investment programme;
- the final determination for the five years from 2020 to 2025 and the company's plan in relation to it;
- the committed borrowing facilities available to the company together with cash balances, actual and forecast compliance with borrowing covenants and other important financial metrics and ratios; and
- its access to capital markets to fund operations in the future in relation to the impact of the COVID-19 pandemic.

The company is confident it has sufficient access to capital markets, and relationships with banks and other lenders to refinance borrowing facilities that mature within 12 months of approval of the annual report and financial statements. In addition, the Directors are required to certify to Ofwat under Condition I of the company's Instrument of Appointment that sufficient financial resources are available for at least the next 12 months. A new £30m RCF with NatWest Bank was established in July 2020 to refinance two facilities that expired in

December 2020. To support the long term financing needs of the business commercial terms for £60m of new long-term fixed rate funding from Pricoa Private Capital ('Pricoa') has been agreed in principle. Finalisation of the legal agreement is expected in Q2 of the 2021/22 financial year. We intend to drawdown the funds in two tranches, with the first £20m planned for September 2021 and the second tranche of £40m in June 2022.

The company's business activities, its business model and strategy together with the factors likely to affect its future development, are set out in the strategic report on pages 6 to 42. The company's financial position, its liquidity position and available borrowing facilities are set out on the balance sheet on page 81 and in note 1 to the financial statements, which includes:

- its objectives for managing its financial risks;
- details of its financial instruments and hedging activities; and
- its exposure to interest, credit and liquidity risk.

The company has a large number of household customers, none of whom make up a significant proportion of turnover. Amounts due from non-household retailers are secured by appropriate collateral arrangements. The company has borrowing facilities, as well as its cash balances and has headroom in respect of all of its borrowing covenants, both on a historic and forward-looking basis.

## Audit and Risk Assurance Committee



Alice Cummings  
(Chair)



Catherine May



Stephen Kay



Keith Harris



Keita Saito



## Membership for the year ended 31 March 2021

Director	Role	Meeting attendances
Alice Cummings (appointed 14/05/2020)	Member and Chair	4/4
Catherine May	Member	4/4
Stephen Kay	Member	4/4
Keith Harris	Member	4/4
Keita Saito (appointed 29/06/2020)	Member	4/4

A review of the terms of reference for the committee was completed during the year, including membership of the Committee. Alice Cummings was appointed to the Audit and Risk Assurance Committee on 14 May 2020 and was made Chair in September 2020. Catherine May was previously Chair of the Audit and Risk Assurance Committee until September 2020.

Audit and Risk Assurance Committee meetings are also regularly attended by:

- Deloitte LLP, the company's external independent auditor;
- the Finance Director and Company Secretary;
- the Director of Regulation;
- the Financial Controller;
- the Group Chief Financial Officer; and
- the Group Internal Audit Manager.

## Roles and responsibilities

Following the review of the Board effectiveness the terms of reference for the Committee was expanded to document the inclusion of risk assurance. The Audit and Risk Assurance Committee focuses on the company's processes to manage business and financial risk, and for compliance with significant applicable legal, ethical and regulatory requirements, and on aspects of financial reporting. This includes:

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

## Key terms of reference

- Reviewing and appraising the work of the external auditor by meeting with the auditor, reviewing the results of its work, discussing the quality of the audit with senior management, reviewing the level of non-audit fees and the nature of non-audit services provided, and reviewing the auditor's own assessment of its independence.
- Monitoring, reviewing and challenging, when necessary, the integrity of the company's financial statements, including its annual report and financial statements, interim accounts and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain.
- Reviewing and challenging, when necessary, key regulatory submissions and publications, including the annual performance report, and associated statements and disclosures.
- Challenging the company's processes for identifying, evaluating and managing significant risks, and reviewing the evaluation of all primary business risks during the year.
- Working with Group, reviewing the effectiveness of the company's internal audit arrangements, internal controls, and risk management policies and practices. This includes making sure reasonable steps are taken to safeguard the company's assets, and to prevent and detect fraud and other irregularities.

- Reporting to the Board of Directors on how the Committee has discharged its responsibilities.
- Recommending to the Board the appointment, reappointment and, if necessary, the removal of the external auditor, working with the Group Audit Committee as the external auditor is appointed by South Staffordshire Plc.
- Monitoring the auditor's independence, performance and effectiveness, and approving the nature and scope of external audits.

## Audit and Risk Assurance Committee activities

In the year ended 31 March 2021, the Committee focused on the key business risks as set out on pages 29 to 36 of the strategic report. It also focused on the areas of significant judgement and estimate as identified by the external auditor.

These are primarily revenue recognition, capitalisation of fixed assets and recoverability of receivables including the impact of COVID-19.

Business functions are responsible for identifying, quantifying, reporting and controlling risks relevant to their activities. Risk reports are produced and reviewed by the Audit and Risk Assurance Committee twice a year.

After receiving the final determination from Ofwat, the risk associated with business planning has changed to reflect the risks associated with delivering the company's business plan commitments.

During the reporting year emphasis was placed on the primary business risks with management presenting deep dives. This included regular reviews of the recoverability of receivables and the Committee also considered the implementation of the new billing system and associated contract risks. The Committee also focused on an updated control manual and how water quality risks will be mitigated and proactively managed.

In reviewing the significant financial reporting risks surrounding revenue recognition, recoverability of

receivables and capitalisation of fixed assets, the Committee worked with senior management to ensure that these risks were mitigated and that the company's practices are in line with applicable accounting regulations, and satisfied the requirements of our external auditors.

Alongside this, the Committee reviews and challenges papers and feedback from senior management, external auditors' reports, reports from Group Internal Audit and the company's risk register. It also discusses areas of judgement and estimation, making comment and recommendations, where appropriate, and seeks further management clarification, where required.

## Financial reporting and forecasting

The Board, supported by the Audit and Risk Assurance Committee, recognises the need to present a balanced, understandable and clearly defined assessment of the company's operational and financial performance and position, including its future prospects. This is provided by a review of the company's operations and performance as set out in the strategic report.

Business plans, annual profit and loss budgets, cash flow budgets and forecasts, longer-term financial forecasts and investment proposals for the company are formally prepared, reviewed and approved by the Board, supported by the Audit and Risk Assurance Committee. Actual financial results and cash flows, including a comparison with budgets and forecasts, are reported regularly to the Board with variances being identified and used to initiate any action deemed appropriate.

Details of the company's actual and forecast future compliance with its borrowing covenants are also prepared on a regular basis, and forecasts of its level of undrawn and available borrowing facilities for liquidity purposes are also prepared and reported to the Board.

## Internal control

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 ensuring reasonable steps are taken to safeguard the company's assets, and to prevent and detect fraud and other irregularities. The internal control system can provide only reasonable and not absolute assurance against material mis-statement or loss, as it is designed to manage rather than eliminate the risk of failure to achieve business objectives.

The company has an established internal control framework that is continually reviewed and updated, taking into account the nature of its operations.

The Audit and Risk Assurance Committee is closely involved in challenging the company's processes for identifying, evaluating and managing significant risks. A detailed review of the current assessment of these can be found on pages 29 to 36 of the strategic report.

### Internal audit

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 Group. It also provides valuable support to the company in maintaining good systems of internal control, providing assurance over the quality of information (depending on the assurance framework categorisation) and helps ensure appropriate corporate governance.

An internal audit plan is presented to the Audit and Risk Assurance Committee each year; this is subject to challenge and approval. The plan combines the need for regulatory and financial reporting assurance, risk management and control evaluation with the provision of independent resource to enhance the company's operations. The Audit and Risk Assurance Committee monitors progress against the plan through the reporting of findings and recommendations at each meeting.

During the reporting year, the Group Internal Audit function was heavily involved in ensuring compliance with the Information Security 27001 standard. This work provided the business with assurance around the IT services provided by Group Services.

Internal Audit also provided independent assurance around the Group business risk register, the effectiveness around internal controls and year-end audit planning.

The internal audit arrangements in operation are considered to be appropriate to the company's size and complexity. The Board will continue to review this assessment through the Audit and Risk Assurance Committee.

### External independent auditor

The Board, supported by the Audit and Risk Assurance Committee, reviews the external independent auditor's performance each year considering effectiveness, independence and fees, including the level of non-audit services and related non-audit fees.

In evaluating the external auditor, the Audit and Risk Assurance Committee assesses the calibre of the audit firm, the audit scope and plan (which is agreed in advance with the Audit and Risk Assurance Committee through discussions with the Chair) and the level and nature of audit communications, including the reporting to the Audit and Risk Assurance Committee of any significant issues.

The responsibilities of the external independent auditor in the area of financial reporting are set out in its report relating to each year's financial statements.

The current external audit provider, Deloitte LLP, has been the company's auditor since 2003, with a change in the audit partner occurring every five years.

## Environmental, Social and Governance Committee



Lord Smith of Finsbury (Chair)



Catherine May



Keita Saito



Peter Antolik

### Membership for the year ended 31 March 2021

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	1/1
Catherine May	Member	1/1
Keita Saito	Member	1/1
Peter Antolik	Member	1/1

### Roles and responsibilities

The Committee's role is to advise and assist the Board in managing matters relating to the company's environmental, social and governance policies, initiatives, performance and reporting.

- Monitoring the company's ESG performance against previously agreed objectives.
- Approving any projects developed in response to the implementation of the company's ESG strategy.
- Approving all ESG reporting, including all information to be included in the company's annual performance report and any related codes of practice and policies.
- Recommending any proposals the Committee deems appropriate to the Board, within its remit and where it believes action or improvement is necessary.

### Key terms of reference

- Making sure the company's environmental, social and governance (ESG) strategy is reflective of its ambition, direction of travel and day-to-day operations.
- Making sure all related policies are reviewed and updated regularly and remain in compliance with national and international regulations as required.
- Holding to account the company's Executive Directors and managers tasked with implementing the ESG strategy.

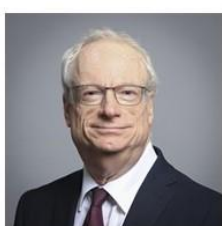
### ESG Committee activities

The Committee met once during the year ended 31 March 2021. It considered the key ESG metrics for the company to report against, in the areas of:

- assessing environmental and climate risks;
- assessing opportunities;
- social concerns and engagement; and
- reviewing governance arrangements.

The Committee also considered how best to report on these metrics on a regular basis, as well as how they contribute to delivering Water UK's Public Interest Commitment – in particular, the water sector's commitment to achieve net zero carbon emissions by 2030.

## Nomination and Remuneration Committee



Lord Smith of Finsbury (Chair)



Catherine May



Stephen Kay



Keith Harris



Keita Saito

### Membership for the year ended 31 March 2021

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	2/2
Catherine May	Member	2/2
Stephen Kay	Member	2/2
Keith Harris	Member	2/2
Keita Saito (appointed 29/06/2020)	Member	1/2

Following the review of the Board effectiveness the separate Nomination and Remuneration Committees were merged. The Nomination and Remuneration Committee primarily comprises Independent Non-executive Directors and is chaired by the company's Independent Chair.

Following his appointment to the Board, Keita Saito was appointed to the Committee in September 2020.

### Roles and responsibilities

The Committee focuses on the company's processes for:

- the appointment of Board members, Executive Directors and Executive team members; and
- setting the remuneration packages for the Board, Executive Directors and the Executive team.

### Key terms of reference

- Reviewing the balance of skills, knowledge, experience, diversity (including gender) and the level of non-executive and independent challenge.
- Preparing an appropriate specification for open Board positions.

- Making sure any appointment to the Board carefully considers the balance of the Board's composition.
- Making sure successful candidates have the necessary skills, experience, information and knowledge to fulfil their duties.
- Agreeing remuneration that will ensure the Executive Directors and the Executive team are provided with appropriate incentives to achieve high standards of performance and reward them for their individual contributions to the company's success.
- Making sure the performance-related elements to remuneration for the company's Executive Directors relate to standards of performance for customers and wider society.
- Determining remuneration packages and arrangements with regard to any relevant legal requirements and associated guidance, and to obtain reliable, up-to-date information about remuneration in other companies.
- Ensuring contractual terms on termination are fair and that failure is not rewarded.
- Overseeing any material changes in employee benefits structures throughout the company.

During the reporting year emphasis was placed on the executive remuneration and non-executive remuneration.

## Diversity

Information about the company's gender diversity is set out on page 26 of the strategic report.

## Executive Directors Remuneration policy

Remuneration packages and fees are designed to attract, retain and motivate high-calibre Directors and Executive team members. The Nomination and Remuneration Committee has overall responsibility

for determining Board Directors' remuneration packages and considering those of the Executive team.

The total remuneration packages of Board Directors and the Executive team include basic salary, benefits and annual and deferred bonuses, which are linked to business targets and personal performance-related objectives. The performance-related objectives are designed to encourage and reward continuing improvement in the company's performance over the longer term.

The Nomination and Remuneration Committee recognises that transparency on the relationship between pay policy and outperformance will help customers see how performance pay is earned in providing an essential service. Consistent with the FRC Guidance 2018 and the FRC Guidance on Board Effectiveness 2018 the Committee should establish a formal, rigorous and transparent procedure for developing policy on executive remuneration, determining Board, Executive Director and Executive Team remuneration, together with appointments. The committee acknowledge the need to make a statement in relation to remuneration that is linked to standards of performance.

## Board and Executive terms of engagement

Phil Newland replaced Adrian Page (resigned on 29 April 2020) as Group Chief Executive, and was appointed to the company's Board in accordance with the requirements of his Group-wide role.

Peter Antolik and Keith Harris were appointed to the Board as representatives of Arjun Infrastructure Partners Limited. Keita Saito was appointed to the Board as a representative of Mitsubishi replacing Michihiko Ogawa, (resigned 26/06/2020). Their appointments have no fixed term and they do not receive any remuneration for this service from South Staffordshire Water.

The Rt Hon Lord Smith of Finsbury, Stephen Kay, Catherine May, and Alice Cummings as

Independent Non-executive Directors are appointed to Board for fixed terms of three years. They can be re-appointed for up to a further two periods before being required to stand down after a maximum of nine years' service. In accordance with their appointment, the Independent Non-executive Directors are required to commit the appropriate time needed to sufficiently fulfil their duties within a regulated utility business.

The Managing Director and Executive team are employed on service contracts of no fixed term, with notice periods of either six or three months. They are entitled to:

- basic pay;
- private medical insurance;

- a company car or car allowance;
- fuel allowance; and
- payments made to a Group money purchase pension scheme.

As noted, the Nomination and Remuneration Committee recognises the need to attract and retain high-performing individuals. Base salary and allowances are set reflecting the market value of the role and with consideration of the respective director's skills, experience and performance.

The Committee believes it is important that, for Executive Directors and senior management, a proportion of the remuneration package should be performance-related.

## Remuneration report

On behalf of the Board, I am pleased to provide the Directors' remuneration report for the year ended 31 March 2021. The report summarises our key objectives, our remuneration policy, the key linkages between Directors' pay and the performance of the company in addition to the level of the Directors' emoluments for the year.

We aim to ensure that executive pay is aligned with South Staffordshire Water's business strategy and that remuneration reflects the company's performance against clear operational and financial measures, as well as individual performance objectives.

We strive to ensure that we link executive pay to successful business performance, which is in turn linked to demonstrable customer benefits. We set out in the remuneration report how this has been achieved in this very challenging year.

### Composition of the Nomination and Remuneration Committee

We have reviewed the composition of the Nomination and Remuneration Committee and is satisfied that it remains appropriate, looking forward to the five-year period to 2025. We outlined that it is independently chaired and most of its members are Independent Non-executive Directors.

### Remuneration policy

#### Alignment with the business plan and customer expectations

Salaries are reviewed annually and any changes are effective from 1 July each year. Each year, the Nomination and Remuneration Committee reviews the standards of performance to which bonuses are linked to ensure this consistency continues to be maintained. At the end of the financial year, the Committee, following consideration of the outturn

against target, assesses to what extent the targets are met and determines bonus levels accordingly. In doing so, the Committee takes into account overall company performance and in exceptional circumstances may exercise its discretion and adjust the bonus to reflect any specific factors.

We agreed that in relation to performance-related pay, that there should be an appropriate balance between financial metrics and those that more directly benefit customers.

We proposed to continue our structure that apportions variable pay to customer service, outcome delivery incentive performance and financial performance (including totex and cost efficiency), respectively.

We also recognise that from time to time, personal objectives may also be appropriate where they are of strategic importance to our business and our customers.

Rewards for the Managing Director and senior executives are based on a total reward package of basic salary and annual performance and for certain executive members, long-term incentive schemes in addition to benefits sufficient to attract, motivate and retain individuals of the required calibre to lead the business. Our policy aims to be around median market practice, with performance incentives for achieving challenging operational, financial and personal targets to motivate strong commitment to achieving the goals set, as well as to establish a close link between overall rewards, corporate performance and the benefits delivered to our customers.



## Approach to stretch in variable pay

Our business plan is already stretching. In all respects, it pushes performance ahead of where we are currently.

We confirmed that the Board's broader objective is for the level of performance being proposed to place us in the upper quartiles of performers in the sector.

That said, we confirmed that we still consider it appropriate that maximum levels of executive variable pay should only be achieved in response to outperformance of our targets that could be described as 'exceptional'. In most cases, we would define exceptional as being outperformance against a regulatory/customer commitment. But in some cases, it may be the delivery of the commitment itself.

## Short-term Incentive Plan (STIP)

STIP arrangements for financial year end operate for Executives and senior managers and specialists. The incentive considers performance across customer focussed performance commitments, financial performance and personal objectives.

For certain Executives the STIP bonus is in addition to the LTIP.

Actual bonus profiles are set at varying levels ranging from up to 75% to 10% of salary.

## Long-term Incentive Plan (LTIP)

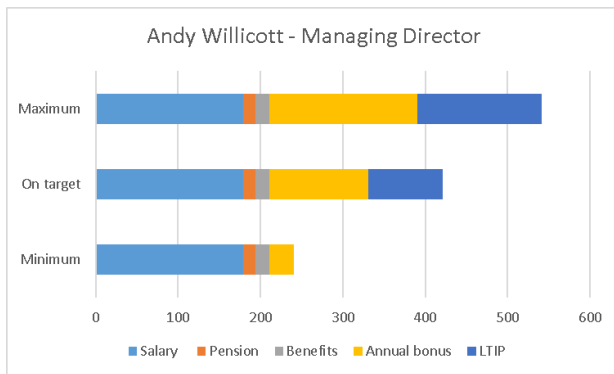
A new LTIP was introduced during 2020. This incentive plan aligns the long-term interests of shareholders and the executive team, retains and rewards executive management of certain calibres as well as rewards for the performance over the 2020/25 (AMP7) regulatory period.

Performance is assessed annually. Each cycle within the bonus plan effectively covers four performance years with four annual payments being awarded, of which half is paid as a STIP bonus, in year, and half is deferred or banked to LTIP. LTIP profiles are set at varying levels to be banked set at ranging from up to 75% to 25% of salary.

The personal performance targets set for Andy Willicott, and assessed for STIP and LTIP are outlined below.

Performance target
Net wholesale totex
Net botex wholesale retail
Cash flow before interest and tax
Maintain a level of ODI performance that is consistent (across the common core water-only ODIs) with upper quartile (UQ) performance overall
UQ as assessed by APR21 sector review
Establish an improving recovery trajectory for C-MeX. Demonstrate an improved performance when considered against Q1 for the remainder of FY21
Deliver the reforecast collections position for the current FY. In line with 3 plus 9 reforecast targets
Deliver against the agreed high level milestones for investment at Hampton Loade and Seedy Mill to programme milestones and budget
Drive the formation of a new ESG committee of the Board supportive of its desire to improve governance and transparency in this area. Establish, agree ToR and forward programme

In line with the remuneration reporting requirements, the chart below illustrates the Andy Willicott's remuneration packages under three different performance scenarios: minimum; on target performance; and maximum for outperformance.



The chart has been based on the following assumptions:

- Minimum pay is fixed pay only (salary, benefits and pension).
- On target pay includes fixed pay, 50% of the maximum bonus and 50% vesting of the LTIP awards.
- Maximum pay includes fixed pay and assumes 100% vesting of both the annual bonus and the LTIP awards.

- For 2020/21 the bonus includes a payment of £30,000 for mitigation for loss of bonus earned from previous employment.

The awards under the LTIP are accrued and at the end of the fifth year 80% of the accrued amount, at target level, could be paid provided that the employee is still employed or has left as a 'Good Leaver'. Multiplier arrangements will apply at the end of the bonus plan cycle. The aggregate bonus bank will be varied based on the extent to which the South Staffordshire Plc group has hit its cumulative distributions and profit after tax. Adjustments will be subject to the terms (plus or minus and no lower than nil). Malus and clawback provisions also apply. All awards are subject to income tax.

As Group Chief Executive and an Executive Director of the parent company, South Staffordshire Plc, Phil Newland has, as part of his remuneration package, an element of his bonus specifically linked to the company's performance. Further details on his remuneration is disclosed in the South Staffordshire Plc annual report.

Further details of the Directors' remuneration are set out below.

Name	Board £'000																
	Basic salary		Bonus <sup>1</sup>		LTIP <sup>2</sup>		Other benefits and pay <sup>3</sup>		Fees		Total emoluments		Pension contributions <sup>4</sup>		Total remuneration		
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	
Lord Smith of Finsbury									42	30	42	30			42	30	
Sir James Perowne										40		40				40	
Andy Willicott <sup>5</sup>	179		149					16				344		15		359	
Phil Newland <sup>6</sup>	17	195		70				1	15			18	280	1	24	19	304
Adrian Page <sup>6</sup>																	
Catherine May									30	30	30	30				30	30
Stephen Kay									30	30	30	30				30	30
Keith Harris <sup>7</sup>																	
Alice Cummings									26		26					26	
Total	196	195	149	70				17	15	128	130	490	410	16	24	506	434
	Executive team £'000																
	Basic salary		Bonus <sup>8</sup>		LTIP <sup>9</sup>		Other benefits and pay <sup>2</sup>		Fees		Total emoluments		Pension contributions <sup>3</sup>		Total remuneration		
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	
Total	582	319	156	75				45	28			783	422	41	67	824	489
Average	83	106	22	38				8	8			113	152	6	22	119	174

Notes: 1. For 2020/21 the bonus includes a payment of £30,000 for mitigation for loss of bonus earned from previous employment. 2. LTIP is remunerated by the immediate parent company, South Staffordshire Plc. 3. 'Other benefits and payments' combines company car benefit in kind, car cash and benefit allowances, fuel allowances, the taxable value of private medical insurance provision and relocation expenses. 4. Pension contributions are payments by the company in respect of money purchase pension schemes. 5. Basic Salary has been pro rata from employment commencing. 6. These Directors were remunerated either by the immediate parent company, South Staffordshire Plc, or received no remuneration for their services during the year. 7. This Director was remunerated either by the immediate parent company South Staffordshire Plc or received no remuneration for their services during the year. 8. Bonus figures include any deferred amounts paid in the year and approved figures in respect of the year ended 31 March 2021. 9. LTIP is remunerated by the immediate parent company, South Staffordshire Plc.

## Bonus awards

The Nomination and Remuneration Committee awarded the Managing Director of South Staffordshire Water PLC a STIP bonus of £118,500, which was 79% of his maximum award. An equivalent amount has been added to his LTIP.

The Nomination and Remuneration Committee awarded the Executive team on average a STIP bonus of 24% (£19,855), which was 30% of their maximum award. A number of Executive team have are entitled to LTIP awards. The average award was 22% and this has been accrued to the LTIP bank.

An element of the bonus in the year for Phil Newland is specifically linked to the company's performance. For further details, please refer to the accounts of South Staffordshire Plc.

## Executive pay ratio

In line with new reporting requirements, we have disclosed the Managing Director pay ratio, which shows how the Managing Director's single total figure for remuneration compares to the equivalent figures for South Staffordshire Water employees occupying the 25th, 50th and 75th percentile. In line

with the majority of companies reporting this data, we have chosen Option A under the regulations, which takes account of the full-time equivalent basis for our employees. The Managing Director pay ratio is likely to be volatile, primarily as a result of the higher proportion of incentive based pay earned by the Managing Director, compared to other employees. The figures show the relevant ratios excluding LTIP (not due to be paid out for five years).

The company is committed to paying the foundation living wage to employees. Based on a 37-hour a week contract at £9.50 an hour (2020: £9.30) rate for outside London, this would give an annual salary of £18,278. All our people, with the exception of our apprentices, are paid at or higher than the foundation rate. In comparison to our Managing Director, the highest paid directly employed Board member, this gives a ratio of 10:1 against basic salary and 19:1 against total remuneration, both of which sit within the 20:1 ratio.

We implemented a negotiated annual increase for all staff of a 1% increase on all base rates and certain allowances. In addition, we agreed a one off £500 bonus. This was effective from 1 April 2021. The annual increase for April 2020 was a negotiated increase of 2%.

## Board effectiveness

The Board is committed to reviewing its effectiveness periodically and to evaluating the performance of individual Directors each year. In addition, the company must also demonstrate through its annual reporting how it is meeting Ofwat's principles on Board leadership, transparency and governance.

As signposted in last year's annual report and accounts, the Chair has carried out a review of Board effectiveness and compliance with Ofwat's principles.

A number of opportunities were identified as a result of this review. The Board divided these into two categories – 'quick wins' and medium-term actions. The quick wins (some of which were already in place) include the following.

- Ensuring a clear delineation exists between the retail and wholesale sections of the Board meeting.
- Holding an annual Board strategy day.
- Agreeing that the Water Board meeting (that is, the meeting of the Board of the regulated water company) should take place ahead of the Group Board meeting
- Recording a list of actions arising out of each Board and Committee meeting, alongside the minutes.
- Ensuring that authors of key papers and reports attend relevant meetings and present to the Board.
- Ensuring all Board members have the contact details of other Board members.
- Ensuring that the Committees refresh their terms of reference, including agreeing that the Audit Committee be extended to include risk

and merging the Nomination Committee and Remuneration Committee.

COVID-19 restrictions have made it difficult for the Board to deliver some of its other, more medium-term actions. However, it did establish an ESG Committee to consider environmental, social and governance issues for the company. Other medium-term actions to be considered by the Board include the following.

- Ahead of the Board meeting, Directors should occasionally have the chance to meet informally.
- When possible, visits to the company's sites and assets should be arranged for Board members.
- Directors should invite members of different teams to meet the Board informally.
- There should be annual Chair's appraisals of all Board members, with the Chair being appraised by the Senior Independent Non-executive Director.
- A skills and diversity audit of the Board should be carried out; this should be considered especially carefully when recruiting for new Board members.

Progress against delivering these actions will be reported in next year's annual report and financial statements. The Chair will continue to review any other measures of Board effectiveness as appropriate.

## Directors' responsibilities statement

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, as set out on pages 113 to 123, is made with a view to distinguishing for investors the respective responsibilities of the Directors and of the auditor in relation to the financial statements.

The Directors are required by company law, and under Condition I of the Instrument of Appointment by the Secretary of State for the Environment, as a water undertaker under the Water Industry Act 1991, to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the company at the end of the financial year, and of the profit or loss for the financial year.

Under company law, the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies (see page 89) and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to

presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary; and

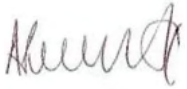
- keep proper accounting records, which comply with Condition I.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors have the responsibility for the maintenance and integrity of the company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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

This corporate governance report 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**

# Financial statements



## Financial statements

### Profit and loss account – for the 12 months ended 31 March 2021

	Note	31 Mar 21 £'000	31 Mar 20 £'000
Turnover	2	130,289	129,796
Operating costs	3	(108,064)	(112,830)
Other operating income	6	5,956	5,384
<b>Operating profit</b>		<b>28,181</b>	<b>22,350</b>
Finance costs (net)	7	(13,294)	(13,013)
<b>Profit before taxation</b>		<b>14,887</b>	<b>9,337</b>
Tax on profit	8	(2,441)	(6,744)
<b>Profit for financial year attributable to the equity shareholders of the Company</b>		<b>12,446</b>	<b>2,593</b>
<b>Earnings per share</b>			
Basic	10	586.2p	122.1p
Diluted	10	586.2p	122.1p

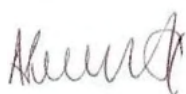
The results above are derived from continuing operations. The accompanying notes are an integral to these financial statements.

## Balance sheet – as at 31 March 2021

	Note	31 Mar 21 £'000	31 Mar 20 £'000
<b>Fixed Assets</b>			
Tangible assets	11	569,088	551,578
<b>Current Assets</b>			
Stocks	14	2,978	2,487
Debtors - amounts recoverable within one year	15	31,233	30,114
Debtors - amounts recoverable in more than one year	15	27,857	28,302
Investments	16	2	2
Cash at bank and in hand		4,306	26,425
		66,376	87,330
Borrowings - amounts falling due within one year	17	-	(29,985)
Other creditors - amounts falling due within one year	17	(63,564)	(57,919)
<b>Net current assets/(liabilities)</b>		<b>2,812</b>	<b>(574)</b>
<b>Total assets less current liabilities</b>		<b>571,900</b>	<b>551,004</b>
Borrowings - amounts falling due after more than one year	18	(273,198)	(262,210)
Other creditors - amounts falling due after more than one year	18	(13,027)	(15,594)
Accruals and deferred income - falling due after more than one year	13	(163,332)	(159,328)
Provisions for liabilities - falling due after more than one year	20	(46,118)	(44,545)
<b>Net Assets</b>		<b>76,225</b>	<b>69,327</b>
<b>Capital and reserves</b>			
Called up share capital	21	2,123	2,123
Share premium account		495	495
Capital redemption reserve		4,450	4,450
Revaluation reserve		33,494	33,954
Profit and loss account		41,727	34,999
Hedging reserve		(6,064)	(6,694)
<b>Shareholders' Funds</b>		<b>76,225</b>	<b>69,327</b>

The accompanying notes are an integral part of these financial statements.

The financial statements of South Staffordshire Water (company number 02662742) were approved by the Board of Directors and authorised for issue on 29 June 2021.



**Andy Willicott**  
Managing Director  
29 June 2021

## Statement of comprehensive income – for the 12 months ended 31 March 2021

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Profit after taxation	12,446	2,593
Movement in hedging reserve (gross of deferred tax)	778	(545)
Deferred tax impact of movement in hedging reserve	(148)	104
Deferred tax rate move impact in year	-	154
<b>Total comprehensive income</b>	<b>13,076</b>	<b>2,306</b>

## Statement of changes in equity – as at 31 March 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 2019	2,123	495	4,450	33,987	40,361	(6,407)	75,009
Profit for financial period	-	-	-	-	2,593	-	2,593
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	(721)	(721)
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	137	137
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	176	176
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(33)	(33)
Deferred tax rate move	-	-	-	-	-	154	154
Amounts transferred to profit and loss	-	-	-	(33)	33	-	-
Total comprehensive income/(loss)	2,123	495	4,450	33,954	42,987	(6,694)	77,315
Dividends (note 9)	-	-	-	-	(7,988)	-	(7,988)
<b>Balance at 31 March 2020</b>	<b>2,123</b>	<b>495</b>	<b>4,450</b>	<b>33,954</b>	<b>34,999</b>	<b>(6,694)</b>	<b>69,327</b>

## Statement of changes in equity – as at 31 March 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 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)
Amounts transferred to profit and loss	-	-	-	(460)	460	-	-
<b>Total comprehensive income/(loss)</b>	<b>2,123</b>	<b>495</b>	<b>4,450</b>	<b>33,494</b>	<b>47,905</b>	<b>(6,064)</b>	<b>82,403</b>
Dividends (note 9)	-	-	-	-	(6,178)	-	(6,178)
<b>Balance at 31 March 2021</b>	<b>2,123</b>	<b>495</b>	<b>4,450</b>	<b>33,494</b>	<b>41,727</b>	<b>(6,064)</b>	<b>76,225</b>

### 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 £36m, 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. Further information on the hedging policy is set out on pages 91 and 92.

## Cash flow statement – as at 31 March 2021

	Note	31 Mar 21		31 Mar 20	
		£'000	£'000	£'000	£'000
<b>Cash inflow from operating activities</b>			<b>59,512</b>		<b>70,036</b>
<b>Corporation tax paid</b>			<b>(1,791)</b>		<b>(4,453)</b>
<b>Net cash inflow from operating activities</b>	(a)		<b>57,721</b>		<b>65,583</b>
<b>Cash flows from investing activities</b>					
Purchase of tangible fixed assets		(41,862)		(41,607)	
Proceeds from sale of tangible fixed assets		45		580	
Interest received		2,654		993	
<b>Net cash outflow from investing activities</b>			<b>(39,163)</b>		<b>(40,033)</b>
<b>Cash flows from financing activities</b>					
Interest paid		(9,309)		(9,057)	
Equity dividends paid		(6,178)		(7,988)	
Repayment of bank loans		(55,000)		-	
Draw down of RCF		30,000		9,750	
Bank term loan issue costs paid		(190)		-	
<b>Net cash outflow from financing activities</b>			<b>(40,677)</b>		<b>(7,295)</b>
<b>(Decrease)/Increase in cash</b>			<b>(22,119)</b>		<b>18,255</b>
<b>Cash and cash equivalents at the beginning of the year</b>			<b>26,425</b>		<b>8,170</b>
<b>Cash and cash equivalents at the end of the year</b>			<b>4,306</b>		<b>26,425</b>

Purchase of tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions. The difference in what was paid, £41,862,000, and additions reported in the fixed asset note 11 of £44,211,000 is due to an increase in year of creditors relating to capital purchases of £2,349,000.

## Notes to the cash flow statement

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

	31 Mar 21		31 Mar 20	
	£'000	£'000	£'000	£'000
<b>Total operating profit</b>		28,181		22,350
Depreciation	26,661		25,549	
Amortisation of capital contributions	(3,228)		(2,907)	
Profit on disposal of tangible fixed assets	(4)		(301)	
Contributions and grants received	7,232		9,925	
		30,661		32,266
(Increase) in stocks	(491)		(121)	
Decrease/(increase) in debtors	(1,755)		18,802	
(Decrease)/increase in creditors	2,916		(3,261)	
Cash inflow from operating activities		670		15,420
Corporation tax paid		(1,791)		(4,453)
Net cash inflow from operating activities		57,721		65,583

### (b) Reconciliation in movement in net debt

	31 Mar 21		31 Mar 20	
	£'000	£'000	£'000	£'000
(Decrease)/increase in cash		(22,119)		18,255
Draw down of RCF		25,190		(9,750)
Repayments of RCF		-		-
Bank term issue cost amortisation (non-cash)		(88)		(38)
Movement on index-linked debt (non-cash)		(6,107)		(5,887)
Decrease/(increase) in net debt in year		(3,124)		2,580
Net debt brought forward		(265,770)		(268,350)
Net debt carried forward		(268,893)		(265,770)



## Notes to the cash flow statement (continued)

	Balance at 31 Mar 2020 £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2021 £'000
Cash at bank and in hand	26,425	(22,119)	-	4,306
Short-term bank loans	(29,985)	30,000	(15)	0
	(3,560)	7,881	(15)	4,306
Irredeemable debenture stock	(1,652)	-	-	(1,652)
Bank loans (net of issue costs)	(24,916)	(4,810)	(73)	(29,799)
Index-linked debt (net of issue costs and including premium)	(235,642)	-	(6,107)	(241,749)
Net debt	(265,770)	3,071	(6,195)	(268,893)

The cash flows in respect of the company's bank loans include drawdowns of £30,000,000.

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.

	31 Mar 21 £'000	31 Mar 20 £'000
Book net debt (as reported above)	(268,893)	(265,770)
Exclude book premium on issue of index linked debt	12,774	13,116
Difference between long-term RPI assumption and actual RPI inflation	11,083	8,111
Exclude unamortised issue costs	(1,801)	(1,657)
Exclude accrued interest	225	140
Net debt reported for borrowing covenants	(246,612)	(246,060)
Regulatory Capital Value	403,203	396,017
Covenant Net Debt/Regulatory Capital Value	61.2%	62.1%

## Notes to the financial statements

### 1. Statement of accounting policies

South Staffordshire Water PLC is a private company limited by shares. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its related parties, financial instruments and remuneration of key management personnel. South Staffordshire Water is consolidated in the financial statements of its ultimate holding company in the UK, Hydriades IV Limited, which may be obtained from Companies House in the UK. The holding company's registered address is Green Lane, Walsall, West Midlands, WS2 7PD.

These financial statements are prepared on a going concern basis, as set out on pages 62 and 63, under the historical cost convention, as modified by the revaluation of land and buildings, and certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in conformity with FRS 102 required the use of certain accounting estimates. It also required management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on pages 96 and 97.

#### a) General information and basis of accounting

Although South Staffordshire Water is not publicly listed, its Board of Directors recognises that because of public interest in how the company performs and the regulated environment in which it operates, it should act as if it were. It is incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is Green Lane, Walsall, West Midlands, WS2

7PD. The nature of the company's operations and its principal activities are set out in the strategic report on pages 6 to 43. The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102 issued by the Financial Reporting Council. The functional currency of the company is considered to be pounds sterling because that is the currency of the primary economic environment in which it operates.

#### b) Turnover

Turnover comprises the value of sales (excluding VAT and similar taxes) of goods and services in the normal course of business. For water supplied, turnover includes amounts billed for water supplied in the year together with an estimation of amounts supplied but unbilled at the year end. Further information on the company's revenue recognition policy is set out on page 48 of the annual performance report. Other income includes rental income, which is recognised over the term of the lease.

#### c) Tangible fixed assets and depreciation

Tangible fixed assets comprise infrastructure assets (water mains, impounding and pumped raw water storage reservoirs and dams), operational structures (pumping stations, treatment stations, boreholes and service reservoirs) and other assets.

The values of fixed assets are reviewed annually to determine whether their carrying amounts exceed their fair values in use. Where such an excess is believed to exist, it is treated as an impairment loss and charged to the Income Statement.

#### Infrastructure assets

Infrastructure assets comprise a network of systems, including two regional network assets that, as a whole, are intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of their components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of

the networks is treated as additions, which are capitalised at cost.

Infrastructure renewals expenditure (IRE), the annual expenditure required to maintain the operating capability of the network, is not capitalised within tangible fixed assets, but is expensed within operating costs for the year. In accordance with FRS 102, new infrastructure assets are depreciated over their useful economic life of 100 years.

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

Operational structures and other fixed assets  
Operational structures and other fixed assets are stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, over the estimated useful lives of the assets, with the exception of land, which is not depreciated. Assets in course of construction are not depreciated until commissioned. The estimated useful lives of the assets are as follows.

Boreholes, mains and dams:	100 yrs
Buildings and service reservoirs:	50–80 yrs
Fixed plant:	20–30 yrs
Meters:	15 yrs
Mobile plant:	5 yrs
Office equipment:	5–7 yrs
Motor vehicles:	3–7 yrs

#### d) Capital contributions

Capital contributions, including those in respect of infrastructure assets, are treated as deferred income and released to other operating income over the useful lives of the assets concerned.

#### e) Leased assets

Assets financed by leasing agreements, which transfer substantially all of the risks and rewards of ownership to the company, are included within fixed assets, and the net obligation to pay future rentals is included in creditors. Rentals are

apportioned between finance charges and a reduction of the outstanding liability for future rentals so as to produce a constant charge to the profit and loss account based upon the capital outstanding.

#### f) Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out (FIFO) method. Cost includes materials and an appropriate element of overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### g) Pensions

For the defined contribution schemes, the amount charged to the profit and loss account is the contributions payable in the year. Both sections of the defined benefit scheme (South Staffs and Cambridge) are closed to new entrants and have ceased future accruals.

In accordance with the agreed policy in the company and the Group, as the scheme is a multi-employer scheme with deferred members of the scheme also being employees of other Group companies, the company is not able to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis.

Therefore, in accordance with the stated policy the amount charged to the company's profit and loss account is equivalent to the deficit contributions payable in the year by the company with the profit and loss items, actuarial gains and losses and assets and liabilities relating to the scheme being accounted for in the accounts of South Staffordshire Plc, the immediate holding company.

#### h) Research and development

Research and development is charged to the profit and loss account in the year in which it is incurred.

#### i) Taxation

Current tax is charged on estimated taxable profits at the current rate.

Deferred taxation is provided in respect of capital allowances in excess of depreciation and all other timing differences that have originated but not reversed at the balance sheet date using the future rate of tax anticipated at the time of reversal based on legislation changing rates enacted or substantively enacted at the balance sheet date.

#### j) Financial instruments

##### Financial assets

All financial assets, being cash and cash equivalents, trade debtors and loans receivable are measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

##### Financial liabilities

Financial liabilities are initially measured at fair value and subsequently measured at amortised cost. The premium/discount and costs of issue are amortised over the life of the instrument, with the amortisation being included in the effective interest rate of the instrument that is included in finance charges (net) in the profit and loss account.

#### k) Hedge accounting

The company has entered into derivative financial instruments to hedge exposure to floating interest rates. These derivative financial instruments are recorded on the balance sheet at fair value on inception and at each balance sheet date.

Movements in fair value are recorded in the profit and loss account except where the company has adopted hedge accounting.

The company designates certain hedging instruments as cash flow hedges. At inception of the hedge relationships, the company documents the relationships between the hedging instruments and the hedged items along with the company's risk management strategy and objectives in relation to each hedge. At the inception of the hedges, and on an ongoing basis, the company documents whether the hedging instruments are highly effective in offsetting changes in cash flows of hedged items.

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are deferred in equity in

a hedging reserve net of deferred tax. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. Hedge accounting is discontinued when the company de-designates the hedging relationships, the hedging instruments expire, are terminated or are sold, or they no longer qualify for hedge accounting. Amounts deferred in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account. When forecast transactions are no longer expected to occur, the cumulative gains or losses are recognised immediately in the profit and loss account.

#### l) Dividends

Dividends are recognised if they have been paid or if they have been approved by the company's Board and investors before the period end.

#### m) Exceptional items

The company separately presents certain items on the face of the profit and loss account as exceptional. Exceptional items are material items of income or expense that, because of their size or incidence, are presented separately to allow an understanding of the company's financial performance and comparison to the prior year.

They are not expected to be incurred on a recurring basis.

##### Principal accounting judgements, estimates and assumptions

In the application of the accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions in respect of the carrying amounts of assets and liabilities recognised in the financial statements.

These are based on historical experience, future forecasts and other factors that are considered to be relevant. It is recognised that historical experience and forecasts change over time and these judgements, estimates and assumptions are therefore reviewed and amended where necessary on a regular basis. However, it is also recognised

that the actual outcomes may still differ to the judgements, estimates and assumptions made.

Provided below are details of the principal accounting judgements, estimates and assumptions that the Directors have made when applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The more significant judgements were as follows:

#### Hedge accounting

In applying the company's interest rate hedging strategy and the corresponding hedge accounting applied in the financial statements a judgement has been made that there will be highly probable floating interest rate payments over the term of the interest rate derivatives. Underlying this judgement is the assessment that the future refinancing of bank facilities is highly probable. The basis for this judgement includes:

- the company's long-term 25-year water supply licence;
- its related long-term business model and regulated asset base;
- its ability to access capital markets, including the bank debt market;
- its strong investment grade credit rating; and
- the stability and predictability of the regulated UK water sector as a whole.

#### Tangible fixed assets – determining costs which are capital in nature

Judgement is required to determine whether costs incurred when work is carried out on company assets are capital or revenue in nature. This work includes:

- repairs;
- like-for-like replacement;
- new assets; or
- replacement of assets with an element of asset enhancement or increased capacity.

Identifying which element of expenditure represents capital expenditure rather than revenue expenditure may include judgement that the company's two regional infrastructure networks

each represent single infrastructure assets. In order to apply the appropriate accounting, a judgement is made as to whether it is probable that the expenditure will generate future economic benefits and also if the costs can be measured reliably.

The key accounting estimates were as follows:

#### Accrued income

An estimate of water consumption by metered customers since the date of the last water bill and an estimate of the corresponding income that remains unbilled at the end of the year (accrued income) is required to be made each year. This estimate uses a historical water consumption rate for each customer from the company's billing system and applies this consumption rate to the unbilled period and the related tariff to estimate unbilled income for that period. The accrued income for metered customers as at 31 March 2021 was £12,707,000 (2020: £12,399,000). A 1% movement in consumption equates to a £97,000 movement. Other accrued income totalled £3,596,000 (2020: £3,348,000).

#### Amortised cost of index-linked borrowings

In order to record the company's index-linked borrowings at amortised cost an estimate of the long-term average inflation rate (Retail Price Index – or RPI) per annum is required to be made. In forming this estimate, financial market data such as the long-term yields for fixed-rate and index-linked (RPI) gilts is obtained and considered with the difference between these yields being the market implied long-term inflation assumption. The net book value of index-linked borrowings as at 31 March 2021 was £241,749,000 (2020: £235,642,000). The difference between long term-RPI assumption and actual RPI inflation is set out in the notes to the cash flow above. Further detail can be found on page 106.

#### Bad and doubtful debt provision

The recoverability of trade debtors, and therefore the amount of bad and doubtful debt provision held against trade debtors in the balance sheet at each year end, requires judgement. This judgement requires consideration of the historical and forecast debt collection rates in respect of different categories of customers and trade debt, usually

calculated as a percentage of the total amount billed in each year. This information is used to estimate the level of debt outstanding at the end of the year, which is expected to be irrecoverable after following the processes of collection that the company adopts, including any impact of the COVID-19 outbreak based on our best estimate of the impact of the pandemic on the debt book and to cover any deterioration in collection rates linked to this. This estimate represents the appointed year end bad and doubtful debt provision, which was £29,177,000 as at 31 March 2021 (2020: £42,326,000). For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase by approximately £1,000,000.

#### Tangible fixed assets – assessment of useful economic lives

There is a requirement to estimate the useful economic lives of the company's tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the company's forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of asset lives. The total net book value of tangible fixed assets as at 31 March 2021 was £569,088,000 (2020: £551,578,000). The average useful economic life for tangible fixed assets is 45 years and if this was to move by 5 years, the impact would be approximately £3,000,000.

## 2. Segmental information

The Directors consider that the company operates substantially in the UK in one class of business. An analysis of turnover from UK operations is provided below.

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
<b>Appointed revenue</b>		
Household - measured	48,153	43,537
Household - unmeasured	53,884	54,228
Non-household - measured	19,064	22,916
Non-household – unmeasured	967	1,015
Third party services	2,783	2,321
	<u>124,851</u>	<u>124,017</u>
<b>Non-appointed revenue</b>	-	-
Aqua Direct spring water business	4,179	4,275
Other Non Appointed	470	700
Commissions	789	804
	<u>5,438</u>	<u>5,779</u>
	<b><u>130,289</u></b>	<b><u>129,796</u></b>

Appointed income is that earned under South Staffordshire Water's licence to supply water. Non-appointed income relates to activities that do not require a water supply licence.

## 3. Operating costs

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
<b>Operating costs were as follows:</b>		
Raw materials and consumables	5,824	5,591
Staff costs (see note 4)	19,818	20,400
Own work capitalised	(8,943)	(9,209)
Depreciation : non-infrastructure assets	22,606	21,339
Depreciation : infrastructure assets	4,055	4,210
Infrastructure renewals expenditure	12,418	11,439
Provision for doubtful debts	3,329	10,240
Other operating costs	48,957	48,820
	<u>108,064</u>	<u>112,830</u>

## Operating costs (continued)

Auditor remuneration is analysed as follows.

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Audit of the Company's annual accounts	149	111
<b>Total audit fees</b>	<b>149</b>	<b>111</b>
Audit related assurance services	84	60
Other assurance services	14	-
<b>Total non audit fees</b>	<b>98</b>	<b>60</b>
	<b>247</b>	<b>171</b>

There are £98,000 of non-audit services payable in the year (2020: £17,000). Non audit services include agreed upon procedures work for the Annual Performance Report sections 1 and 4, and RAG5.07 (new customer billing system – Rapid Aptumo).

## 4. Staff costs

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	17,323	16,538
Social security costs	1,704	1,621
Pension costs (see note 22)	791	2,241
	19,818	20,400

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>Number</b>	<b>Number</b>
Monthly average number of direct employees	365	365
Monthly average number of administration and support functions employees	67	70
Monthly average number of employees	432	435

The monthly average number of employees by activity, including Directors on a service contract and are on a full-time equivalents basis.

## 5. Directors' remuneration

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments	490	410
Pensions	16	24
	506	434



The highest paid directly-employed Director received emoluments of £344,000 (2020: £280,000) and received a contribution of £15,000 (2020: £24,000) paid by the company in respect of defined contribution pension schemes during the year.

During the year and the prior year, certain Directors received no emoluments as Directors of the company. These Directors were remunerated by the immediate parent company, South Staffordshire Plc, (or received no remuneration for their services) and the total of their emoluments received during the year was £437,000 (2020: 294,000). Contributions in respect of money purchase pension schemes for these Directors was £18,000 (2020: £55,000).

No Directors (2020: nil) who held office at the end of the year were accruing benefits due in the year under a defined benefit pension scheme and two Directors (2020:nil) were contributing members under a money purchase scheme.

The remuneration report on page 71 gives further detail around the remuneration of the Directors and Executive team.

## 6. Other operating income

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Profit on disposal of fixed assets	4	301
Rental income	420	453
Grants and Contributions	3,228	2,907
Infrastructure renewals contributions	2,304	1,723
	<b>5,956</b>	<b>5,384</b>

Significant rentals included in rental income include:

- Fulbourn Road lease from 6 March 2020, expires 5 March 2022; rent is fixed at £186,000 per annum for the term of the lease for part occupation of the property. Rent is payable quarterly in advance; and
- Fradley land, tenancy with rent £30,000 per annum paid annually in advance; hence this is an annual tenancy running year to year.

## 7. Finance costs (net)

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
<b>Interest payable and similar charges:</b>		
Index-linked debt (cash)	7,399	7,832
Index-linked debt (non-cash)	6,107	5,887
Bank loan and other interest	1,313	916
Debenture interest	69	67
	<b>14,888</b>	<b>14,702</b>
<b>Interest receivable:</b>		
Loans to parent undertakings	(1,768)	(1,865)
	<b>13,120</b>	<b>12,837</b>
<b>Other finance charges:</b>		
Amounts recycled from hedging reserve	174	176
	<b>13,294</b>	<b>13,013</b>

## 8. Tax on profit

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Current tax:		
UK corporation tax at 19% (2020: 19%)	2,223	1,720
Adjustments in respect of prior periods	(1,207)	(47)
Total current tax charge	<b>1,016</b>	<b>1,673</b>
Deferred tax:		
Origination and reversal of timing differences	576	241
Impact of changes in future tax rates	-	4,829
Adjustments in respect of prior periods	849	1
Total deferred tax charge	<b>1,425</b>	<b>5,071</b>
Total tax charge	<b>2,441</b>	<b>6,744</b>

Tax included in statement of comprehensive income

Deferred tax:		
Movement in hedging reserve	148	(104)
Effect of change in deferred tax rate	-	(154)
Total tax charge	<b>148</b>	<b>(258)</b>

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Profit before taxation	14,887	9,337
Profit multiplied by standard UK corporation tax rate of 19% (2020: 19%)	2,829	1,774
Expenses not deductible for tax purposes (net)	(29)	187
Deferred tax provided at lower rate	-	-
Effect of changes in deferred tax rate	-	4,829
Adjustments in respect of prior years	(359)	(46)
<b>Total tax charge</b>	<b>2,441</b>	<b>6,744</b>

#### Factors that may affect the future tax charge

A reduction in the future UK corporation tax rate from 18% to 17% was substantively enacted in the Finance Act 2016 with effect from 1 April 2020. However, in the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19%. This new law was substantively enacted on 17 March 2020; therefore, its effects have been included in these financial statements. Current tax and deferred tax have been recognised at 19%.

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. As the rate of exchange was not substantively enacted at the balance sheet date, all deferred tax at 31 March 2021 is recognised at the prevailing 19% rate. South Staffordshire Water holds a deferred tax asset of £46,118,000 at 31 March 2021 in respect of accelerated capital allowances and hedging reserves. The impact of the rate change from 19% to 25% would result in an increase of the net deferred tax liability from the estimated £45,619,000 to £60,078,000 with a corresponding debit to deferred tax expense in the profit and loss account of £14,868,000 and a credit to the statement of other comprehensive income of £449,000.

No deferred tax has been recognised on capital gains rolled over against the cost of acquisition of certain property and structures owned by South Staffordshire Water PLC. The gains will come into charge if the assets are sold and not replaced by suitable qualifying assets. As the properties are essential assets of the water supply business it is regarded as unlikely that the gains will come into charge. The potential deferred tax amounts to £2,077,000 (2020: £1,858,000).

## 9. Dividends paid

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Equity Interests		
Ordinary Dividends paid of 290.97p (2020: 376.22p) per share	6,178	7,988

In 2021, the dividend comprised:

- £2,869,000 from the appointed business (2020: £4,298,000);
- £1,541,000 from the non-appointed business (2020: £1,825,000); and
- £1,768,000 from intra-group interest to be paid back to the company (2020: £1,865,000).

Further details of the dividend paid in the year are provided on page 10 of the strategic report.

## 10. Earnings per share

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities after taxation and profit for earnings per share	12,446	2,593
	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>Number of</b>	<b>Number of</b>
	<b>Shares</b>	<b>Shares</b>
Weighted average number of shares for basic and diluted earnings per share	2,123,210	2,123,210

The calculation of earnings per share is based on the profit on ordinary activities after taxation divided by the weighted average number of shares in issue during the year. The calculations of earnings per share are based on the above profits and number of shares.

## 11. Tangible fixed assets

	Specialised Operational Assets £'000	Non Specialised Operational Assets £'000	Infrastructure Assets £'000	Other Tangible Assets £'000	Total £'000
<b>Cost</b>					
At 1 April 2020	245,605	21,258	495,710	247,057	<b>1,009,630</b>
Additions	11,032	56	11,869	21,254	<b>44,211</b>
Disposals	-	-	-	(7,068)	<b>(7,068)</b>
<b>As at 31 March 2021</b>	<b>256,637</b>	<b>21,314</b>	<b>507,579</b>	<b>261,243</b>	<b>1,046,773</b>
<b>Depreciation</b>					
At 1 April 2020	114,862	8,114	189,519	145,557	<b>458,052</b>
Charge for the year	8,981	348	4,055	13,277	<b>26,661</b>
Disposals	-	-	-	(7,028)	<b>(7,028)</b>
<b>As at 31 March 2021</b>	<b>123,843</b>	<b>8,462</b>	<b>193,574</b>	<b>151,806</b>	<b>477,685</b>
<b>Net Book Value</b>					
Owned	132,484	12,853	314,005	109,164	<b>568,506</b>
Leased	310	-	-	273	<b>582</b>
<b>As at 31 March 2021</b>	<b>132,794</b>	<b>12,853</b>	<b>314,005</b>	<b>109,438</b>	<b>569,088</b>
<b>Net Book Value</b>					
Owned	130,428	13,144	306,191	101,198	<b>550,961</b>
Leased	315	-	-	302	<b>617</b>
<b>At 31 March 2020</b>	<b>130,743</b>	<b>13,144</b>	<b>306,191</b>	<b>101,500</b>	<b>551,578</b>

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £7,292,000 (2020: £7,375,000) less accumulated depreciation of £6,710,000 (2020: £6,758,000). Tangible fixed assets include freehold land of £2,337,000 (2020: £2,337,000), which is not subject to depreciation.

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £28,900,000 at 31 March 2021 (2020: £28,300,000).

## 12. Commitments

Capital commitments outstanding at 31 March 2021 were £25,607,000 (2020: £5,957,000). Payments due not later than one year were £17,562,000 (2020: £5,957,000). The significant increase relates to the major upgrade of our two largest treatment works.

### 13. Capital contributions – accruals and deferred income

	<b>Infrastructure Assets £'000</b>	<b>Other Assets £'000</b>	<b>Total £'000</b>
Balance at 1 April 2020	145,521	13,807	<b>159,328</b>
Capital contributions received	5,559	1,673	<b>7,232</b>
Amortised in year	(1,843)	(1,385)	<b>(3,228)</b>
<b>Balance at 31 March 2021</b>	<b>149,237</b>	<b>14,095</b>	<b>163,332</b>

Capital contributions are expected to be amortised over the life of the asset.

### 14. Stocks

	<b>31 Mar 21 £'000</b>	<b>31 Mar 20 £'000</b>
Raw materials and consumables	2,978	2,487

Stock is stated at lower of cost and net realisable value. There is no material difference between the balance sheet value of stocks and their replacement costs.

### 15. Debtors

	<b>31 Mar 21 £'000</b>	<b>31 Mar 20 £'000</b>
Amounts recoverable within one year:		
Trade debtors	10,209	8,350
Other debtors	2,242	1,948
Amounts due from other group undertakings	84	-
Amounts due from parent undertakings	2,052	3,852
Prepayments	343	217
Accrued income	16,303	15,747
	<b>31,233</b>	<b>30,114</b>
Amounts recoverable in more than one year:		
Loans receivable from parent undertakings	25,000	25,000
Other amounts due from parent undertakings	2,857	3,302
	<b>27,857</b>	<b>28,302</b>
	<b>59,090</b>	<b>58,416</b>

Amounts due from parent undertakings of £2,052,000 (2020: £3,852,000) are trade balances receivable on demand. Loans receivable from parent undertakings amounts of £25,000,000 (2020: £25,000,000) are identified as loans with a repayment date 3 June 2051. These loans attract interest of 7%. Other amounts due from parent undertakings amount to £2,857,000 (2020: £3,302,000) are trade balances receivable on demand.

Corporation tax receivable of £1,810,000 (2020: £1,036,000) is included within other debtors.

Detail of provision against bad debt are shown in note 23 on page 106.

## 16. Investments

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Investments	2	2

The balance represents the cost of investment of £1,596 related to 798 'A' ordinary shares and 8% of unsecured loan stock of WRc PLC, a research-based group providing consultancy in the water, waste and environmental sectors, incorporated in England and Wales.

## 17. Creditors – amount falling due within one year

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans (unsecured and net of issue costs)	-	29,985
Borrowings	-	29,985
Payments on account	24,383	24,494
Trade creditors	24,123	19,803
Other creditors	8,163	5,979
Amounts owed to other group undertakings	6,075	7,129
Other taxation and social security	820	514
Creditors	63,564	57,919
Total creditors amounts falling due within one year	63,564	87,904

Amounts owed to other group undertakings £6,075,000 (2020: £7,129,000) are trade balances payable on demand. Included within amounts falling due within one year for the year ended 31 March 2021 was £nil (2020: £30,000,000) used for covenant reporting purposes. However, in accordance with FRS 102, the prior year amounts are stated above net of unamortised issue costs, with the loan being fully repaid in July 2020.

## 18. Creditors – amount falling due after more than one year

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Irredeemable debenture stock (unsecured) (note 19)	1,633	1,633
Perpetual debenture stock (unsecured)	19	19
Bank loans (unsecured and net of issue costs):		
payable between two and five years	29,797	24,916
Retail Price Index-linked debt (unsecured)	241,749	235,642
<b>Borrowings</b>	<b>273,198</b>	<b>262,210</b>
Payments on account	2,900	3,640
Other creditors	7,856	9,079
Amounts owed to other group undertakings	-	-
Derivative financial liabilities	2,271	2,875
<b>Creditors</b>	<b>13,027</b>	<b>15,594</b>
<b>Total creditors amounts falling due after more than one year</b>	<b>286,225</b>	<b>277,804</b>

The gross bank loans (unsecured) of £30,000,000 (2020: £25,000,000) included in amounts falling due after more than one year is used for covenant reporting purposes but, in accordance with FRS 102, is stated above net of unamortised issue costs. These consist of:

- a facility of £30,000,000 of which £30,000,000 was drawn (2020: £nil);
- a facility of £10,000,000, of which £nil (2020: £10,000,000) was drawn; and
- another facility of £15,000,000, of which £nil (2020: £15,000,000) was drawn at 31 March 2021, maturing in July 2023, March 2023 and March 2024, respectively. The value of bank loans over five years is nil.

Derivative financial liabilities represent the market value (obtained from a third party) of floating to fixed rate interest rate swaps designated as cash flow hedges. Detail of derivative financial liabilities are shown in note 23 on page 106.

The book value index-linked debt of £241,749,000 (2020: £235,642,000) is stated above at amortised cost in accordance with FRS 102. The indexed principal of £219,264,000 (2020: £215,833,000) is used for borrowing covenant reporting purposes. Details of the terms of our index-linked debt is shown in note 23 on page 106.



## 19. Irredeemable debenture stock

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
3.5%	476	476
4.0%	627	627
5.0%	500	500
	<hr/>	<hr/>
	1,603	1,603
Net premium on irredeemable debenture stock	30	30
	<hr/>	<hr/>
	1,633	1,633

## 20. Provisions for liabilities

	<b>Deferred Taxation £'000</b>	
At 1 April 2020	44,545	
Charged to profit and loss account	1,425	
Credit to other comprehensive income	148	
At 31 March 2021	<hr/>	
	46,118	
	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Analysis of deferred tax		
Accelerated Capital Allowances	47,722	46,402
Timing differences in respect of hedging reserves	(1,423)	(1,570)
Timing differences in respect of finance charges	(177)	(183)
Other timing differences	(4)	(104)
Provision for deferred tax	<hr/>	<hr/>
	46,118	44,545

Deferred tax assets and liabilities are offset only where the company has a legally enforceable right to do so and where the assets and liabilities relate to taxes levied by the same taxation authority.

## 21. Share capital

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Authorised:		
8,800,000 Ordinary shares of £1 each	<hr/>	<hr/>
	8,800	8,800
Allotted, called-up and fully-paid:		
2,123,210 Ordinary shares of £1 each	<hr/>	<hr/>
	2,123	2,123

There is a single class of ordinary shares.

## 22. Pension retirement benefits

The company operates a number of funded pension schemes for the benefit of its employees. It participates in the Water Companies Pension Scheme, by way of separate sections (the South Staffordshire section and the Cambridge section), which provides benefits based on pensionable pay.

The schemes were closed to all future benefit accrual with effect from 1 April 2015 and as such, only funding deficit contributions are now being paid into the schemes by the company. During the year ended 31 March 2021 the funding into the schemes was made indirectly through the parent company. This was to the value of £nil (2020: £1,368,000).

The assets and liabilities of the South Staffordshire section of the scheme are accounted for in the accounts of the immediate parent undertaking, South Staffordshire Plc. The assets and liabilities for the Cambridge section of the scheme are accounted for within Cambridge Water PLC.

In addition, the company participates in a defined contribution Money Purchase Pension Scheme. The assets of all schemes are held separate from those of the company, and are invested by fund managers.

The contributions to the defined contribution scheme is charged against profits as incurred with the amount for the year ended 31 March 2021 being £791,000 (2020: £873,000).

Additional disclosures regarding the defined benefit pension scheme are required by FRS 102. The latest actuarial valuation of the South Staffordshire section of the scheme as at 31 March 2021, prepared for the purposes of the consolidated financial statements of the parent company under FRS 102 rather than on the actuarial basis used for funding purposes, shows a surplus before deferred tax of £35,288,000 (2020: surplus of £72,143,000). The market value of the assets in this section of the scheme and the present value of the liabilities in the scheme that were accounted for in the parent company at the balance sheet date were as follows.

	<b>Mar 2021</b>	<b>Mar 2020</b>	<b>Mar 2019</b>
	<b>Valuation</b>	<b>Valuation</b>	<b>Valuation</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Growth assets including equities and diversified growth funds	15,297	16,625	2,844
High yield bonds/gilts and liability driven investments	203,026	208,039	202,862
Emerging markets multi-asset funds	-	-	20,097
Cash	552	954	886
Market value of assets	218,875	225,618	226,689
Present value of scheme liabilities	(183,587)	(153,475)	(174,289)
Surplus in the scheme before deferred tax	35,288	72,143	52,400
Related deferred tax liability	(6,705)	(13,707)	(8,908)
Surplus after deferred tax	28,583	58,436	43,492

## 23. Financial assets and financial liabilities

The analysis of the company's financial assets and liabilities includes:

- cash;
- loans receivable;
- borrowings;
- trade creditors; and
- trade debtors.

Borrowings represent:

- bank loans;
- index-linked borrowings; and
- irredeemable and perpetual debenture stock.

The main purpose of these financial instruments is to finance the company's operations. It is, and has been throughout the year under review, the company's policy that no trading in financial instruments shall be carried out. The company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both long- and short-term debt while not exposing it to significant risk of market movements (see below). The company is not exposed to any material foreign exchange risk.

Bank loans bear interest that is linked to LIBOR plus a bank margin, which is applied to the drawn down element of each loan, some of which are hedged through interest rate swaps.

Fair values have been obtained from the relevant banks.

### Interest rate risk profile – borrowings

The interest rate profile of the borrowings (stated at book value) of the company as at 31 March 2021 was as follows.

	<b>Fixed rate financial liabilities £'000</b>	<b>Floating rate financial liabilities £'000</b>	<b>Retail Price Index- Linked debt £'000</b>
31 March 2021	31,449	-	241,749
31 March 2020	31,553	25,000	235,642

Floating rate loans that are hedged by the floating to fixed interest rate swaps are shown above as fixed rate. The company's cash balances earn interest at floating rates linked to LIBOR or the Bank of England base rate. The company's trade debtors and trade creditors are not subject to interest unless considered to be overdue. For all financial assets and liabilities, the book values and fair values are not materially different, except for the RPI-linked loan and the RPI-linked bond shown in the table below.

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
<b>Retail Price Index-Linked Loan</b>		
Un-indexed Loan Value	111,400	111,400
Indexed/Covenant Loan Value	171,054	168,321
Book Value	190,140	185,446
Fair Value	412,135	388,017
<b>Retail Price Index-Linked Bond</b>		
Un-indexed Bond Value	35,000	35,000
Indexed/Covenant Bond Value	48,211	47,512
Book Value	51,609	50,197
Fair Value	61,985	60,620

#### Fixed-rate borrowings

	<b>Weighted average interest rate</b>	<b>Weighted average period for which rate is fixed</b>
	<b>%</b>	<b>Years</b>
31 March 2021	3.4	2.3
31 March 2020	2.8	0.8

	<b>31 Mar 21</b>	<b>31 Mar 20</b>
	<b>£'000</b>	<b>£'000</b>
Expiring in more than one year but not more than two years	10,000	-
Expiring in more than two years but not more than five years	15,000	-
	<u>25,000</u>	<u>-</u>

£15,000,000 has an interest rate of 0.8% plus LIBOR and £10,000,000 has an interest 0.55% plus LIBOR.

In addition to the above, at 31 March 2021 the company had cash balances of £4,306,000 (2020: £26,425,000), increasing liquidity headroom to £29,308,000 (2020: £26,425,000).

The company is confident it has sufficient access to capital markets and relationships with banks and other lenders to refinance borrowing facilities that mature within 12 months of approval of the annual report and financial statements.

#### Financial risks

The company's activities result in it being subject to a limited number of financial risks, principally credit risk as the company has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of these risks to a level that is considered acceptable. The company has formal principles for overall risk management, as well as specific policies to manage individual risks.

a) Interest rate risk

Interest rate risk arises from borrowings issued at floating rates including those linked to LIBOR and the RPI that expose the company's earnings and cash flows to changes in LIBOR and RPI. Risks of increases in LIBOR are managed by limiting the value and proportion of the company's borrowings that are linked to this variable and by entering into floating to fixed rate swap contracts. Risks associated with increases in RPI are effectively hedged against the revenues and the RCV of the regulated water business, both of which are also linked to RPI.

b) Credit risk

As is market practice, the company grants customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of the amounts receivable from these customers.

Full details of the way this risk is managed are provided below. Credit risk also includes the risk of over-recovery of loans receivable. This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to both service and repay the loans.

c) Liquidity risk

Liquidity risk represents the risk of the company having insufficient liquid resources to meet its obligations as they fall due. The company manages this risk by regularly monitoring actual and forecast cash flows and ensuring that the payment of its obligations are at least matched with cash inflows and availability of adequate banking facilities, including sufficient headroom. The table above details the undrawn committed borrowing facilities available to the company to manage this risk. In April 2020 the company took precautionary steps to secure access to additional liquidity through the CCFF, by establishing a £75 million European Commercial Paper (ECP) programme, which the Bank of England has confirmed is eligible for the CCFF Government support. The programme is very much like utilising Bank Revolving Credit Facilities (RCFs) and provides extra financial resilience should the business require it. The facility has now expired with the business not requiring to utilise the facility during the period it was available.

Sensitivity analysis

The following analysis illustrates the sensitivity to reasonably possible movements during the year, in variables affecting financial liabilities, being LIBOR and the long-term forecast for RPI on the company's pre-tax profit and loss account for the year ended 31 March 2021. There is no impact on reserves other than the impact on the profit and loss account after tax.

We have chosen a long-term RPI forecast change of +/- 0.25% as "reasonably possible movements" in the year as a good estimate for possible variations in the long-term forecast RPI over the year based on market data. LIBOR has remained at particularly low and stable levels over recent years, and +/- 1.0% is reasonable.

The impact on the pre-tax profit and loss account for 2021 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2020 and remained different to the actual variables recorded by the stated amount during the year and with all other variables remaining at the actual amounts. The comparative figures have been calculated using the same methodology assuming the change to the variables occurred on 1 April 2019.

## Interest rate swaps

The Group has entered into interest rate swaps under which it has been agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. The interest rate swaps have been accounted for as cash flow hedges with movements in the fair value of these swaps being recognised in the hedging reserve.

Details of interest rate swaps are summarised below.

	Interest rate fixed		Nominal principal amount		Fair value	
	31 Mar 21	31 Mar 20	31 Mar 21	31 Mar 20	31 Mar 21	31 Mar 20
	%	%	£'000	£'000	£'000	£'000
<b>Period to maturity</b>						
5-10 years	2.14	2.14	30,000	30,000	2,271	2,875

## Maturity of financial assets and liabilities

	31 Mar 21 £'000	31 Mar 20 £'000
<b>Borrowings</b>		
In one year or less or on demand	-	29,985
In more than one year, but not more than two years	-	-
In more than two years, but not more than five years	30,000	25,000
In more than five years	-	-
In more than twenty years	220,916	217,485
	<u>250,916</u>	<u>272,470</u>
<b>Other Financial Liabilities</b>		
In one year or less or on demand	62,744	57,405
In more than one year, but not more than two years	3,059	908
In more than two years, but not more than five years	2,391	4,460
In more than five years, but not more than twenty years	7,577	10,127
In more than twenty years	-	-
	<u>75,771</u>	<u>72,900</u>
	<u>326,687</u>	<u>345,370</u>

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £219,265,000 (2020: £215,833,000) included in the table above are stated at the principal amount indexed by RPI to the balance sheet date. The estimated redemption value of index-linked borrowings at redemption in 2045 is £358,265,000 (2020: £358,265,000) and at redemption in 2051 is £118,379,000 (2020: £118,379,000).

- £10,000,000 RCF HSBC has an interest rate of 0.55% plus LIBOR and matures in March 2023.
- £15,000,000 RCF Lloyds has an interest rate of 0.80% plus LIBOR and matures in March 2024.
- £30,000,000 RCF Natwest has an interest rate of 1.20% plus LIBOR and matures in July 2023.

- £111,400,000 Artesian Index-Linked Loan has an interest rate of 3.76% and matures in September 2045.
- £35,000,000 Quoted Index-Linked Bond has an interest rate of 1.84% and matures in June 2051.
- £1,700,000 Irredeemable Debentures has various interest rates.

Debtors recoverable in more than one year of £27,857,000 (2020: £28,302,000) principally represent loans receivable from the company's parent companies of £25,000,000 (2020: £25,000,000) with the £25,000,000 having a repayment date 3 June 2051 (2020: £25,000,000).

#### Trade debtors

Provision is made within the trade debtor values detailed below, based on judgement by senior management for amounts considered to be unrecoverable due either to their nature or age. The total amount charged to the profit and loss account in the year to March 2021 in respect of such provisions was £3,329,000 (2020: £10,240,000). Total trade debtors as at 31 March 2021 were £10,209,000 (2020: 8,350,000). The total amount of the provision included in the above, as at 31 March 2021, was £29,177,000 (2020: £42,326,000).

In accordance with the market conditions prescribed by MOSL, the wholesale market operator, we hold collateral where required and in line with market rules from retailers that purchase water from the company. This collateral is held in the form of:

- parent company guarantees;
- bank guarantees;
- letter of credits;
- credit insurance; and
- cash collateral balances totalling £194,006 at year end (2020: £200,022).

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date to be fully recoverable at their net book value.

An ageing analysis of trade debtors that are invoiced but not impaired is provided below.

Regulated	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 years +	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2021	7,947	1,147	754	468	210	379	10,906
2020	5,866	870	995	519	332	423	9,005

Non-Regulated	<1 month	1-2 months	>2 months	>3 months	Total
	£'000	£'000	£'000	£'000	£'000
2021	925	19	24	90	1,058
2020	288	519	69	94	970

Non-regulated debtors that are considered to be impaired and so netted out of the figure above are to the value of £71,000 (2020: £82,000) and were all more than two months past due. An ageing analysis of appointed debtors that are considered to be impaired is provided below.

<b>Regulated</b>	<b>&lt; 1 year £'000</b>	<b>1 - 2 years £'000</b>	<b>2 - 3 years £'000</b>	<b>3 - 4 years £'000</b>	<b>4 - 5 years £'000</b>	<b>5 years + £'000</b>	<b>Total £'000</b>
2021	4,151	4,312	4,642	3,713	3,213	9,076	<b>29,107</b>
2020	5,434	5,796	3,982	3,483	3,082	20,466	<b>42,243</b>

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 15 approximates to their fair value.

## 24. Related party transactions

Historical agreements were put in place with a holding company in the Group structure to offset the impact on South Staffordshire Water of certain hedging relationships entered into with a third party bank, on both cash flow and the profit and loss account. The balance due from Selena Bidco Limited in respect of these transactions at 31 March 2021 was £3,220,000 (2020: £3,665,000). In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account has been netted off with no overall impact. This agreement is non-interest bearing.

During the year, the company provided wholesale water services to the retailer Pennon Water Services Limited (PWSL), and its subsidiary SSWB, a joint venture with South Staffordshire Plc, with a turnover of £15,501,000 (2020; £19,138,000). In relation these transactions £27,000 was outstanding at the year end (2020: £195,000). The receivable is secured, due in 15 days from invoice date. Also at 31 March 2021 an amount of £303,000 was payable to PWSL for cash collected during the year that has not been paid over (2020: £679,000). As the company provides management services, a fee of £nil is payable (2020: £120,000) as the company is no longer charging PWSL for this service.

There was an arrangement between senior management and Selena MEP, which closed out in February 2021 and had existed since 2014. There are no services provided between Selena MEP and the company. For further information, please refer to the accounts of South Staffordshire Plc.

Remuneration for key personnel is reported on page 75.

## 25. Ultimate controlling party

The immediate parent company is South Staffordshire Plc, which is registered in England and Wales and is the smallest group preparing consolidated accounts that include South Staffordshire Water. During the year, the ultimate parent company in the UK was Hydriades IV Limited, also registered in England and Wales, which was the largest UK group preparing consolidated accounts that include South Staffordshire Water at 31 March 2021.

The consolidated accounts for both these companies can be obtained from the company's registered office, Green Lane, Walsall, West Midlands, WS2 7PD. The ultimate controlling party is Arjun Infrastructure Partners Limited, a company registered in England and Wales, which controls and manages and is the General Partner of a UK registered investment entity that acquired a majority equity interest of a holding company of South Staffs Water and therefore of the Group. This is the registered office for the largest and smallest undertakings of the company.



## 26. Subsequent events

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. As the rate of exchange was not substantively enacted at the balance sheet date, all deferred tax at 31 March 2021 is recognised at the prevailing 19% rate. South Staffordshire Water holds a deferred tax asset of £46,118,000 at 31 March 2021 in respect of accelerated capital allowances and hedging reserves. The impact of the rate change from 19% to 25% would result in an increase of the net deferred tax liability from the estimated £45,619,000 to £60,078,000 with a corresponding debit to deferred tax expense in the profit & loss account of £14,868,000 and a credit to the statement of other comprehensive income of £449,000

To support the long term financing needs of the business commercial terms for £60m of new long-term fixed rate funding from Pricoa Private Capital ('Pricoa') has been agreed in principle. Finalisation of the legal agreement is expected in Q2 of the 2021/22 financial year. We intend to draw down the funds in two tranches, with the first £20m planned for September 2021 and the second tranche of £40m in June 2022.

# Independent Auditor's report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORDSHIRE WATER PLC

### Report on the audit of the financial statements

#### 1. Opinion

In our opinion the financial statements of South Staffordshire Water PLC (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of comprehensive income;
- the statement of changes in equity;
- the cash flow statement
- the notes to the cash flow statement; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).





#### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the company for the year are disclosed in note 3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• Revenue recognition in relation to unbilled measured water income;</li> <li>• Recoverability of the receivables; and</li> <li>• Classification of costs between operating and capital expenditure.</li> </ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li> Newly identified</li> <li> Increased level of risk</li> <li> Similar level of risk</li> <li> Decreased level of risk</li> </ul>
<b>Materiality</b>	The materiality that we used in the current year was £2.58m which was determined on the basis of 5% of EBITDA (Earnings before interest, tax, depreciation and amortisation).
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
<b>Significant changes in our approach</b>	The impact of COVID-19 was identified as a key audit matter in the prior year but is not considered a key audit matter in the current year. This is due to a reduced uncertainty relating to the impact of COVID-19 pandemic compared to the previous year.

### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial 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:

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

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.

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on; the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### 5.1. Revenue recognition in relation to unbilled measured water income

#### Key audit matter description

As disclosed by the Directors as a key accounting estimate in note 1 of the financial statements, the estimate required to determine the valuation of the water, consumption by metered customers that remains unbilled at the end of the year is, significant. Unmeasured water revenue is accrued evenly during the period and, revenue is deferred in respect of bills raised pre year-end relating to post year-end. For measured customers, the revenue recognition methodology is based on, the value of water supplied with estimates made at an individual customer level and based on historical meter reading data. This is used to estimate consumption, since the date of the last invoice (which itself could be estimated), and to determine the unbilled income to be accrued at the year-end date.

There is a potential risk of fraud due to the level of estimation involved, therefore we have identified a key audit matter regarding revenue recognition in, relation to the accuracy of the unbilled measured water income.

As at 31 March 2021, included within note 15 to the financial statements, the accrued income recognised for metered household customers is £12.7m (31 March 2020: £12.4m).

#### How the scope of our audit responded to the key audit matter

In response to this matter, we have performed the following audit procedures:

- obtaining an understanding of the relevant controls over the recognition of accrued income and general IT controls over the billing system;
- assessing the accuracy of the prior year accrual in relation to measured income by performing a retrospective review of the estimate made at the previous year-end and an assessment of current year accrual against subsequent billings;
- involving data specialists in performing a full re-calculation of the accrued income balance and assessing the difference to the amount recognised in the financial statements;
- testing the accuracy and completeness of the source data from which the, historical billed consumption data is derived by agreeing to underlying customer bills and meter reads; and
- challenging the appropriateness of manual adjustments made by management in finalising the accrued income estimate by developing our

	own point estimate to consider the reasonableness of management's adjustment.
<b>Key observations</b>	Overall, we concluded that the methodology and estimations used in valuing the, revenue recognised in relation to unbilled measured water income are reasonable.

## 5.2. Recoverability of the receivables

<b>Key audit matter description</b>	<p>The key estimate, as noted by the Directors in note 1, relates to the level of bad debt provision recorded against the Company's debt book. The bad debt provision is calculated by Management with reference to the anticipated amount of cash that they expect will be collected as a percentage of the amount billed per annum. Management monitor the debt collection profile including the impact of COVID-19 and review the calculation of the bad debt provision each year to ensure the provision continues to be reasonable relative to recent actual collection experience. This also forms the basis for Management's base model to support the bad debt reserve recorded in the financial statements.</p> <p>We noted that during the year there was a write-off of £16.3 million for bad debt. This was housekeeping exercise to write-off debts which had fully been provided for in previous years and did not have an impact on profit or loss. These were all debts previously provided for that were significantly aged and past the period of statute.</p> <p>There is a potential risk of fraud due to the level of estimation involved, therefore we have identified a key audit matter regarding the accuracy of the valuation of the provision for bad and doubtful debts.</p> <p>Included within note 15 to the financial statement, the company holds £38.2m (31 March 2019: £49.7m) of gross trade receivables from customers at 31 March 2021. The total amount of the provision for bad and doubtful debts as at 31 March 2021, was £29 m (31 March 2020: £42.3m).</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>In response to this matter, we have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>• obtaining an understanding of the relevant controls over the calculation of the bad debt provision and general IT controls over the billing systems;</li> <li>• assessing and challenging the method used to calculate the bad debt provision to assess whether it is reasonable by considering the most recent collection experience, consistency of the method with prior years, and any changes in our understanding of the business;</li> <li>• obtaining the year-end bad debt provision calculation and assessing the accuracy of Management's calculation in the context of historical trends and plans for future collection and testing whether it is calculated in line with the company's policy;</li> <li>• testing the accuracy and completeness of the source data from which the cash collection rates are derived by agreeing to</li> </ul>

underlying invoices and cash receipts; and

- obtaining and challenging Management's assessment of the impact of COVID-19 on the expected cash collection rates by assessing actual cash collections recognised post year-end and comparing the impact against similar companies in the Water industry.

**Key observations** Overall, we are satisfied with management's methodology and assumptions applied to determine the bad debt provision as this reflects reasonable approach.

### 5.3. Classification of costs between operating and capital expenditure

**Key audit matter description** Water companies make a significant investment each year in the infrastructure, network and above ground assets, which includes repairs, infrastructure renewals, upgrades on tangible fixed assets and new capital expenditure. Identifying which expenditure represents capital expenditure rather than renewal expenditure may, include high level of judgement and as a result, there is a risk that certain expenditures may be incorrectly accounted for as capital items, rather than being treated as expenses or vice versa.

Expenditure in relation to increasing the capacity or enhancing the network is, treated as capital expenditure. Capital projects may contain a combination of enhancement and maintenance activity which are not distinct and therefore there is a risk that tangible fixed assets are valued incorrectly as a result of items of renewal expenditure being misclassified.

There is the high level of judgement involved in this area, therefore we have identified a key audit matter regarding the classification of costs between operating and capital expenditure.

As disclosed in note 11, Property, plant and equipment ("PPE") additions in the year were £44.2m (31 March 2020: £45.3m).

**How the scope of our audit responded to the key audit matter** In response to this matter, we have performed the following audit procedures:

- obtaining an understanding of the relevant controls over the over the capitalisation of expenditure;
- testing a sample of capital additions and disposals to assess whether they have been through the documented approval process and agreeing amounts capitalised to supporting invoices;
- obtaining and assessing a sample of assets in the course of construction to assess whether they are correctly classified based on whether the assets were in use at year-end;
- performing an assessment of the process for the capitalisation of internal labour costs and overheads and selecting a sample to test whether they are appropriately capitalised; and

- obtaining and assessing a sample of infrastructure renewals to assess whether these have been appropriately allocated as expenses.

**Key observations** Overall, we concluded that the classification of costs between operating and capital expenditure is appropriate.

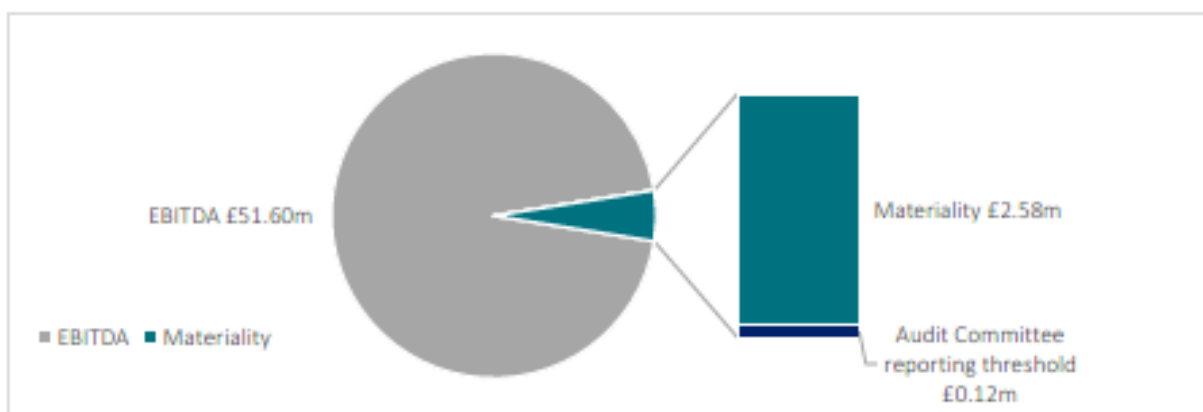
## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£2.58m (31 March 2020: £2.35m).
<b>Basis for determining materiality</b>	5% (31 March 2020: 5%) of EBITDA.
<b>Rationale for the benchmark applied</b>	We have used EBITDA as the benchmark for determining materiality among revenue and total assets as this benchmark is, (a) deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those financial statements and (b) consistent with our prior year benchmark.



### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (31 March 2020: 70%). In determining performance materiality, we considered the following factors:

- the quality and impact of COVID-19 on the overall control environment; and
- the corrected and uncorrected misstatements identified in the previous year were low in volume and size.

### 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £129,000 (2020: £117,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, changes resulting from the remote working environment brought about by COVID-19 and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

## 8. Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained in the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.



## 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team involving relevant internal specialists, including tax, financial instruments, pensions, IT, data analytics specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Revenue recognition in relation to unbilled measured water income and recoverability of the receivables. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pension legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial 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 regulations surrounding pollution of water, the Drinking Water Inspection (DWI), the consumer council for water and the Environment Agency (EA).

#### **11.2. Audit response to risks identified**

As a result of performing the above, we identified revenue recognition in relation to unbilled measured water income and recoverability of the receivables as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with OFWAT; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Matters on which we are required to report by exception

#### 13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

### 14. Other matters which we are required to address

#### 14.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the board on 31 July 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 covering the years ending 31 March 2003 to 31 March 2021.

#### 14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

### 15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report 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 company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Scott Bayne FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Leeds, United Kingdom  
15 July 2021

# Appendices

## Appendix 1: Information sources – performance against our targets

Information for the content on pages 6 to 42 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
15	Encouraging customers to get water fit	Get Water Fit web content – <a href="#">Get Water Fit   Free water-efficiency devices (south-staffs-water.co.uk)</a> ; <a href="#">Get Water Fit   Free water-efficiency devices (cambridge-water.co.uk)</a> . Additional content from Get Water Fit website – <a href="http://www.getwaterfit.co.uk/#/faq">www.getwaterfit.co.uk/#/faq</a> Conduit internal e-newsletter – November 2020. Numbers from internal data.
15	Making it easy for customers to find information quickly	Conduit – May 2020, October 2020 and March 2021.
16	Delivering for our communities – how we performed during 2020/21	Coronavirus web content – <a href="#">Coronavirus (south-staffs-water.co.uk)</a> ; <a href="http://www.cambridge-water.co.uk/household/coronavirus">www.cambridge-water.co.uk/household/coronavirus</a> . Numbers from internal data and year-end customer tracker.
17	Making a difference and adding value in our communities	News story – ‘Local food banks receive donations from company fundraiser’: <a href="#">Local food banks receive donations from company fundraiser (south-staffs-water.co.uk)</a> ; <a href="#">Local food banks receive donations from company fundraiser (cambridge-water.co.uk)</a> . Conduit – July 2020, October 2020, November 2020, January 2021, February 2021, March 2021.
17	H2Online goes from strength to strength	Internal email.
18	Growing communities with PEBBLE	News story – ‘Christmas boost for community groups to help biodiversity’: <a href="#">Christmas boost for community groups to help biodiversity (south-staffs-water.co.uk)</a> ; <a href="http://www.cambridge-water.co.uk/news/christmas-boost-for-community-groups-to-help-biodiversity">www.cambridge-water.co.uk/news/christmas-boost-for-community-groups-to-help-biodiversity</a> .
19	Delivering a reliable service – how we performed during 2020/21	Mains repair/rehab scheme metrics from internal data.
20	Building resilience for the future	Conduit – June 2020, October 2020. Water production figures from newsletter shared with key stakeholders, June 2020.
20	Building back better – investing in green recovery	Green recovery bid submission to Ofwat, February 2021.

Page no.	Story	Source
21	Dealing with bursts on the network	Conduit – August 2020, September 2020, January 2021, February 2021.
23	Using satellite technology to help detect leaks	News story – ‘Satellites helping to detect leaks: <a href="#">Satellites helping to detect leaks (south-staffs-water.co.uk)</a> ; <a href="#">Satellites helping to detect leaks (cambridge-water.co.uk)</a> . Conduit – March 2021.
23	Protecting rare habitats for future generations	News story – ‘New chalk stream assessment to take place’: <a href="#">New chalk stream assessment to take place (cambridge-water.co.uk)</a> . ‘Greater Cambridge Chalk Streams Project Report’, December 2020. Conduit – June 2020.
23	Farming scheme benefits the environment and drinking water quality	News story – ‘Farming scheme to benefit the environment, drinking water and soil health’: <a href="#">www.cambridge-water.co.uk/news/farming-scheme-to-benefit-the-environment-drinking-water-and-soil-health</a> . News story – ‘Successful cover crops scheme expanded’: <a href="#">Successful cover crops scheme expanded (cambridge-water.co.uk)</a> . EnTrade website – <a href="#">www.entrade.co.uk/</a> .
24	Delivering for our business – how we performed in 2020/21	News story – ‘We invest in people!’: <a href="#">We invest in people! (south-staffs-water.co.uk)</a> ; <a href="#">We invest in people! (cambridge-water.co.uk)</a> . IIP final report (internal document).
25	Enhancing our ways of working	Conduit – July 2020, March 2021.
27	Promoting positive wellbeing	Conduit – June 2020, September 2020, October 2020, December 2020, January 2021.

