South Staffs Water

South Staffordshire Water PLC

Annual report and accounts and annual performance report

For the year ended 31 March 2020

making water count

The year at a glance

Outperformed our leakage targets across both regions

Exceeded our target for the number of customers helped

Ofwat recognised the quality and ambition of our plans

Rose to the challenges of the Covid-19 outbreak

Outperformed our target for the acceptability of water to customers

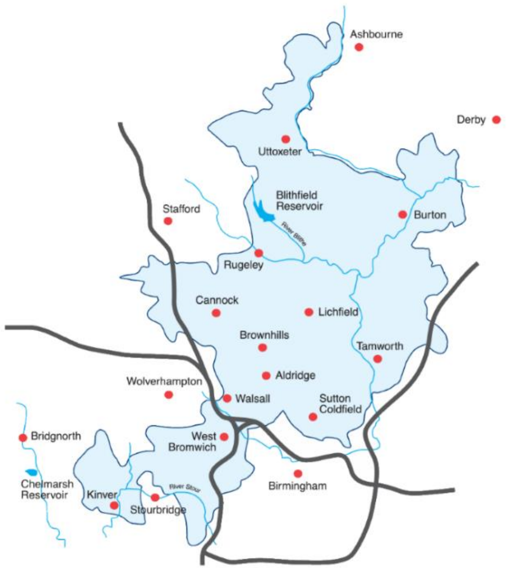
Achieved the lowest level of supply interruptions for 10 years

Achieved our second-lowest level of burst mains – but experienced two serious bursts

About South Staffs Water

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

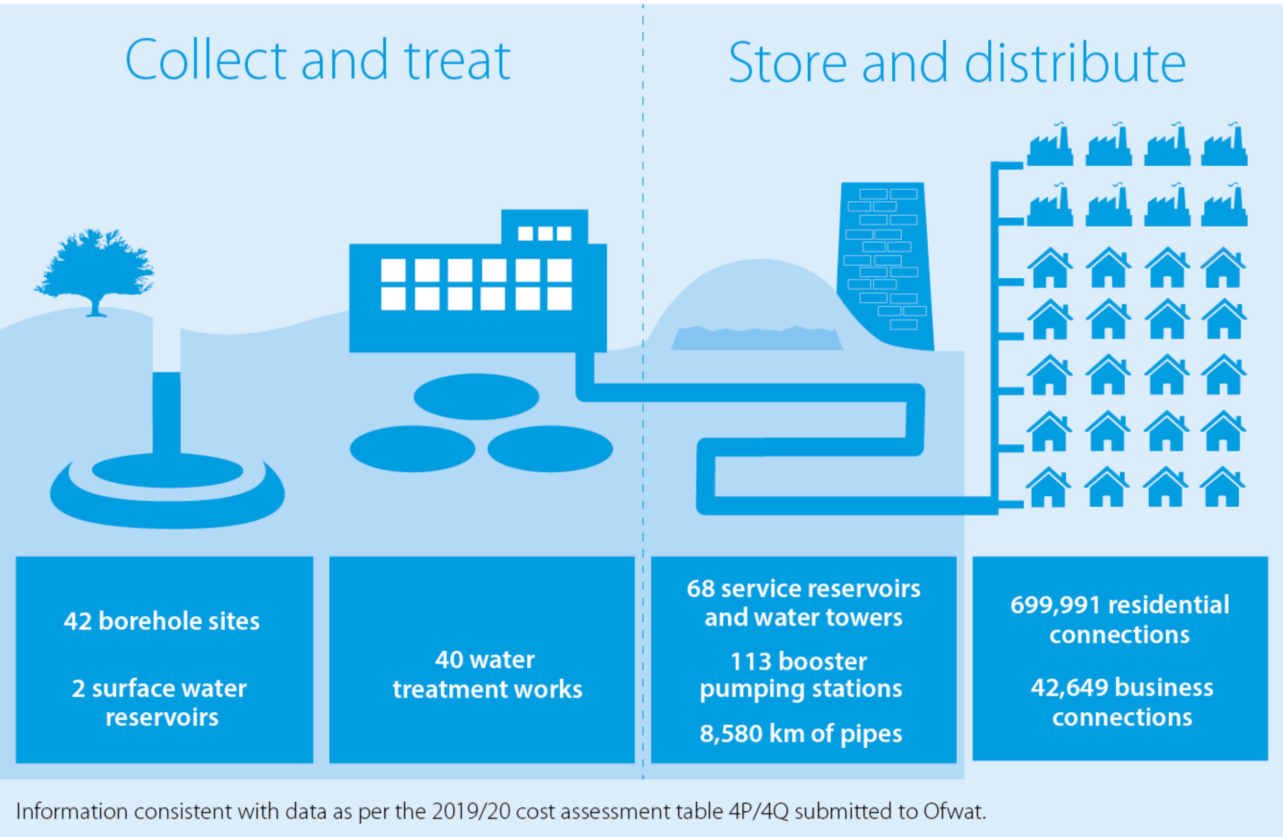
South Staffs region



Cambridge region

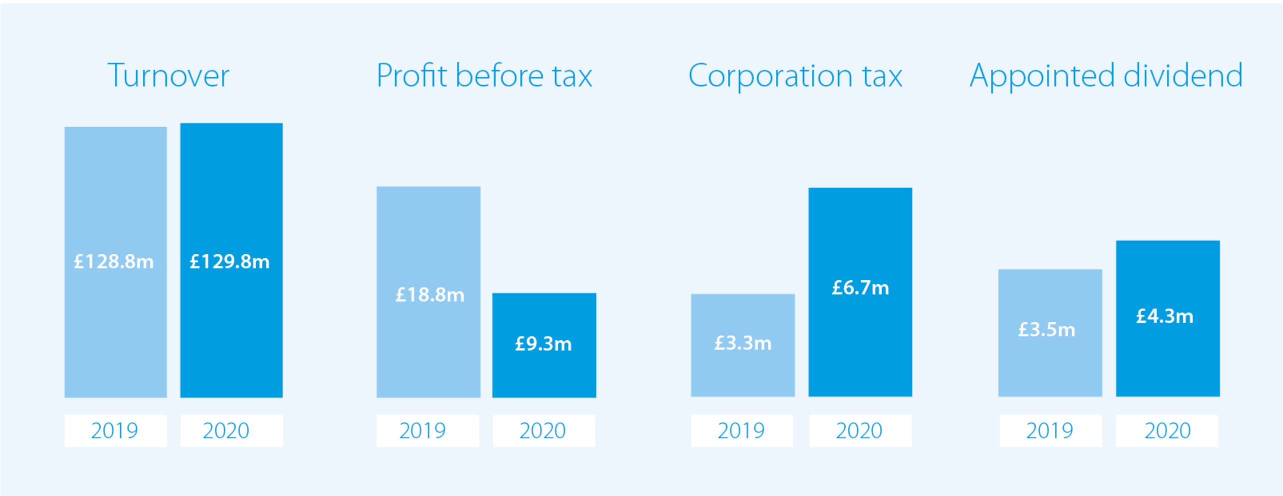
	South Staffs region	Cambridge region
Area served (km²)	1,497	1,175
Population served	1,377,001	357,648
Water supplied each day on average (Million litres Ml)	305.40	82.61
Household connections	562,336	137,655
Non-household connections	33,750	8,899

Our role



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

Our business



Our vision, purpose and core beliefs

Our vision

Making water count – for clean, affordable water every day.

Our mission

To make sure:

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

Our purpose

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

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

This is how we are making water count.

Our core beliefs

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

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

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

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Part 1: Annual report and accounts

Chair's foreword

What a year it has been. During the past few months, we have been facing – alongside everyone else across the country and around the world – the fearsome, disorientating challenge of Covid-19. Our economy and society have been turned upside down. In South Staffs and Cambridge, our teams have risen to this challenge, working relentlessly to continue to deliver the best possible service to our customers.

The ability of our people to demonstrate resilience and adaptability in the face of these challenges has been seriously tested; and I'm very proud of the way everyone has responded. We've carried on providing high-quality water, we've dealt with emergencies, we've answered enquiries, and at times through periods of sustained hot weather, we've managed to cope with peak demands for water.

For much of the past year, we've been working hard on our business plan for the next five years, and securing approval from our principal regulator, Ofwat, for our ambitions. It's been a tough process, and Ofwat (rightly) didn't give us an easy ride; but when the 'final determination' was made, just a few months ago, we were very pleased that much of what we wanted to do had been given the go-ahead. In particular, our wish to put major investment into the improvement of our two crucial treatment plants, Hampton Loade and Seedy Mill, received a green light, and we are already planning how to take this forward. We shouldn't forget, either, that we face future, long-term challenges over the sustainability of ground water sources in Cambridgeshire, and the need to protect the viability of precious chalk streams, and we are working hard to develop plans to deal with this.

We have deliberately placed engagement with our customers at the heart of our forward plans; and this must remain a core part of our mission. We're particularly proud of the work of our community hub, and through the coming years we will continue to place an emphasis on the closest possible working with our customers, those we serve.

It has been an honour (though a daunting one) to step into the shoes of Sir James Perowne, our Chair for the past three years and an Independent Non-executive Director on our Board before that. He has given remarkable service to South Staffs Water, and in the past year has steered us through a challenging but successful approval process with our regulator. Thank you, James, for everything you have done. I'm also delighted to report that Phil Newland, our Managing Director, has received well-merited promotion to become Chief Executive of South Staffordshire Plc; and he has been succeeded by Andy Willicott, who comes to us with a distinguished background in the water industry in the south west, Bristol, and Sydney. Many congratulations to you both.

Lord Chris Smith
Chairman

Managing Director's introduction

Welcome to our annual report and accounts for the year ended 31 March 2020. This is my first annual report as Managing Director and I'm pleased to outline how we have performed against our regulatory targets.

It's been a very busy year for South Staffs Water – one dominated by the conclusion of Ofwat's PR19 price review process and the Covid-19 outbreak, which has had an enormous impact on almost every aspect of our daily lives. Throughout, our people have continued to work hard to provide customers with clean, high-quality and reliable water supplies, and an excellent service.

I'm pleased to report that we have exceeded the targets on nearly all of our performance commitments over the 2019/20 financial year. This is our best result in five years and is set within the context of the targets for some measures becoming more challenging over that time.

One of the areas where we have outperformed is with the acceptability of water we deliver to customers in terms of colour, taste and smell. We have invested heavily in this area since 2015, and have seen our performance improve by almost 40%. As a business, we are committed to challenging ourselves further, and to improving our performance by another 30% by 2025. We will achieve this through a combination of risk mitigation activity and significant investment in the two main water treatment works in our South Staffs region.

I'm also delighted that we have achieved our lowest level of supply interruptions and our second lowest number of burst mains in ten years. However, this is set within the context of two major bursts we experienced on the same length of water main in Tipton in October and February. These were serious incidents and they had an enormous impact on the community, and I'm very aware of the damage they did to our customers' trust in us. As well as providing practical help and support to those residents who were most seriously affected by both incidents, we also replaced the entire 300-metre length of main, rather than repair the section that had burst. It was our view that this was the only way we could reassure residents and regain their trust in the service we provide.

Leakage is another area customers' trust is easily lost. So, I'm pleased to report that we have outperformed the leakage targets in both our South Staffs and Cambridge regions – by 2.3% and 5.2%, respectively. This is the result of a combination of hard work from our people and significant investment in the areas of leakage detection and repair. It also gives us a strong foundation for the next five years, as we have a challenging target to reduce leakage in both regions by approximately 15% over that time.

Making sure our bills are affordable and that extra support is available to those who need it is also important to our customers. South Staffs Water has one of the lowest average water bills in England and Wales – and they will fall by more than 10% in real terms over the next five years. I'm delighted to report that in 2019/20, we again reached our target for the percentage of customers who are satisfied with the value for money we provide and the affordability of our bills. We have also vastly exceeded our target for the number of customers helped through our support schemes – with more than 38,000 receiving extra help and financial support from us.

It's a credit to our team that our water quality remains at a very high standard overall, with 99.98% compliance with regulatory quality testing standards. I hope we can hit 100% next year. I also hope we can improve our performance in reaching our target for per capita consumption, which is the volume of water each of us uses every day, on average. It's disappointing that we've missed our targets on reducing consumption for three years in a row, and my team and I are committed to doing better in this area in the months ahead. We are committed to continue engaging with customers and encouraging them to be more water efficient. During the year, for example, we launched a Pledge15 campaign in our Cambridge region, asking customers to save 15 litres of water a day by making small lifestyle changes, such as using a watering can in the garden instead of a hosepipe.

At the start of this introduction, I mentioned two key events that have been the focus of our attention during the year. In December, we received the final determination on our business plan for 2020 to 2025 from the regulator Ofwat. This is the culmination of more than three years of hard work, which has involved nearly everyone across the business to some extent. Our final determination is challenging and we will have to continue to work hard to deliver the ambitious and stretching targets we have set ourselves. We are pleased that Ofwat supported the funding for the programme of work to upgrade our two largest water treatment works. This is a hugely important investment for us that will ensure high-quality and resilient water supplies for customers in our South Staffs region now and in the future.

And in the spring, we experienced an unprecedented situation with the Covid-19 outbreak. For all of us, this meant adapting very quickly to a situation that was, at times, a rapidly changing one. It also meant working in different ways – with our field-based teams observing social distancing while carrying out essential work, and our office-based people working from home unless it was not possible for them to do so. Again, we were acutely aware of the impact the outbreak had on our customers and put in place a wide range of financial support packages, including payment breaks, and low and minimum payment plans.

I'd like to take this opportunity to thank all our people for their flexibility and adaptability during this time and their hard work in what was a very challenging period for us all. The positive feedback we have received from customers is testament to our people's commitment to always delivering excellent service. I'm very proud of the way everyone pulled together to maintain water supplies to customers.

I'd like to end by extending my personal thanks to my predecessor, Phil Newland, who has been instrumental in helping the business to achieve the right outcomes for our customers and our people over the past six years. I'd also like to congratulate him on his appointment as Group Chief Executive at South Staffordshire Plc, our parent company. I look forward to working with him and to driving the business forward – making water count for our customers and the communities we serve, now and in the future.

Andy Willicott
Managing Director

Strategic report

Covid-19 outbreak

During the spring, we experienced an unprecedented situation with the Covid-19 outbreak. Although this presented us with a fluid and at times rapidly changing picture, we quickly put plans in place to ensure we maintained essential public water supplies, while keeping our people and our customers safe. We were pleased that the UK Government recognised all water company employees as key workers. This enabled our people to continue working during the lockdown.

Working together with our Group, we set up a Covid-19 steering group, which held daily meetings; and we put an incident team in place, which also met daily. The incident team's focus was on building resilience around key functions directly connected to the supply of clean water to our customers. In addition, we asked managers across the business to review and update their continuity plans for their areas of responsibility. This was to ensure we kept our water network operating as normal.

We also arranged for most of our office-based people to work from home, prioritising those in high-risk categories – because of underlying health conditions, for example – in the first instance. And we scaled back some of our non-essential services, such as meter fitting and our education outreach activities, although in this instance, we made quizzes and other resources available for teachers and parents on our website. This was so that we could focus our resources on delivering essential services, including having our field-based teams focusing on fixing leaks, or on repairing or replacing those water mains that have burst in the past.

We have been conscious of the impact the outbreak has had on all our customers. So we moved very quickly and took the proactive step of providing them with a wide range of financial assistance tailored to their particular circumstances, including:

- our Assure social tariff, which offers bill discounts of up to 60% to low-income households;
- Assure Assist, an eight-week payment coverage for any customer going onto Universal Credit, after which they are automatically transferred to our Assure tariff;
- a specific Covid-19 tariff, covering 60% of water charges for up to 16 weeks for self-employed low-income households, and those who were self-isolating and receiving Statutory Sick Pay;

- payment breaks of up to 12 weeks, after which customers were moved onto a payment plan enabling us to monitor anyone who continued to experience difficulties paying their water bill – at the time of writing, more than 1,500 customers had applied for a payment break; and
- low and minimal value payment plans.

We also continued to issue food bank support and fuel vouchers to those customers in both regions who were experiencing extreme financial hardship.

In addition, we encouraged customers to manage their accounts online or through our mobile app, and to contact us using Facebook and Twitter where possible. We saw a big take up of these facilities, with around 10,000 customers downloading our app, taking our total to 40,000 users. We also saw a 30% increase in the number of customers opting to receive e-bills. By encouraging customers to embrace our digital offerings, colleagues in our contact centre were able to respond to emergencies and prioritise those customers who may be classified as vulnerable or who had the greatest need. We also encouraged customers with a disability, mobility issues or a medical condition to sign up for our Priority Services Register. We offer this service to those customers who may need extra help or support from us. We outlined our customer promises and all the support that was available on our website.

Throughout this period of uncertainty, we kept our people and our customers informed, using all of the communications channels at our disposal. In addition, we made sure that any guidance we shared came from reliable and trusted resources, such as Public Health England. And we followed the UK Government's advice on social distancing, hand washing and using hand sanitisers. We also encouraged our customers to observe social distancing when they encountered our people in the community.

Performance against our targets

We are pleased to have met or exceeded our targets on 11 out of 15 performance commitments in 2019/20. This is our best result in five years and is set within the context of our targets for some measures becoming tougher over the period.

It means that our customers will be seeing the benefits of lower leakage, higher water quality, improved resilience and lower levels of supply interruption – all things they have continually told us matter most to them. We are also providing more support to vulnerable customers than ever before, having vastly exceeded the targets for our financial support schemes. We have already started work to implement our additional priority services, which, as we set out in our business plan for the five years from 2020 to 2025[1], will have targets of their own.

Overall, we have achieved a level of performance in terms of interruptions to supply and the acceptability of the water that we supply to customers that will attract an outperformance payment of £954,400 for the 2019/20 financial year.

[1] 'Making water count – business plan for 2020 to 2025', South Staffordshire Water PLC, April 2019. www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/business-plan-2020-2025

Outcome	Measure name	What we are measuring	Progress of meeting our targets				
			2015/16	2016/17	2017/18	2018/19	2019/20
1 Excellent water quality	Mean Zone Compliance	The number of times we fail to meet drinking water standards when supplying customers within our network	✗	✓	✗	✗	✗
	Acceptability of water to customers	The number of contacts for every 1,000 customers that we receive about the taste, smell and appearance of tap water, or cases of illness to customers each year	✗	✗	✗	✗	✓
2 Secure and reliable supplies	Interruptions to supply	The number of times a customer's property suffers a loss of water supply for more than three hours	✓	✓	✓	✓	✓
	Asset health infrastructure	The long-term ability of our underground assets (e.g. pipes) to provide a reliable service	✓	✓	✓	✓	✓
	Asset health non-infrastructure	The long-term ability of our above-ground assets (e.g. water treatment works) to provide a reliable service	✓	✓	✓	✓	✓
3 An excellent customer experience to customers and community	Service Incentive Mechanism	The percentage of customers, who agree that we have handled their enquiry to a high standard	✗	✗	✗	✗	✗
	Customer satisfaction	The percentage of customers, who agree that we offer a good overall service	✓	✓	✗	✓	✓
	Community engagement	The amount of time our staff spend supporting worthwhile community projects	✗	✗	✓	✓	✓
4 Operations that are environmentally sustainable	Leakage South Staffs region	The amount of water, measured in litres, lost through leaking pipes	✓	✓	✗	✓	✓
	Leakage Cambridge region		✓	✗	✗	✓	✓
	Water efficiency	The number of litres of water each person uses per day in our regions	✓	✓	✗	✗	✗
	Biodiversity	The area of land, where we actively protect wildlife, trees and plants from damage	✓	✓	✓	✓	✓
	Carbon emissions	The number of tonnes of carbon we save by changing the way our business operates	✗	✗	✗	✗	✗
5 Fair customer bills and fair investor returns	Value for money and affordability satisfaction	The percentage of customers, who agree that our services offer value for money and that their water bills are affordable	✓	✓	✓	✓	✓
	Support for customers in debt	The number of customers experiencing financial hardship we supported through lower bills	✓	✓	✓	✓	✓
		Total targets passed	10	10	7	10	11
		Total targets missed	5	5	8	5	4

Excellent water quality

How we performed in 2019/20

Water quality is one of the most important areas of our service and is a top priority for our customers. That is why we have two performance commitments covering overall drinking water compliance and the acceptability of water to customers, measured by how often they contact us to report issues. We have stretching regulatory targets for both these measures.

We are disappointed to report that we just missed our target of 100% water quality compliance as 3 out of 18,342 samples in our South Staffs region and 2 out of 4,762 samples in our Cambridge region did not meet the strict regulatory compliance standards in 2019. Despite this, our water quality remains at a very high standard overall, with 99.98% compliance. During the year, we suffered a very small number of failures in our South Staffs and Cambridge regions. While there was no risk to public health, we investigated these failures thoroughly and engaged regularly on these issues throughout the year with the Drinking Water Inspectorate (DWI), which enforces water quality standards.

We are pleased to report that we have outperformed our very stretching regulatory target for the acceptability of water to customers. We measure this by how often customers contact us to report issues about their water supply, such as the colour, taste and smell. This is the culmination of five years of hard work and continuous improvement towards our target of 1.23 contacts per thousand of population. Since 2015, our performance in this measure has improved by almost 40%.

We remain committed to improving this area of service and in the five years to 2025, we plan to improve our performance by a further 30%. This will be challenging, and to achieve it we will continue with our extensive programme of risk mitigation activity. We will also be implementing a large capital investment programme to upgrade the two main water treatment works in our South Staffs region. This will improve the quality of the water that enters our network of pipes.

Fowlmere visits for Environment Agency CEO and Ofwat Chair

In last year's annual report, we featured the opening of our new water treatment plant at Fowlmere in our Cambridge region. The Fowlmere plant is a major hub in the region's water supply network, with a pumping capacity of more than 5 million litres of water to customers every day.

Just before Christmas, we were pleased to welcome Sir James Bevan, Chief Executive of the Environment Agency (pictured centre), to the plant. He had a tour of the works and spoke to some of our people about how we work with landowners and farmers, using catchment management to prevent pesticides getting into our groundwater sources. He also talked about the effect the lack of rainfall was having on chalk streams in the region. (See 'Water resources in the Cambridge region' on page 22 for more on this topic.)

And in March, we welcomed Jonson Cox, Ofwat's Chair, and Aileen Armstrong, Ofwat's Senior Director of Finance and Governance. They had a tour of the Fowlmere site, and a nearby RSPB reserve and chalk stream.

They are pictured (far right and right) with Ciaran Kelly, Head of Operations in our Cambridge region (far left) and Phil Newland, our Group Chief Executive.

Making Christmas happen

Over the Christmas period, the National Infrastructure Commission, which advises the UK Government about long-term infrastructure challenges, ran a social media campaign featuring the 'hidden heroes of infrastructure'. The aim of the campaign was to highlight the number of specialists across the water, energy and transport sectors, who were working on Christmas Day.

Jo Latham, from our Water Quality team, was one of the campaign's stars. She featured in a video and shared details of the water sampling work she carried out at our Hampton Loade treatment works on Christmas Day and Boxing Day, and how she would be celebrating the festivities at a later date. At the launch of the campaign on 18 December, Sir John Armitt, Chair of the National Infrastructure Commission, said that it was important to "recognise those who keep the lights on, water flowing and transport moving" to underline the importance of infrastructure to everyone's lives.

Secure and reliable supplies

How we performed in 2019/20

One of our highest priorities is to maintain a continuous supply of clean, wholesome drinking water to our customers' taps. This means minimising the risk of supply interruptions and maintaining the overall health of our network of pipes, pumping stations, storage reservoirs, treatment works and boreholes (our 'assets').

In the annual report for the 2017/18 financial year, we reported on the impact of the extreme weather event known colloquially as the 'Beast from the East'. This resulted in a large number of bursts on our network that we had to repair in challenging weather conditions. Since then, we have worked hard to strengthen the mitigation plans we have in place, while continuing to improve our already high levels of resilience. The actions we have taken have helped us to achieve the lowest level of supply interruptions and our second lowest number of burst mains in ten years.

We are very pleased with this level of performance. But this does not detract from the small number of serious bursts we still get from time to time. In October and February, for example, we experienced two sequential bursts on a large trunk main in Tipton, which regrettably caused damage to a number of homes in the area. (See 'Tipton mains burst' on page 16 for more on this topic.) We carried out a detailed investigation into the condition of this trunk main. We also decided that replacing the entire length of main was in the best interests of customers even though it was not particularly old; nor was it in a bad condition. We progressed this work immediately and completed it in March this year.

Preparing for the next planning period

Over the 12 months covered by this report, we have been preparing for the next five-year planning period, known as 'AMP7', which started in April this year and runs until 31 March 2025. Although we did not receive the regulator Ofwat's final determination on our business plan for 2020 to 2025 until December (see 'PR19 – the steps to our final determination' on page 26), we started to make some headway on our ambitious programme, laying the foundations for the investment we will make in our assets and services over next five years.

In August, for example, we awarded the contract for the design element of our water treatment works upgrade to an experienced infrastructure provider. More recently, we awarded the contract for engineering support and project management. These are the first steps in a £70 million programme to ensure the water we supply to customers is continually of a high quality. It will also ensure the long-term resilience of our Hampton Loade and Seedy Mill treatment works, which supply around 60% of customers in our South Staffs region.

Alternative water supply exercise

We know that our customers always expect water to be available every time they turn on the tap. But we also know that incidents occur that may result in some of them being without water for a period of time.

So throughout the year, we hold training sessions and practice exercises as part of our incident planning processes. One such session took place in April 2019, when some of our people took part in an exercise to set up a tanker as an alternative water supply station.

We have also produced guidance to help our people who volunteer to assist at an incident.

Tipton mains burst

Making sure our assets – such as our water mains – are maintained is an important part of what we do. However, we understand that pipes in our network can burst for a variety of reasons, and that when this happens we have to respond quickly to minimise the disruption to our customers.

In October, for example, we experienced a burst on an 18” main in Tipton in our South Staffs region. The burst damaged 23 properties – including one that suffered severe structural damage – and resulted in the temporary closure of a local primary school. This was a serious incident that was reported widely in the local and national media.

As well as having a team on site to repair the main and reinstate the road and footpath, members of our Customer Service team were also on hand round the clock to offer help and support to customers affected by the burst, some of whom had no home insurance. We also provided regular updates on our website and through our social media channels. And we kept key stakeholders – including the MP and local councillors – up to date with our progress. Despite the seriousness of this incident, we were able to maintain supplies to customers in the area, although we did advise them of the risk of low pressure and discoloured water.

There was a second burst on the same length of main in February. Again, this had a serious impact on the community as 23 properties were flooded and the local primary school was forced to close once more. As with October’s incident, we had a large team of people on site, knocking on doors and checking on our customers’ needs. We also arranged temporary accommodation for a number of families whose homes had been seriously affected by flooding. And because the burst also affected power supplies in the area, we arranged for a local community centre to be made available so that people had somewhere warm and dry to go until power was restored.

We were very concerned to experience two major bursts in one section of water main and focused on finding the best solution to ensure there were no further disruptions or impacts for our customers. So we took the decision to replace the entire 300-metre length of main in Park Lane West, instead of carrying out another repair on the section that had burst. We believe this was the only way we could provide reassurance to residents that no further incidents will occur and regain their trust in our service. As reported above, we completed this work in March.

Preventing illegal water use

One of the ways we ensure secure and reliable supplies for our customers is by taking a zero tolerance approach to companies and organisations that take water illegally from a fire hydrant, through the unauthorised use of standpipes.

In October, for example, we successfully prosecuted Lanes Group (St Neots) for taking water illegally in Willingham in our Cambridge region in February 2019. The company was ordered by Cambridge Magistrates' Court to pay more than £3,500 in fines and legal costs. And in January this year, we prosecuted Marlie Civils for the same offence in Burntwood in our South Staffs region in June 2019. In this case, Wolverhampton Magistrates' Court ordered the company to pay £4,200 in fines and legal costs.

We are keen to work with developers and other organisations that may need temporary access to our water network – there is information on our website[2] that tells them how to do this. We are concerned that if the personnel of these organisations are not appropriately trained to use an authorised standpipe properly, they could potentially create problems with the pressure and quality of the water we supply to our customers. It also means that they are not paying for the water they use.

Delivering long-term, resilient water supplies

Another of the ways we ensure secure and reliable water supplies to our customers is through our ongoing programme of repairing and upgrading our network of water mains. During the year, we carried out a number of schemes in our South Staffs region that will ensure our customers continue to receive the high-quality and resilient water supplies they expect and pay for.

As we reported in our interim report and accounts[3], over the summer we started work on a £400,000 project to replace 7km of water main in Aldridge as part of our ongoing improvement programme in the area. Because we were keen to minimise the impact of our activities on traffic, residents and local businesses, we split this work into three separate phases, working mainly during school holidays. We are scheduled to complete the third and final phase of the scheme this year.

We also started work on a £450,000 programme in West Bromwich to replace 3km of cast iron mains, some of which are more than 65 years old, with more flexible and durable plastic pipes, which are less likely to crack and burst. We used innovative trenchless techniques for this scheme, which meant less digging and less inconvenience to local residents. And in September, we started work with our partners OnSite on a 20-week programme to upgrade more than 3km of water mains in Chase Terrace.

[2] www.south-staffs-water.co.uk/developer/standpipes.
[3] 'Unaudited interim report and accounts. For the six months ended 30 September 2019', South Staffordshire Water PLC, December 2019. www.south-staffs-water.co.uk/media/2880/interim-report-and-accounts-2019.pdf

For all these schemes, we kept customers and other key stakeholders informed through regular updates on our website and our social media channels.

An excellent customer experience to customers and the community

How we performed in 2019/20

We have continued to focus on our customer service performance during 2019/20. This has been a trial year for the regulator Ofwat's new customer service measure of experience (C-MeX), which will be in place until 2025. Unlike the previous customer service measure, the service incentive mechanism (SIM), the new measure monitors customers who contact us as well as those who do not. So it provides a more rounded view of customer service and engagement. We had a strong final quarter for C-MeX and achieved an overall score of 77.47, which ranked us 10th in the sector. The SIM was not monitored within the year; but a year-end proxy has been calculated from surveys carried out within the year, and our score here is 81.36.

We are pleased to report that we have achieved our quarterly tracker survey customer satisfaction target of 98% again this year. We have reached this target in four out of the five years to 2020. In addition, our people have also continued to participate in a wide range of community and volunteering activity, and we have exceeded our target by delivering 527 days of community activity during the year.

Cambridge region Young Innovators' Panel launched

After successfully launching the Young Innovators' Panel in our South Staffs region in 2018, we were keen to repeat this in our Cambridge region. So in July, we invited 18 students from six schools across the region to spend the day with us at the University of Cambridge's Eddington development in the north-west of the city.

As well as learning more about who we are and what we do, the students were split into teams and set a real-life business challenge to work on over the summer. Their task was to come up with ways to encourage households to reduce their water consumption from 330 to 290 litres of water a day by 2045. The students then reconvened in September to present their ideas to a judging panel comprising members of the Executive team and senior managers from across the business.

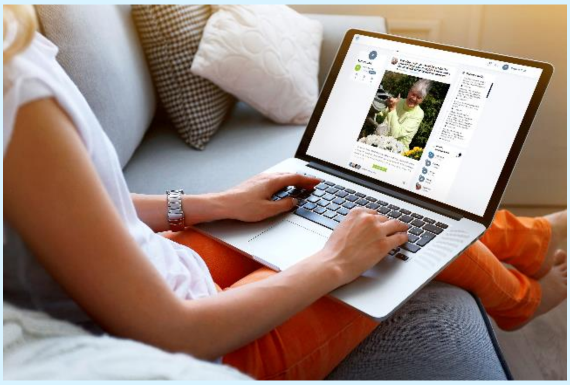
The winning team, NERO, devised a QR code approach that would give customers access to their water usage combined with a tiered system of rewards to enable them to set personalised goals to reduce their water consumption. The team that came second, Water Ideal, suggested an app with a supporting handbook that enables customers to create the ideal 'low water' bathroom for their homes.

We have reviewed all the entries and at the time of writing were exploring which ideas we could take forward in the business.

Bespoke service for MPs

At the start of July, colleagues in our contact centre launched a bespoke service for Members of Parliament with constituencies in our South Staffs and Cambridge regions. Called 'MPdirect', this new service aims to help MPs serve their constituents better. It sits alongside our other communications channels, such as Facebook, Twitter and LinkedIn and enables us to quickly resolve complaints customers have made to their MP about our service, respond to enquiries. It also enables us to provide updates and information about incidents in individual constituencies, and to reach out to large numbers of customers through their local MP and increase the communications for other South Staffs or Cambridge-related events.

H2Online – our community of customers



In November, we launched a new customer engagement initiative in the form of H2Online, our new online community. This is a two-way platform that enables customers to give us their honest opinions and feedback about the services we offer. It also provides us with valuable insight, enabling our customers' views to be built into the decision-making within our business.

At the time of writing, 692 customers (380 in our South Staffs region and 312 in our Cambridge region) have signed up for H2Online and completed their profiles. To date, we have featured polls and discussions on a wide range of subjects, including:

- how often customers should read their water meters;
- water hardness;
- the nationalisation debate;
- paperless billing;
- our vision and purpose; and
- our response to the Covid-19 outbreak in terms of the financial support we offered and the work we carried out.

We are also pleased that members of the community have started to generate their own content, with a focus on water meters and water quality (South Staffs), and water efficiency measures and the cost of water (Cambridge).

We will continue to add new content to H2Online and use our different communications channels to encourage more customers to join and participate.

Being at the heart of the communities we serve

As the provider of an essential public service, we know how important it is to be embedded in the communities we serve and strive to always do the right thing for our customers. Over the year covered by this report, we have continued to develop our community activities and build meaningful relationships with a number of partner organisations in the local area.

Our community hub in Wednesbury in our South Staffs region, for example, continues to go from strength to strength and provides a vital lifeline to people in the area. Since it opened in April 2018, more than 10,400 customers have visited the hub, attending meetings and events, asking for advice on water meters and support to pay their bills, and to sign up for our Priority Services Register.

In addition, the role that it plays in the community has been recognised with a number of awards over the year. In July, it won an award for the outstanding contribution it has made to the wellbeing of the people of Sandwell at the Celebrate Sandwell event. This was followed by an award from Sandwell Citizens Advice.

Also, in December, we were delighted to beat stiff competition from other utilities companies to be crowned Community Initiative of the Year at the prestigious Utility Week awards, which recognises an initiative that makes a significant contribution to communities. These awards are the gold standard of achievement across all utilities and celebrate outstanding performance and innovation. And in March, our hub was recognised with an award from the Institute of Customer Service for the innovative approach we have taken to being visible in our communities. This award was particularly special for us as a number of national companies and organisations were also nominated in the same category, including Highways England, YHA and UK Power Networks.

But it is not just about awards. Our community hub is much more than that. In August, for example, it was a hive of activity as we ran a school uniform swap. We know that for some of our customers, the cost of school uniforms and equipment can cause real financial hardship. So we collected donations of school uniforms and made them available to anyone who needed supplies for their children. We also took donations of pencil cases and stationery to help ease the burden on struggling families in the local area.

Unfortunately, we had to take the difficult decision to temporarily close our community hub in March because of the Covid-19 outbreak. We were very aware of the impact this would have on our customers in the Wednesbury area. But as many customers we serve at the hub were following the UK Government's advice and shielding, we felt that the decision to close was in their best interests. We continued to remain in contact with regular visitors to the hub and continued to engage with the community organisations that used the hub, albeit remotely. The Covid-19 outbreak also affected our plans to open a second hub in another part of our South Staffs region where customers have the greatest need. At the time of writing, our preparations to open a hub had been put on hold.

But just as our community hub is not just about awards, our community activities are not just about the community hub. Throughout the year, our community team and other volunteers have been active in our South Staffs and Cambridge regions, visiting local community centres and the council offices in Cambridge, and attending a wide range of events.

For example, in July our community team had a prime spot at the Wednesbury Carnival and were on hand to give advice to carnival goers. We also had teams of volunteers offering advice on water conservation at the Cambridge Big Weekend and the Cambridge Folk Festival, where another of our new initiatives – the water bar – made its debut, giving those who attended the opportunity to refill their water bottles free of charge and swap their single-use plastic bottles for reusable metal ones. Over the course of the Festival, there were more than 5,000 visits to the water bar, and it was declared the "most loved sponsorship activity" at the event.

Environmentally sustainable operations

How we performed in 2019/20

Water is a precious and finite resource. So, we must make sure that we maintain adequate water supplies and protect the natural environment to support future generations. We also have wider responsibilities and take care to ensure our operations do not have a negative impact on natural habitats for plants and wildlife.

We are pleased to report that we have outperformed our leakage targets for both our South Staffs and Cambridge regions during 2019/20. In our South Staffs region, we have a 2.3% outperformance against our targets, while the figure in our Cambridge region is 5.2%. This gives us a solid foundation on which to build for the next five years as we have stretching targets to reduce leakage by 15% in both regions.

We have also exceeded our target for delivering biodiversity benefits, helped by our very successful SPRING[4] environmental programme and PEBBLE[5] fund. During the year covered by this report, we have continued to deliver improvements on 169 hectares of land – the equivalent of around 169 rugby pitches – benefiting both the local environment and local communities.

We are disappointed to have just missed our water usage target of 128.31 litres per person per day in 2019/20. There are a number of reasons why households may use more water in any given year. This year, we believe it is due, in part, to the impact of the UK Government's response to the Covid-19 outbreak and its guidance on handwashing and home working. We have stretching targets in this area over the next five years. So we will continue to engage with customers to help them to find ways to use water wisely.

[4] Slug Pesticide Rethink – Ideas for Nurturing Growth.
[5] Projects that Explore Biodiversity Benefits in the Local Environment.

We have also not met our target for carbon emission savings. When we set our targets in this area for the five years from 2015 to 2020, we expected to be able to install solar panels on a 'spend to save' basis at several locations to save on energy consumption and lower our emissions. However, changes in UK Government policy during this time made it uneconomic for us to do this, not least because the solar panels would not generate sufficient energy to offset our costs over their lifespan. We believe it was not in our customers' best interests to pursue this approach. We are continuing to deliver energy efficiency improvements where they are cost beneficial and delivered 716 tonnes of carbon emission savings in 2019/20, compared to a 2014/15 emissions baseline.

Water resources in the Cambridge region

As we reported in our interim report and accounts, our Cambridge region has experienced a succession of relatively dry autumns and winters since September 2016. This has had a significant impact on water supplies as it is generally winter rainfall that recharges the underground sources from where we take (or 'abstract') our water.

Over last summer, we continued to experience lower than average levels of rainfall in the region. This caused concern among customers about the impact this would have on the chalk streams in the region – such as Cherry Hinton Brook – which are a particularly fragile environment. The east and south-east of England are home to more than 85%[6] of the world's chalk streams, so it is vital they are protected for future generations.

We monitored the situation in our Cambridge region over the summer and worked closely with the Environment Agency. In addition, we engaged with a number of other local interest groups, including Cambridge City Council Water Forum, Cam Valley Forum, Hobsons Conduit Trust and Friends of Cherry Hinton Brook. And we limited the volume of water we abstract from resources in the region to less than 80% of our permitted amount and used water from elsewhere. This was so that we could help to protect the environment at times when water levels are low.

We also launched a Pledge15[7] campaign in our Cambridge region that asked customers to save one and a half buckets full of water (or around 15 litres) a day by making small changes such as taking shorter showers and swapping a hosepipe in the garden for a watering can or bucket. We are playing our part in turn by reducing leakage through investment in new water mains and innovative technologies, and by working with developers to encourage grey water recycling and rainwater harvesting in new developments.

Over the past winter, we have experienced above average rainfall in our Cambridge region. This has helped our groundwater levels to recover – at the time of writing, they were close to the average for the time of year. That said, we are not being complacent, especially as this spring was relatively dry, and will continue

[6] Source: 'Chalk Streams in Crisis. A call for drought action now.' Martin Salter and Stuart Singleton-White, The Rivers Trust, June 2019. www.theriverstrust.org/media/2019/06/Chalk-streams-dossier_June-2019_FINAL_FINAL-1.pdf
[7] www.cambridge-water.co.uk/household/saving-water/pledge15

to manage our water resources carefully. This is because our Cambridge region is experiencing an increase in the number of new developments. By 2045, for example, we are forecasting a 34%[8] increase in connected properties. So it is vital that we secure resilient water supplies for the long term.

In addition, we are part of a regional group called Water Resources East[9], which comprises other water companies and representatives from the environmental, agricultural and energy sectors. Together, we are looking at how we can meet everyone's need for water in a sustainable way, while protecting the environment at the same time. This includes looking at options to build reservoirs and transfer water from wetter parts of the country to drier ones.

Enhancing biodiversity with our PEBBLE fund

We recognise the importance of not just protecting the environment, but enhancing it as well. Each year, we make grants of between £500 and £10,000 available through our PEBBLE fund to community projects that are designed to improve and enhance local wildlife habitats. We welcome applications from a wide range of schools, youth groups, charities or community organisations. They must own the land for which they are requesting the grant, or have permission from the landowner for the project. We make grants available in both our South Staffs and Cambridge regions.

For example, we made a £5,000 grant from our 2018/19 PEBBLE fund to the Friends of Brunswick Park in Wednesbury in our South Staffs region to plant new trees not already represented in the park. In November, the group held a tree-planting event during National Tree Week (23 November to 1 December) and invited a number of multi-faith groups and other community organisations to participate. It plans to carry out similar tree planting events in the future. Members of the group are pictured at the tree planting with Marcella Nash, our Director of Human Resources (front row, third from the right).

We also made a grant of £5,845 from our 2018/19 PEBBLE fund to the Wildlife Trust of Bedfordshire, Cambridgeshire and Northamptonshire. This was for the Trust's Bourn Free project to carry out an ecological survey of the Bourn Brook, a tributary of the River Cam. Our grant, which was matched by funding from Anglian Water's 'Water for Wildlife' programme, supported the surveying of Bourn Brook for signs of water voles and otters – key species for indicating river health – and also for the presence of Invasive Non-Native Species (INNS), which can be detrimental to our native species. The grant also supported the building of an opportunity map to improve habitats along Bourn Brook.

In February this year, we awarded funding to a number of community groups across both our South Staffs and Cambridge regions to encourage and enhance biodiversity in more than 19 hectares of land. We will report on some of these projects in next year's annual report.

[8] Source: 'Water resources management plan 2019', Cambridge Water, December 2019. www.cambridge-water.co.uk/media/2546/final-wrmp-2019-cambridge-water.pdf.
[9] wre.org.uk/.

Re-naturalising Tad Brook

At the start of the 2019/20 reporting year, we began work on a £19,000 scheme to improve biodiversity and reduce diffuse pollution along Tad Brook near Blithfield reservoir in our South Staffs region. The area around the reservoir includes a Site of Special Scientific Interest (SSSI), which supports a variety of wildlife and habitats.

The work, which involved felling old and damaged non-native trees and providing a new course for the brook, was supported by the Environment Agency's National Environment Programme fund. The new watercourse meanders, creating an improved habitat for otters, brown trout and native invertebrate species. Over the coming year, we will plant native willow and alder trees to create a new wet woodland. We hope this will complement the biodiversity of the brook.

Alongside the project to re-naturalise Tad Brook, we also carried out appraisals on five farms that border the northern arm of the water course. The aim was to identify measures the farmers could take to reduce diffuse pollutants, such as phosphates and pesticides entering the water. As part of this, we have increased the catchment sampling programme along the length of the brook to check for phosphates and nitrates. This will give us data that will influence further projects. It will also help us to measure any improvements.

Encouraging sustainable practices in our business and communities

In our business plan for 2020 to 2025, we committed to being more sustainable and environmentally focused as a business. So in January this year we launched our 'Time to act' campaign with a video message for our people from our mascot, Captain Efficient. As part of this, we introduced new recycling stations across our business to encourage more recycling and minimise the amount of waste going to landfill. We are also encouraging all our people to make simple and practical changes, and to inspire others to adopt more sustainable habits and behaviours.

In addition, we took to the streets last summer in Cambridge and Sutton Coldfield with local Refill schemes to encourage people to switch from single-use plastic bottles to reusable ones. This was part of National Refill Day, an awareness campaign that aims to create a new social norm for refilling on the go. The Refill scheme is the brainchild of City to Sea, an award-winning community interest company that campaigns to prevent plastic pollution at source. It works by using an app to connect people who are looking for water with a network of local businesses and public spaces where they can fill their water bottles free of charge. There are currently more than 30,000 Refill stations in the UK.

We were also one of more than 40 organisations – including other water companies, the Environment Agency and the Worldwide Fund for Nature (WWF) – that took part in the national 'Show water some love' campaign. The focus of the campaign was to:

- encourage people to use water wisely;
- help them to understand how they can reduce pollution in their local environment; and
- encourage them to get out and enjoy their local water environment.

For our part, we encouraged our customers to be water wise with our 'Make water count' summer campaign, which included a range of tips to help save water in the bathroom, kitchen and the garden.

Fair customer bills

How we performed in 2019/20

Our customers currently pay one of the lowest water bills (around £145, on average) in England and Wales. We think very carefully about how we spend customers' money and where we invest. We always try to find the right balance, making sure our bills are affordable for all customers, while continuing to invest in our assets to maintain our service for future generations.

Every three months, we survey a representative sample of customers and ask them about whether they think their bills are affordable and if we provide value for money. We are very pleased to report that during 2019/20, we again achieved our target, with 93% of customers satisfied with our value for money and affordability.

We recognise that some customers who struggle to afford their water bills may need some form of additional help or support. We provide a range of schemes to help these customers, tailored to their individual needs. These schemes have continued to grow – with 38,612 customers helped during the year, vastly exceeding our target. We are delighted with the continued interest we are seeing in our assistance schemes as it means those customers in genuine need are receiving help and do not have to worry about paying for their water supply. We are extending these schemes over the five years to 2025, enabling us to help even more people who need it.

Helping those customers who have the most need

We know that some of our customers can struggle to afford their bills. To help these people, we have our Assure social tariff, which aims to reduce water poverty and make our bills more affordable. We currently have 24,861 customers who benefit from lower water bills as a result of the Assure tariff. In our business plan, we have committed to significantly increase this number – providing financial support for 40,000 customers by 2025.

During the period covered by this report, we asked our customers about how we should continue to run this scheme so that we can always be sure it meets the needs of those who pay for it – and those who receive it. Our insight suggests there are two groups of customers who are 'typical' Assure customers: those who are experiencing severe financial difficulty, because of long-term unemployment, or physical or mental health issues, for example; and those who are just about managing, because they are in low-paid employment or have irregular working patterns.

Our approach is about making sure we effectively target the customers who would most benefit from our Assure tariff, using direct messages across a range of communications channels. In January, for example, we unveiled a billboard advert on a busy road near our Head Office in Walsall. We also provided additional training for colleagues in our contact centre to ensure customers area dealt with in a supportive way.

Has your water meter 'bin' read?

We are always looking for new and innovative ways to enhance the service we provide to our customers. In the autumn, for example, we entered into a unique partnership with Lichfield District Council and Tamworth District Council in our South Staffs region to trial a new technology that enables meter readings to be taken when bin lorries on their fortnightly rounds pass by customers' homes.

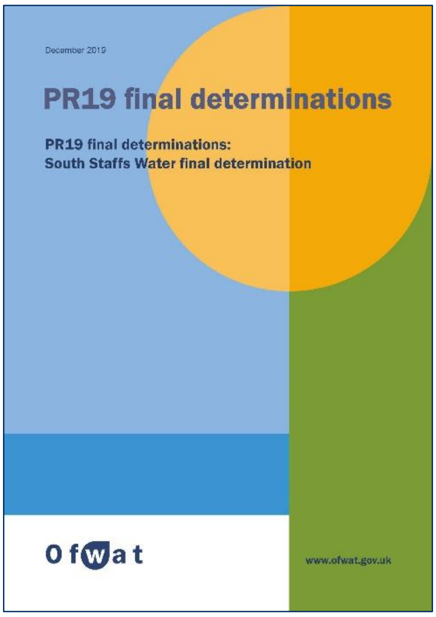
The technology has a 92% success rate and we trialled it in five villages – Clifton Campville, Edingale, Haunton, Elford and Harlaston. As well as reading customers' meters regularly, the technology has also helped us to identify leaks on customers' supply pipes, so it is a win-win situation – for us and for them.

Heidi Knapton, our Metering Manager, is leading this work. She is pictured (left) with Nigel Harris, Joint Waste Manager for Lichfield and Tamworth District Councils.

Planning for the future

PR19 – the steps to our final determination

Over the 12 months covered by this report one of the key focuses for the business has been on finalising our plans for the five years from 2020 to 2025 – a process that has taken more than three years to complete. As we reported in last year's annual report and accounts, following the regulator Ofwat's initial assessment of companies' plans, in January 2019 we submitted our revised business plan at the start of the 2019/20 financial year, having challenged ourselves to look again at the efficiency of our costs and the stretch associated with our performance targets.



In July, we received Ofwat's draft determination on the price, service and investment package that we will deliver for customers over the 2020 to 2025 period – and which is reflected in the bills they pay. Our draft determination was challenging in a number of areas – not least, the impact Ofwat's proposed lower weighted average cost of capital (WACC)[10] would have on the financeability of our plan. We responded in August with a robust set of representations that focused on:

- our claim in relation to the significant increase in costs in terms of connection and mains requisition charges since the last price review settlement in 2014;
- the balance of risk and reward in relation to our stretching performance commitment targets – in particular, the real penalties placed on the Compliance Risk Index (CRI) measure of water quality where our reliance on two large surface water treatment works and our ambitious upgrade programme means our exposure to risk is the highest of any water company in the sector; and
- the adjustment we sought on the WACC to reflect the disadvantages we face in terms of embedded debt costs because of our size relative to others in the sector.

We received our final determination[11] in December. This will see average household customer bills reduce by around 10% in real terms over the five years to 2025. In addition, it allows us, among other things, to invest £112 million on improvements to service, resilience and the environment. This includes £13 million to address deteriorating raw water quality, more than £11 million to install new water meters and £9 million to improve the environment under the Environment Agency's Water Industry Natural Environment Programme (WINEP), which sets out the actions we need to take to meet our environmental obligations.

We also welcomed that Ofwat:

- recognised the efficiency of both our wholesale and retail costs;
- agreed the funding for the programme of work to upgrade our Hampton Loade and Seedy Mill water treatment works. This is a major investment for the business, which will ensure high-quality and resilient water supplies for our customers now and in the future. In its initial assessment of our business plan, Ofwat recognised the "high quality evidence for the need of investment" in our claim for this programme of work; and
- accepted our claim for a company-specific adjustment to the WACC.

We accepted the final determination in February, even though there are one or two items where we are still in dialogue with Ofwat, including some differences on the treatment of capital contributions. We will continue to engage with the regulator ahead of its next periodic review of price controls (PR24). In the

[10] The weighted average cost of capital, or WACC, is the rate that a company is expected to pay on average to all its security holders to finance its assets. It represents the minimum return that a company must earn on an existing asset base to satisfy its creditors and other providers of capital.
[11] www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-South-Staffs-Water-final-determination.pdf.

meantime, we have already started work to deliver our ambitious plans and ensure we are making water count for all our customers.

Planning ahead of the UK exiting the EU

The United Kingdom exited the European Union on 31 January this year. As the provider of an essential public service, we have to make sure that whatever new trading or customs arrangements are put in place, we always have the chemicals and other supplies we need to ensure our customers continue to receive clean, high-quality water supplies. As we reported in our interim report and accounts, we have been working closely with the rest of the water sector and our supply chain to mitigate any risks associated with the uncertainty around our new relationship with the European Union.

Over the 12 months covered by this report, for example, we have taken part in exercises to test collaboration across government and the water sector. This has included testing the processes that would normally be important when managing a major, large-scale incident. We have also carried out a thorough evaluation of our stock levels and provided additional training for our people. As a result, we believe we have done all we can to prepare effectively should any disruption occur while new trading arrangements are finalised. In addition, the sector's plans in this area have been commended by government ministers.

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. Publication of the 2020 report in April was suspended following the Covid-19 outbreak. So we have set out a high-level summary below.

Our report for the 2019/20 financial year is based on the snapshot date of April 2019. 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 329 (75%) male and 110 (25%) female; across senior management, it is 54.5% male and 45.5% female. This is an improvement on last year's figures (2019: 59% and 41%, respectively).

In terms of the difference between the hourly pay of our men and women, the mean difference is 7.5% (2019: 15.9%), while the median difference is 12% (2019: 13.8%). Again, this is an improvement on last year. In addition, the proportion of male and female staff receiving a bonus – 17% and 8%, respectively – have both significantly reduced compared with last year's figures (2019: 33% and 24%, respectively)[12].

[12] The gender pay gap report for 2020 refers to the previous year – reporting is always one year behind.

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, and focus on skills, abilities and opportunities for development. Our focus with this approach is on attracting more female 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 within our Group.
- We are continuing to improve our approach to flexible working, which is available to all our people, regardless of their job role.

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 (BAME) communities; disability and under-24s. To address this, we have committed to work collaboratively with others in the sector to drive change. In November, for example, we signed up to the Energy and Utilities Inclusion Commitment. As part of this, we have committed to play our part to ensure the work force in the energy and utilities sectors are inclusive and diverse. This is important because:

- being inclusive enables the water sector to attract and retain the diverse talent that is crucial to ensuring a resilient workforce;
- 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 signed up to the Social Mobility Pledge[13] during the year. 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 equal opportunities and non-discrimination policy in place. We make every reasonable effort to provide disabled people with equal opportunities for employment, training and promotion.

Employee engagement

We take a principles based approach to employee engagement – and recognise that it is:

- specific, so that we are clear about why we are engaging;
- about making a connection with our people and having a dialogue with them;
- about understanding our people and what makes them tick;

[13] www.socialmobilitypledge.org/.

- about being accountable; and
- about the important role it plays if we are going to recruit and retain happy and motivated people.

Over the past year, we have used a variety of channels and approaches to engage with our people, including:

- workshops;
- business updates from members of the Executive team;
- communications bulletins; and
- a monthly e-newsletter.

In addition, we have started work to embed the principles of Investors in People (IIP) accreditation across the business. We have a commitment in our business plan to achieve this during the 2020/21 financial year. IIP is an internationally recognised accreditation scheme that aims to support businesses in getting the best out of their people. During the year, we began assessing how well we are performing against the IIP people framework. This included holding a number of workshops across our South Staffs and Cambridge regions, involving employees from all business departments. We received some great ideas and feedback to take forward and prepare us for the next steps. We will report on the outcome of this in next year's annual report.

In addition, we introduced Workplace as a tool for internal engagement and a new HR/Payroll system, which gives our people greater control over their personal data. Also, during the Covid-19 outbreak we embraced video conferencing, using software that enabled our people to keep in touch and share their work. In the following sections, we outline some of the other ways we have engaged with our people during the reporting year.

Health and wellbeing

We take the health and wellbeing of our people very seriously and have an ambition to be a zero accident workplace. Unfortunately, our performance in 2019/20 dipped relative to the previous year – with ten minor accidents and one reportable incident under the Health and Safety Executive's RIDDOR[14]. 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. In addition, we have 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.

We are also mindful of the mental wellbeing of our people. We have set up a wellbeing group, which has generated lots of ideas and interventions to improve mental health. Some of the group's actions have included the introduction and training of mental health first aiders across both our South Staffs and Cambridge regions, and regular 'mile for your mind' walking sessions. We also held our first 'Wellbeing Week' in February this year, which included a number of activities – from information sessions on the menopause and nutrition to a stress relief hypnotherapy session and a 'Free Fruit Friday' at all our sites.

[14] Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013.

In addition, we have introduced a new Occupational Health Service Provider – Health Management Limited – to provide our occupational health screening, health referrals and access for our people to a 'Health Hub' portal, with lots of advice, recipes and apps for keeping fit and healthy. We will continue to improve our offerings in this area to ensure people receive the right levels of support in the right way and at the right time.

Throughout the spring, we have been particularly mindful of the impact of the Covid-19 outbreak on the wellbeing of our people, particularly as most of them have been working remotely – some for the first time. So we have provided access to a number tools that promote wellbeing, including recipes to encourage healthy eating, and advice on home working, financial management and maintaining mental wellbeing.

Developing skills for the future

We recognise the importance of making sure we always have the right skills within the business to deliver the services our customers expect.

To that end, we have a flourishing apprenticeship scheme – in September, we recruited another five apprentices to fill a number of roles in different areas of the company. And in October, we were pleased to present certificates to two of our Cambridge-based apprentices, who completed their NVQ Diplomas in Engineering Maintenance and in Electrical/Electronic Engineering. We are pleased to report that during the year, six apprentices transitioned into full-time, permanent roles across both regions, including in the areas of water production, developer services and customer liaison. We are continuing to develop our apprenticeship scheme – it is an important element of our succession planning.

We also have established people from within the business undertaking apprenticeships as part of their development across a number of areas, including team leadership, operational management, and mains and service laying.

In last year's annual report and accounts, we mentioned the submission we were making for the water sector's Competent Operator Scheme. This is a framework agreed by the Drinking Water Inspectorate (DWI), Water UK, and Energy & Utility Skills, the assessment body for the sector. It ensures that our people involved with the production of water – such as our technicians, operators, chemists and managers – are appropriately trained, assessed and audited. We are pleased to report that in December we achieved Competent Operator Scheme accreditation. This recognises high quality across a number of areas, including water supply hygiene and water quality policy, and is valid for five years.

Giving our people easy access to their data

Over the 12 months covered by this report, we have made some real improvements in giving our people better access to their personal data. In December, we implemented a new HR/Payroll system called MiHub, which they can access through their computers and mobile devices. This enables our people to see their personal and employment data, payslips, and holiday and other absence bookings. They also have access to the Health Hub and the pensions portal. Following the Covid-19 outbreak, we also started using MiHub as a way to communicate with all our people, particularly our field-based teams – for example, to provide them with updates about changes to working patterns.

How our people make a difference

Our people are our greatest asset. They are passionate about the work we do to deliver clean and reliable water supplies to our customers every day, and in all weathers. But many of them are also passionate about making a difference, through their support for charitable causes or through volunteering in the community, for example.

Throughout 2019/20, our people have taken part in a wide range of charity walks and races, Iron Man triathlons, cake sales and fly-fishing competitions. We have had people growing beards, abandoning their tea and coffee and drinking just water for a month, wearing crazy Christmas jumpers and taking part in a pre-Christmas tractor run in association with Staffordshire Young Farmers. Our people have also donated Easter eggs to a local food bank and Christmas presents to children in refuges around the country.

And they have given their own time as well – volunteering for a wide variety of causes, including a community allotment project, a model railway and a local football club. They have helped to raise awareness across our business of cancer and dementia, and have shared their experiences of working for a water company at a number of schools careers fairs. All in all, they have given something back, making a difference and raising our profile in the communities we serve.

Customer service heroes … assemble!

In October, a number of superheroes took over our contact centre as part of National Customer Service Week. Set up by the Institute of Customer Service, the aim National Customer Service Week is to raise awareness of customer service and the important role it plays in business and the growth of the UK economy.

Over the course of the week, which ran from 7 to 11 October, customer service colleagues were encouraged to consider a range of themes around championing customer service and building trust by delivering promises. Our people took part in a number of activities designed to highlight a different aspect of customer service, including a customer challenge quiz, a complaints masterclass and a 'dress as your hero' day (pictured).

Welcoming Westminster to Walsall – and Wednesbury

In August, we welcomed Wendy Morton, Member of Parliament for Aldridge−Brownhills, to our Head Office in Walsall. She visited our control room and customer contact centre, and spent time with the water quality team. She also learned more about the mains upgrade programme for Aldridge, which, as we mentioned in 'Delivering long-term, resilient water supplies' on page 17 above, is due for completion later this year.

Ms Morton is pictured (left) with Phil Newland and Vicki Dixon, Head of Operations in our contact centre.

And in February, we welcomed Shaun Bailey, the new Member of Parliament for West Bromwich West, to our community hub. Mr Bailey spoke with members of our community team about the hub's work and the positive benefits it provides to customers in the local area. He also discussed the impact of the two separate mains bursts in Tipton, which is in his constituency, and the work we have been doing to support customers who have been affected.

Mr Bailey is pictured (right), with Phil Newland and Pamela Allison, our Business Insight and Improvement Manager.

Financial performance

We operate within a regulatory framework overseen by Ofwat and other sectoral regulators. Our budget is set as part of an annual process by combining the required regulatory and operational targets, and comparing these with historical and future performance. We monitor and manage how we perform against our budget on a monthly basis through reports to the Directors and Executive team.

Our outcome delivery incentive (ODI) targets represent our commitment to deliver what our customers have said was important to them at the last price review. We measure the performance of our Directors and Executive team against these targets, our budget for the year and the final determination as set by Ofwat. We use a number of financial key performance indicators (KPIs), which include, but are not limited to:

- turnover;
- operating costs;
- EBITDA (excluding infrastructure renewals expenditure – or IRE);
- operating profit;
- cash generation, net debt and gearing;
- return on regulated equity (RORE). This is a measure Ofwat uses to assess the impact of regulation and price controls on water companies' performance and returns; and
- total expenditure (totex) by price control. This is a regulatory financial KPI that combines capital and operating expenditure. We discuss this in more detail in the annual performance report (part 2 of this document).

A brief overview of our financial performance for the year is as follows.

Turnover increased by £1.0m to £129.8m (2019: £128.8m), with appointed turnover increasing in line with the allowed below inflation increase.

We continue to see growth in the non-appointed side of the business, with turnover of £5.8m (2019: £5.7m).

During the year, the business continued to invest in change programmes and accelerated spend in readiness for the next five-year planning period (2020 to 2025). The business delivered strong performance across a range of commitments, although operating costs increased by £6.7m, largely because of an increase in the bad debt provision of £10.2m. Delays to the implementation of a new debt recovery system in 2018/19 impacted forecast improvements in collections performance during the year and has resulted in an increase to the bad debt provision. In addition, because of the current economic circumstances a further adjustment has been provided for the 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.

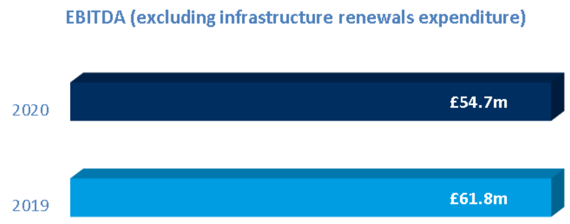
EBITDA (excluding IRE) was £54.7m (2019: £61.8m), a decrease of £7.1m, while operating profit was £22.4m, (2019: £31.1m) a decrease of £8.7m. The movement in EBITDA was mainly driven by the additional bad debt provision of £10.2m.

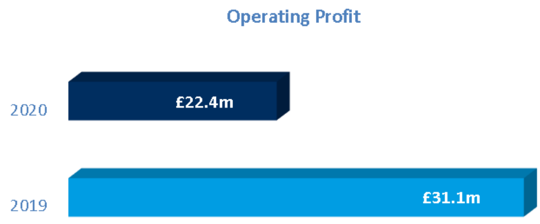
The emerging Covid-19 virus affected recovery during the final month of the financial year.

The appointed RORE for the 2015 to 2020 planning period averaged 8.59% using book net debt, or 6.68% using the covenant net debt. This is higher than that allowed at the final determination of 5.97%, with outperformance on ODIs and retail costs driving this. See pages 219 and 224.

The outperformance has also driven the average investor return for the five years of the period. Based on book debt, investor returns were 15.4%. Using covenant debt, the return was 14.1%, 3.3% above that allowed at the 2014 price review (PR14). See page 198 for more information.

Further information on the financial performance of the appointed business is set out on page 133 of the annual performance report (part 2 of this document).





£m	2020	2019
Operating Profit	**£22.4m**	**£31.1m**
Depreciation : non-infrastructure assets	£21.3m	£19.8m
Depreciation : infrastructure assets	£4.2m	£3.8m
Infrastructure renewals expenditure	£9.7m	£9.8m
Amortisation of capital contributions	£(2.9m)	(2.7m)
EBITDA (excluding infrastructure renewals expenditure)	**£54.7m**	**£61.8m**

Finance charges increased by £0.8m to £13.0m (2019: £12.2m), while the tax charge has increased from last year to £6.7m (2019: £3.3m), based on the impact of change in deferred tax rate offset by lower profits.

Capital investment

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

Wholesale appointed capital expenditure for the year was £34.5m (2019: £34.2m) (net of contributions and IRE). This includes the investment we made to install a gas generation plant at our Hampton Loade water treatment works, and replace chlorine gas dosing system and ultraviolet (UV) kiosks.

Dividend payment

The business makes two dividend payments: one interim and one final. Ahead of the business finalising the March dividend payment, the Board considered carefully the financial position of the business, in light of the impacts to the economy because of the Covid-19 outbreak. Because of the strong wholesale performance and the strong financial position, the Board approved the March payment. However, it committed to carefully reviewing the dividend policy during 2020/21.

In 2020, the dividend comprised:

- £4.3m from the appointed business, (2019: £3.5m). This represents 3% of regulated equity (2019: 5%);
- £1.8m from the non-appointed business (2019: £2.4m); and
- £1.9m from intra-group interest to be paid back to the company (2019: £2.5m).

No further dividends are proposed.

Net debt and borrowing covenants

Our net debt includes index-linked debt, bank loans and debenture stock less cash. For covenant reporting purposes, our net debt was £246.1m at 31 March 2020 (2019: £248.8m) and represented a ratio of 62% of our regulatory capital value (RCV).

The reconciliation between covenant net debt and book net debt is shown in the notes to the accounts on page 104, along with a full analysis of our borrowings.

We maintain significant headroom in respect of all of our borrowing covenants and liquidity with cash of £26.4m (2019: £8.2m), and undrawn facilities of £nil (2019: £9.8m). This gives us total liquidity headroom of £26.4m (2019: £17.9m).

Standard & Poor's (S&P) continues to rate the company as BBB+ with Moody's rating us at Baa2; both are within investment grade.

At the end of the financial year, we also arranged access to the UK Government's Covid Commercial Finance Facility by establishing a European Commercial Paper (ECP) programme. See page 51 for details.

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:

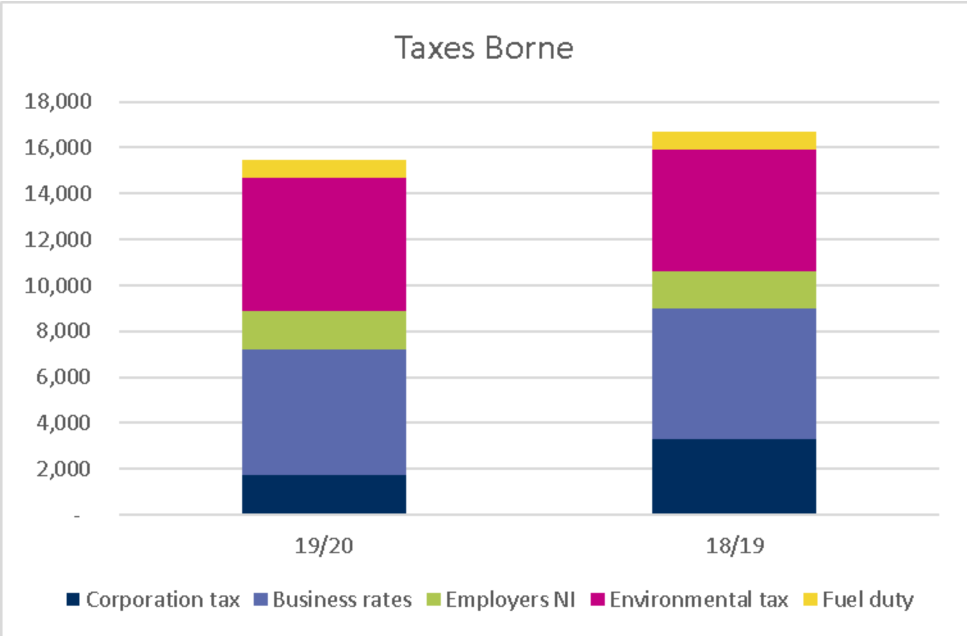
- do not engage in aggressive tax planning;
- do not engage in artificial tax arrangements;
- seek to maintain a transparent and collaborative relationship with HM Revenue & Customs (HMRC), principally through our Customer Compliance Manager; and
- seek independent professional tax advice on material 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 £15,473,000 (2019: 16,688,000). The following graph shows a split of the main taxes. In addition, we also pay tax on Environmental Agency charges.



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.

Treasury policy

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 into 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.

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 Committee for review, which challenges and comments on behalf of the Board, with any agreed actions passed on to the relevant senior manager, and any significant issues escalated to the Board.

The objectives of this risk management process are to:

- ensure that the Executive team is able to identify and prioritise all key business risks;
- implement 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.

Probability					
Certain	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
Rare	1	2	3	4	5
	Negligible				Extreme

Impact

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 Audit Committee along with recommended actions.

Key risks

During the year covered by this report, our main risk was associated with the outcome of Ofwat's PR19 process. As we report on page 26 above, we received Ofwat's final determination on our plans for 2020 to 2025 in December. We accepted our final determination in February, and welcomed the changes Ofwat had made in response to the representations we made on our draft determination in August. We have now moved into the five-year planning period and our focus is on mitigating the risks associated with delivering our ambitious plans. This includes the work we are doing to manage the upgrade of our Hampton Loade and Seedy Mill water treatment works. As we report on page 15, we have already awarded the contract for engineering support and project management to help mitigate the risks associated with such a large and complex capital investment project.

The end of the reporting year was dominated by the Covid-19 outbreak. This is an emerging risk for us, as it will take some time to be able to assess the full impact on the business – for example, in terms of the bad debt risk and the impact on our people and our supply chain. That said, as we report on page 10, we believe we have done everything in our power to mitigate the risks associated with the outbreak. This includes quickly putting plans in place to ensure we maintained essential water supplies while at the same time keeping our people safe. At the time of writing, we are continuing to work with other companies in the water sector, as well as with the UK Government, to ensure we mitigate any emerging risks associated with the outbreak.

And in the spring, we experienced a sustained period of hot, dry weather. This led to an unprecedented surge in demand for water from customers – mainly because more people were at home because of the Covid-19 outbreak. We mitigated the risks associated with this by asking customers to use water wisely and sharing tips on saving water on our website and social media channels. Our performance in meeting demand and maintaining supplies to customers during this time reflects our operational resilience.

In addition, we have also taken steps to improve our liquidity as a way of building our financial resilience. See page 50 for more information.

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.

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
Resilient supply of good quality water	We are legally required to meet regulatory standards for water quality. A failure to provide a secure supply of clean, safe drinking water or meet long-term requirements could result in negative public reactions. This, in turn, could affect customers' trust and confidence in our ability to supply clean water.	We have carried out significant work to mitigate the water quality and safety risks, including: • installing UV treatment at our Hampton Loade and Seedy Mill water treatment works; • installing powder activated carbon (PAC) dosing at Hampton Loade and bringing it into commission; • progressing work to replace the granular activated carbon (GAC) at Hampton Loade; • trialling ceramic membrane treatment in line with our long-term plan; and • having a capital investment and asset maintenance programme in place.	
Running out of water	There is a risk that our raw water resources could run out. This is a fundamental risk for the business, with potential implications for customers, public health, and our reputation and financial performance. There is also a risk that the demand for water may exceed the available supply – for example, during a severe drought or as we have seen recently, the effects of Covid-19 combined with a prolonged period of hot and dry weather, such as that experienced in summer 2018, can pose challenges to our supply/demand balance. In the longer term, underlying drivers such as climate change, population growth and the need to ensure environmentally sustainable abstractions will affect this risk. There is a low residual risk that large-scale leakage reductions, per capita consumption reductions and increased household metering will not deliver the water savings expected.	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 associated annual reviews; • collaborative cross-sector regional work with groups such as Water Resources East and Water Resources West; • our drought plans; • the investment we continue to make in our supply/demand balance; • our ongoing engagement with the Environment Agency in relation to abstraction licences and our environmental programme; and • our continuing asset maintenance programme. We continue to work with the Environment Agency on implementing our WRMPs and actively engage with	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
		environmental groups and abstractors from other sectors. We have also started work on our next drought plans. We will continue to invest to maintain sufficient supply to meet demand. This investment will help to reduce demand and leakage, as well as to develop new, sustainable water supplies.	
Health and safety	Our risks associated with health and safety include: • things that affect the wellbeing of our people, our contractors and members of the public, including injury and fatalities. • non-compliance prosecutions. • external investigations; and • reputational damage.	The end of the reporting year saw us focus on mitigating the risks associated with the Covid-19 outbreak. This included: • enabling all our office-based people to work from home, prioritising those in high-risk categories in the first instance; • implementing new risk assessments and providing personal protective equipment (PPE) for customer-facing people; • introducing site and safety audits; • publicising our wellbeing portal to help our people's mental health; and • developing and publicising 'return to office' plans for our people. We also aspire to be a zero injury workplace; in our continued drive to improve accident rates and reduce risk further, we are: • continuing to drive a 'health and safety first' culture; • focusing on prompt hazard identification and reporting; • making full use of the Group Incident and Accident database; • conducting health and safety strategic and tactical working groups; • carrying out senior management and director workplace audits;	⟷

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
		• carrying out health and safety training and education; and • placing an emphasis on health and safety management systems and processes.	
Failure to meet regulatory performance commitments	There is a risk that we could underperform against the commitments set by Ofwat in our PR19 final determination. A number of our performance commitments have financial incentives or penalties attached to them. Underperformance could have a financial and reputational impact. A particular risk is the Compliance Risk Index (CRI) measure of water quality. Our reliance on two large treatment works in our South Staffs region and planned redevelopment leaves us the most exposed company in the sector. There are also challenging upper quartile targets to achieve on leakage, mains burst and supply interruptions.	We are putting in place the reporting methodologies for our performance commitments for the five years to 2025. We have held discussions with our technical auditor for some performance commitments where reporting definitions remain unclear. We have also carried out shadow reporting of our performance commitments to build up a data history and help us understand the current performance risks. Finally, we are designing and implementing delivery strategies to help us achieve our performance commitments.	
Asset reliability and resilience	We have a number of assets that a critical to the supply of clean drinking water to customers. Ageing assets and limited delivery capacity require important investment decisions to be made. The potential risks are around delivery capacity and around our performance commitment targets for secure and reliable water supplies. A lack of, or poorly optimised asset investment has the potential to impact on the business. For example: • significant, high-profile asset failures such as burst trunk mains or a loss of water sources resulting in supply interruptions could damage our reputation; • operating our asset base inefficiently could have a financial impact;	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. Our business plan has modelled an identification of needs and solutions to support optimum investment strategies to mitigate risk. This includes: • investment in our strategically critical Hampton Loade and Seedy Mill water treatment works; • improving our network resilience by implementing additional valves/connectivity; • reducing network failure through targeted mains rehabilitation; and • carrying out a programme of proactive maintenance, supported by process improvements and data capture.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
	• inadequate treatment processes could affect the quality of the water we supply, resulting in additional customers contacts; and • asset failures and deteriorating service could impact on our C-MeX scores.		
Impact of our activities on the environment	The risk is that our activities could damage the environment and relates to the negative consequences associated with this. There is also a risk around non-compliance with environmental obligations. Over the five years to 2025, non-delivery of our performance commitments for biodiversity and per capita consumption will attract a financial penalty and could have a negative impact on our reputation. In addition, non-compliance with other environmental legislation could result in us causing pollution incidents (although in recent years these have only been of a minor/moderate nature). In early 2020, we passed an external audit on our MCERTS management system, which are now included on some of our discharge permits. Continued MCERTS compliance requires considerable investment in terms of time and resources. In addition, the Environmental Performance Assessment (EPA) will increasingly apply to our activities in relation to permit and abstraction licence compliance.	We have a number of controls in place to mitigate the risks associated with non-compliance with our environmental obligations, including: • working with the Environment Agency, Natural England and others on delivering our environmental obligations; • delivering the eel screening capital programme by the March 2021 deadline to comply with the Eels Regulations. Covid-19 is threatening the delivery date of this and other schemes. We are working with the Environment Agency as part of our plans to mitigate this risk; • the abstraction incentive mechanism (AIM), which helps to maintain sustainable abstraction practices; • having a well-established catchment management programme and expanding our SPRING environmental protection programme; • putting in place plans over the five years to 2025 that will not only meet our environmental obligations but also deliver wider societal and reputational benefits. Our PEBBLE biodiversity fund is one element of this; and • recruiting a team member with specialist skills in relation to environmental permits to ensure compliance with our discharge permits is monitored and preventive action is taken.	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
Non-compliance with regulatory obligations	The risk is that we fail to comply with our legal obligations as a licensed water undertaker. Depending of the severity of the breach, this could result in action by Ofwat or other statutory bodies. Examples of the types of breach and the actions that could be taken include: • reporting of annual performance report (APR) data not being compliant with Ofwat's guidelines, requiring us to republish the APR; • failing to operate on a level playing field in relation to retailers, developers and new markets, resulting in legal action for breaking competition rules; and • breaching our licence conditions, resulting in enforcement action by Ofwat and the imposition of financial penalties of up to 10% of our turnover.	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 changes or changes to the Water Industry Act 1991 made during the year, and making sure we adopt any new obligations; • reviewing and publishing relevant documents as required under out licence; • using appropriate assurance where required, either through internal audit or external technical audit; and • requiring Board sign off of all significant obligations – for example, customer charges and the annual performance report.	
UK exit from the European Union	There is a risk of significant impact to us if the transition process of leaving the EU is not constructive and there is a disorderly departure. There is also a risk of loss of critical supply or disruption to delivery of elements such as: • chemicals, which are required to treat the water to regulated standards; • critical component spares, which may prevent the operation of critical equipment, such as the pumps that are needed for water distribution; • stock consumable items, such as pipes and fittings, which would impact planned repair work; and • fuels, which could have a wide-ranging impact, including on the ability of our people to attend sites, or on our operations.	We have been working with the Department for Environment and Rural Affairs (Defra), Water UK, local resilience forums and associated sub-groups to mitigate risks based on the worst-case scenario presented by Defra. As part of this, we have engaged in conference calls, working groups, supplier audits, delivery reporting and daily stock reporting to ensure a full sector view of our situation and any potential impacts. We have also set up an internal Steering Group to lead actions such as increasing the stocks we hold in house and liaising with suppliers to hold stock on our behalf that we cannot store on site (for example, chemicals). In addition, we have reviewed our business continuity plans, increasing the number of people on our incident team and carrying out additional training. We have used all the internal	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
	All these could affect our ability to produce and supply clean drinking water to our customers.	communications channels at our disposal to engage with our people and keep them informed. While the risk of a disorderly exit has reduced, we will continue to monitor this, 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, which have continued to ensure early identification of any issues arising from this situation.	
Technology, systems and security	There is a risk of loss of critical information technology (IT) or operational technology (OT) infrastructure. Specific risks include: • external failures (loss of communication links, power or the internet); • system failures (failure of hardware or software and reduced performance); • data integrity (including loss or corruption); • IT/OT change management outside of agreed processes; • lack of access to technical skills and reducing capability to support end-of-life platforms; and • infrastructure location (lack of geographic dispersion). A high standard of professionalism and control is required to be exerted over the IT and OT estates, applying best practice and appropriate restrictions to safeguard against deliberate or unintentional damage/loss.	We are mitigating these risks in a number of ways, including: • having an Information Security Steering Group (ISSG) and compliance framework for security of Network and Information Systems (NIS) Regulations in place; • having ISO 27001 certification for our Group IT operations; • implementing a Group Cloud strategy; • having managed services for monitoring and security operations centre (SOC) provision in place; • implementing a new SCADA system across both our South Staffs and Cambridge regions; • implementing OT intrusion detection software on critical networks; • having a privacy team and Data Protection Officer in place and implementing a sustainability plan; • carrying out data back up and regular recovery tests; and • making sure high availability architecture and monitoring is built into our cores systems, such as firewalls, networks, switches and servers.	↔

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
Finance	The risk is that we are unable to fund the business sufficiently to meet our liabilities as they fall due. Having insufficient financial resources carries the risk of: • reduced access to capital markets; • potential for a lower credit rating; • higher funding costs; and • higher levels of fixed-cost embedded debt. Changes in risk scoring by rating agencies could lead to some or all of the above. There are potential risks arising from the Covid-19 outbreak, which could also have an impact, including reduced income, cash collections and an increase in the level of bad debt.	To mitigate this risk, we have: • engaged with external advisors on options for reducing our cost of embedded debt; • reduced gearing levels; • refinanced; • employed hedging strategies; • put rolling credit facilities (RCF) in place; • secure access to additional liquidity through the ECP programme; • carried out regular monitoring of markets; and • carried out regular cash flow reporting and management. We are closely monitoring the potential economic impact of Covid-19. While there will be a likely impact, the scenarios have been modelled, this does not affect our liquidity.	
Customer challenges	We have identified a number of risks relating to customers, including: • the risk to revenue because of levels of customer bad debt and the associated costs of collection delivery; • demand for a service provision that is multi-channel and accessible 24/7. With only recent implementation of our digital channels, we have experienced a high level of phone contact, which also increases cost to serve; • C-MeX, which is a new risk that is monitored for both customer service and customer engagement throughout the shadow reporting year. Our performance has been declining in recent years–	In mitigating these customer risks, we have: • monthly Debt Steering Group meetings, which monitor performance and agree strategy; • a new debt management system, which has enabled customers to be contacted quickly and various customer contact strategies to be deployed; • improved our customer experiences through engagement activity. As part of this, we have looked at a number of retail processes, including meter requests, bill design and a variety of customer journeys. This insight has helped us to shape a customer experience strategy plan that looks to strengthen our digital channels and improve key customer journeys; and	

What is the risk?	What does this risk mean for us?	How are we mitigating this risk?	Changes in risk score
	in-year penalties could be incurred unless performance improves. The impact of increasing customer expectations and standards of customer service may lead to: • failure to meet these expectations; • a reduction in C-MeX scores and poor complaints performance; and • higher levels of customer debt.	• monthly Customer Experience Steering Group meetings and use a series of KPIs to review performance; and • customer experience improvement plans in place. We are also planning to: • complete the roll out of our new debt system and use customer strategies to lower levels of debt; • ensure necessary customer support tariffs are in place and promoted to customers. We will use customer tracking surveys to understand the success of this; • deliver a retail change programme, including our mobile app, making improvements to MyAccount, reducing repeat contacts, implementing the new customer bill and making improvements to customer journeys – in particular, home moves.	

Business relationships

We work with a range of companies across a number of disciplines and sectors. 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.

We use a variety of competitive processes to appoint our suppliers. This allows us to check that they provide value for money, while delivering high-quality goods and services. We work closely with our supply chain to ensure they understand the importance of ethical procurement. We also review their policies around health and safety, cyber security and insurance, and that they hold the appropriate certification to assure us that they are qualified to carry out the required task.

We believe in treating our suppliers fairly and operate with transparency and integrity. As a regulated water company, our procurement processes are subject to the EU Utilities Contract Regulations. This means that certain requirements based on type and anticipated value have to be competitively tendered through the Official Journal of the European Union (OJEU) or through the Achilles Utilities Vendor Database.

We also believe in paying our suppliers promptly. In our latest business plan, we committed to achieving and upholding the standards of the Prompt Payment Code. This means we will pay undisputed invoices within the contracted terms. We have also committed to paying small businesses with turnover less than £6.5 million within the contracted terms or within 30 days of receiving a valid invoice.

Partnership working is also a key focus of our activities. Over the past few years, we have built strong meaningful relationships with 436 local community organisations, as well as with national organisations such as JobCentre Plus and Citizens Advice. In addition, we are active partners in both the Water Resources East and Water Resources West[15] groups, which have been set up to consider long-term, sustainable options for regional water resources.

Water companies have an important role to play in supporting the development of effective markets. We have continued to support the principles of alternative credit support arrangements[16], which MOSL, the non-household retail market operator, consulted on in 2018. During the year, we have engaged with contracting retailers and implemented our innovative Schedule 3 Alternative Credit Arrangements. We have continued to receive positive feedback from retailers and have had a number of businesses adopt the new arrangements.

Although it just falls outside the reporting year, during April, we worked with Ofwat and MOSL to implement a number of market code modifications to support the liquidity of the business retail market. This was in response to the Covid-19 outbreak. We recognise the importance of these measures, but note that they are only interim steps. We will continue to engage with Ofwat and MOSL on the appropriate enduring measures.

[15] waterresourceswest.co.uk/.
[16] 'CPW019 – Alternative Eligible Credit Support', MOSL, April 2018. www.mosl.co.uk/market-codes/consultation.

Another area where we have continued to build business relationships is through the services we offer to developers. We have a dedicated section on our website devoted to developer services, which includes a range of information on connections and water regulations. It also includes information specifically for self-lay providers. In our plans for 2020 to 2025, we committed to put in place a transparent and tailored approach for developers. We are also keen to embrace competition within the developer services market. As part of this, 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.

Being resilient in the round – protecting the service we deliver to customers

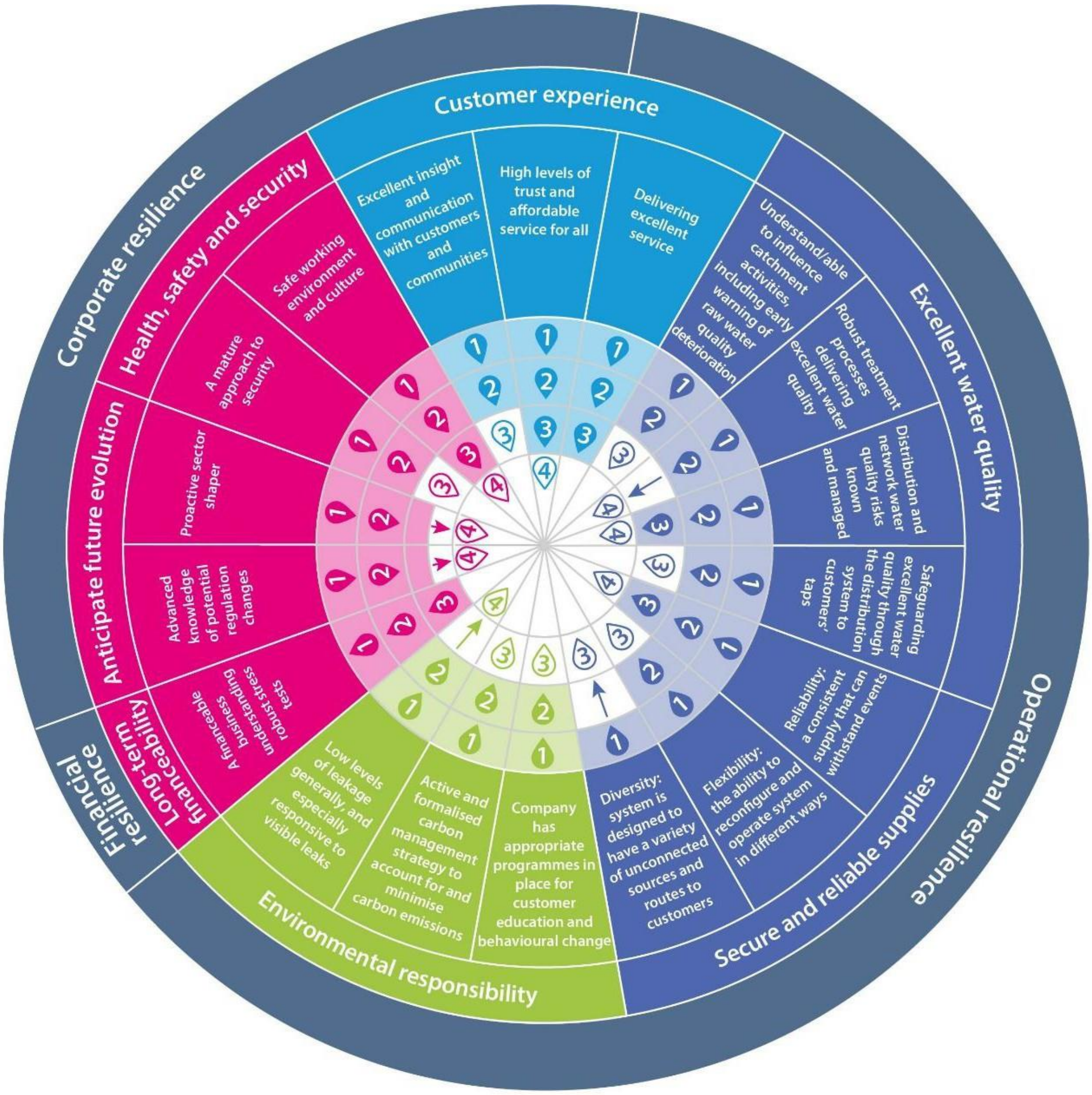
As a business, we are completely reliant on our assets – be they above or below ground, technology related, natural assets or our people. We recognise the importance of being resilient 'in the round'. For us, this means having financial, operational and corporate resilience, and a culture within the business to ensure this is embedded in all our decision-making.

We demonstrated the resilience of our systems, people and processes in the spring during the Covid-19 outbreak in the spring. For example, we changed our working practices and remote working became the new normal for us. In addition, our people embraced video and telephone conferencing, and continued to provide and maintain a service to customers. And our field-based teams continued to fix leaks and work on our mains repair and replacement programme – all while observing the UK Government's guidelines on social distancing.

Underpinning and reinforcing our approach are our 'resilience lens' and maturity matrix. The lens represents a number of key business objectives, which broadly align with our customer promises (our outcomes), and a selection of desired states for our business.

It enables us to consider and compare a range of investment options that add up to the best plan for our customers and our business, and that will allow us to assess our progress in delivering them from the perspective of how resilient we are. We illustrate the resilience lens below. We think it is vital for all our people to see how they support the delivery of resilience in the round. So with this in mind, we have mapped our core business plan objectives to each of the key areas of the lens.

We have also taken steps to formalise the culture across our business to ensure these components of resilience in the round are further embedded in all our decision-making. This covers everything we do – from the strategic decisions taken by the Board about how we run our business and the financial oversight of the Audit Committee, to the decisions our field-based teams take, for example, to ensure a leaking pipe is repaired first time, so that it does not have an impact on the service we deliver to customers.



Key

Where we think our projected maturity matrix scores will be by 2025

3 → 4

1 **Limited application** Where we have not yet demonstrated resilient working, but are considering it for the future

2 **Low level of maturity** Where we understand resilient working, but only apply it within isolated cases

3 **Medium level of maturity** Where we demonstrate an understanding of resilient and can demonstrate its adoption within most of our activities

4 **High level of maturity** Where we fully integrate resilient working into all our operational processes

Financial resilience

Being financially resilient is about our ability to avoid, cope with and recover from any disruption to our finances now and over the long term. During the 12 months covered by this report, we have taken a number of steps to ensure our long-term financial resilience. This includes the receipt of an early repayment of a £15 million inter-company loan that has served to reduce our overall net debt to £265.8m million and give us more headroom in our gearing against cost shocks.

Following the Office for Budgetary Responsibility's reference scenario published on 14 April 2020, the water sector was identified as being among the least affected industry by the Covid-19 outbreak. We have modelled stress tests incorporating the guidance and further information can be found in our long-term viability statement on page 135.

On 23 March this year, the UK Government announced the creation of the Covid Commercial Finance Facility (CCFF) to help firms bridge the disruption to their cash flows as a result of the Covid-19 outbreak. In April, we 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. To date, we have not made any use of the ECP programme. No employees have been furloughed during the Covid-19 outbreak.

In addition, we have also confirmed that we will adopt the expectation for dividends that Ofwat set out in its position statement on putting the sector back in balance[17]. While the business has been able to make a dividend payment in 2019/20, the Board has agreed to review the dividend policy following the outcome of the final determination and in light of the recent changes in economic circumstances before making any further distributions.

After receiving our PR19 final determination from Ofwat, our credit rating remains comfortable within investment grade; this is set within the context of an overall negative outlook for the sector as a whole.

Operational resilience

Operational resilience is the ability of our infrastructure – and the skills needed to operate that infrastructure – to avoid, cope with and recover from disruption to any aspect of our performance and ensure we continue to deliver the secure and reliable supplies our customers expect. It is also about managing the impact of our activities on the environment.

One of the ways we are delivering operational resilience is through our 'Enhancing our ways of working programme', which we launched at the start of the 2019/20 financial year. The aim of the programme is to transform our business processes, making us more efficient, and able to respond quickly and flexibly to changing circumstances. It considers the interactions and relationships between our processes, systems and people, and uses best practice lean and agile approaches from other sectors, such as manufacturing and software development.

A major focus of the programme is the upgrade of Maximo, the internal works management systems that we use to manage our assets. This is important because our ambitious plans for the five years from 2020 to 2025, with stretching targets in areas like leakage and household water use, mean we need to make sure we are carrying out our work in the most effective way. It also means challenging ourselves to go further, looking within and across the business to deliver more efficient solutions to customers and enabling us to be more responsive to different situations.

[17] 'Putting the sector back in balance: position statement on PR19 business plans', Ofwat, July 2018. www.ofwat.gov.uk/wp-content/uploads/2018/04/Putting-the-sector-in-balance-position-statement-on-PR19-business-plans-FINAL2.pdf

So the programme is helping us to look holistically at everything we do – identifying different ways of working, adopting best practice techniques from other sectors to minimise waste and improve the experience we deliver to our customers.

Since April 2019, we have set up our programme team and identified 15 key processes where we are initially focusing our attention. These processes are closely inter-related and cover different parts of the business from leakage detection and repair to how we create a new asset. In addition, we appointed a delivery partner to help us develop and implement the new Maximo system. We have also identified around 60 subject matter experts from across the business to test the system and then train other colleagues in turn. We will report on the outcome of this work in next year's annual report.

In response to the Covid-19 outbreak in the spring, we looked at all our operations in detail. This included making sure our people received appropriate training so that they could back fill other roles – such as in our control room – as required. This was to ensure we maintained key activities across the business.

Corporate resilience

Corporate resilience is about making sure we have the appropriate governance, accountability and assurance processes in place to enable us to avoid, cope with and recover from disruption of all types, and to anticipate trends and the variability of our business operations.

We are part of a larger group of companies – South Staffordshire Plc – and believe this makes us more resilient as a corporate entity. Although it falls outside the reporting year, we recently appointed a new independent Board member, making our Board more diverse and continuing to improve the diversity and resilience of the Board.

In addition, the transition of Lord Chris Smith from Independent Non-executive Director to Independent Chair in March and the appointment of Phil Newland as Group Chief Executive in April ensures continuity within our corporate structure. This is reinforced by our revised vision and purpose, which the Board has shaped, and by the work that is currently under way to refresh the terms of reference of our Audit, Nomination and Remuneration Committees. We will report on the outcome of this work in next year's annual report.

Another way we demonstrate our corporate resilience is through the continued evaluation of the Board's effectiveness each year. At the end of the reporting year, we appointed a new chair, Lord Chris Smith. As part of the transition, the Chair committed to carrying out an independent review of the Board's effectiveness, surveying each member of the Board and conducting face-to-face discussions, and framing questions within the context of Ofwat's principles of Board leadership, transparency and governance. Because of timing constraints and changes to the Board's membership, the Chair has decided to carry out a fuller review later in the year. We will report on the outcome of this is next year's annual report and accounts.

Long-term viability statement

Please refer to page 135 of the annual performance report (part 2 of this document) for our long-term viability statement.

This strategic report was approved at a meeting of Directors held on 29 June 2020 and duly signed on its behalf.

Andy Willicott
Managing Director
15 July 2020

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.

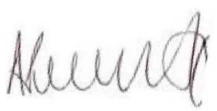
As a result of the open and transparent dialogue with its different stakeholder groups, the company has developed a clear understanding of their needs and monitors the impact their input has had on its strategic decision-making. The Directors have considered the potential impact of their decisions on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

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	Regular updates using numerous channels, including social media, local radio, website content and the online community. Targeted communications during the Covid-19 outbreak, focusing on the support available for customers facing financial hardship. See: • Covid-19 outbreak (page 10); • Tipton mains burst (page 16); • Delivering long-term, resilient water supplies (page 17); • H2Online – our community of customers (page 19); and • Customer service heroes … assemble (page 33).
Community	Active and wide-ranging community and education programmes in place. Award-winning community hub in Wednesbury – a sector-leading, innovative way to engage with vulnerable customers, while building partnerships with a wide range of community organisations and local charities. See: • Cambridge region Young Innovators' Panel launched (page 18); • Being at the heart of the communities we serve (page 20); • Enhancing biodiversity with our PEBBLE fund (page 23); and • How our people make a difference (page 32).

Key stakeholder group	How we have engaged with these stakeholders
Employees	Regular updates using numerous channels, including workshops, Executive roadshows and updates, monthly Conduit e-newsletter, team meetings, Workplace and miHub. Aiming to achieve IIP accreditation by the end of the 2020/21 financial year. See: • Employee engagement (page 29); • Health and wellbeing (page 30); • Developing skills for the future (page 31); and • Giving our people easy access to their data (page 32).
Regulators/government	Engagement primarily through regulatory submissions, meetings and memberships of relevant groups and organisations. See: • Fowlmere visits for Environment Agency CEO and Ofwat Chair (page 13); • Bespoke service for MPs (page 19); • PR19 – the steps to our final determination (page 26); • Planning ahead of the UK exiting the EU (page 28); and • Welcoming Westminster to Walsall … and Wednesbury (page 33).
Shareholders	Engagement directly with shareholders through Board meetings; also regular engagement on key issues affecting the business. See: • Financial performance (page 33); • Risk review (page 37); and • Protecting your service – being resilient in the round (page 49).
Suppliers/partners	Engagement primarily through meetings and content on our website specifically for suppliers and potential suppliers, including access to our bid assessment framework. See: • Making Christmas happen (page 14); • Preparing for the next planning period (page 15); • Water resources in the Cambridge region (page 22); • Encouraging sustainable practices in our business and communities (page 24); • Has your water meter 'bin' read? (page 26); and • Planning ahead of the UK exiting the EU (page 28).

This statement was approved at a meeting of Directors held on 29 June 2020 and duly signed on its behalf.

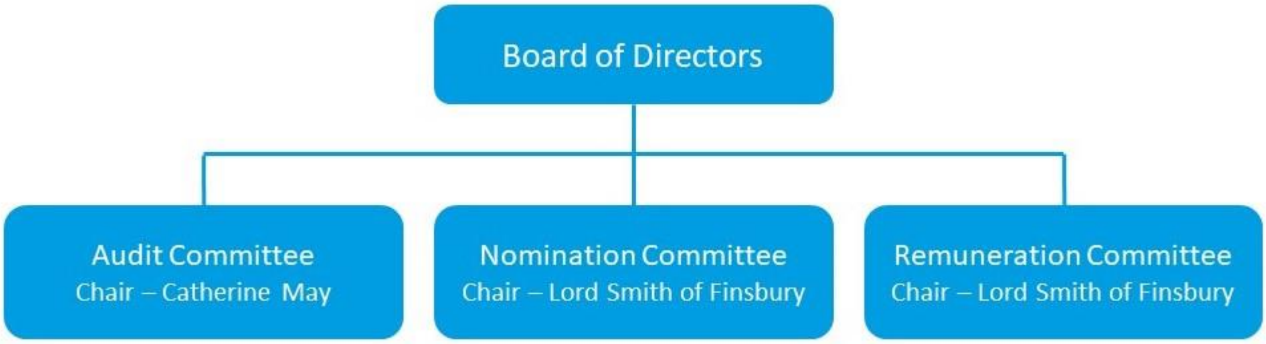


Andy Willicott
Managing Director
15 July 2020

Governance

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 73 to 78.

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[18]

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.

[18] Lord Smith replaced Sir James Perowne as Independent Non-executive Chair on 27 March 2020.

External appointments: Since 2015, Lord Smith has been Master of Pembroke College, Cambridge, and is responsible for the strategy and planning for the college.

Sir James Perowne – Independent Non-executive Chair (resigned 27 March 2020)

Appointed Independent Chair in April 2017, and an Independent Non-executive Director since January 2011. Sir James spent 37 years in the Royal Navy, where he was appointed Flag Officer Submarines in 1996 and also served as Deputy Supreme Allied Commander Atlantic at NATO. He was Chair of the Central Region of the Consumer Council for Water (now CCW), serving for eight years before joining South Staffs Water. Sir James brings strong customer and strategic insight experience to the Board.

External appointments: Constable and Governor of Windsor Castle; President of the Submariners Association; Trustee of the British Forces Foundation; President of ARNO/RNBSO.

Andy Willicott – Managing Director[19]

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.

Phil Newland – Group Chief Executive, South Staffordshire Plc[20]

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.

[19] Although it falls outside the reporting year, Andy Willicott was appointed Managing Director on 11 May 2020.
[20] Although it falls outside the reporting year, Phil Newland was appointed Group Chief Executive on 29 April 2020, replacing Adrian Page, who resigned on the same day.

Adrian Page – Group Chief Executive, South Staffordshire Plc (resigned 29 April 2020)

Appointed as a Director in July 1998. Adrian was appointed as Group Chief Executive for South Staffordshire Plc in January 2013, having been Group Finance Director since April 2004. He was previously the Group Finance Director of South Staffordshire Group Plc from 1998 to 2002, and with ACT Group and KPMG.

External appointments: Director, Pennon Water Services Ltd; Director of the Water Companies Pension Scheme Trustee Company.

Catherine May – Senior Independent Non-executive Director

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

External appointments: Independent Non-executive Director and Audit Chair, Pensions and Life Savings Association (PLSA); Senior Adviser, bar 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: Independent Non-executive Director of Jersey Water; Chair of the Water Regulations Advisory Service (until November 2018); 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 previous 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 and Audit Committee Member of Idox plc; Vice Chair, Chair of Audit and Risk Committee and Non-executive Director of Cottsway Housing Association; and Board Advisor to the InHealth Group.

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.

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

Michihiko Ogawa – Non-executive Director and Mitsubishi Corporation Representative[21]

Michihiko joined Mitsubishi Corporation in 2011 and was appointed as a Non-executive Director on 25 October 2018. He is a Manager in Mitsubishi Corporation’s Water Business Department.

External appointments: Before he joined Mitsubishi Corporation, Michihiko worked for the Japan Bank for International Cooperation, where he was involved in financing multiple utility and transportation infrastructure projects.

[21] Michihilo Ogawa resigned from the Board on 26 June 2020. He has been succeeded as the Mitsubishi Corporation representative by Keita Saito, with effect from 29 June 2020.

Executive team

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 Staffs Water in 2015.

Andrew McGeoghan – Finance Director

Andrew was appointed on 18 March 2019, having previously worked at Jacobs as Head of Economic Regulation and Assurance.

He has diverse experience in both the public and private sectors, having held a variety of senior finance positions. He spent several years with Ofwat as an Associate Director before joining Jacobs in 2015 to set up and lead a specialist team advising regulated companies on their reporting and control processes.

Marcella Nash – Director of Human Resources

Marcella was appointed in January 2014, having previously worked within South Staffordshire Plc as Head of Human Resources for Echo Managed Services Ltd. 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 in the Severn Trent Group and Severn Trent Water.

Directors' report

The Directors are pleased to present their report and accounts for the year ended 31 March 2020. The Directors confirm that they consider the report and accounts to be fairly presented and understandable. It provides investors and other stakeholders with the necessary information to assess South Staffs Water's performance for the year ended 31 March 2020, 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[1]
Sir James Perowne	Independent Non-executive Chair	01/01/2011	27/03/2020	9/9
Rt Hon Lord Smith of Finsbury	Independent Non-executive Director and Chair from 27/03/2020	25/10/2018		9/9
Phil Newland	Managing Director	01/04/2020	29/04/2020[2]	9/9
Adrian Page	Group Chief Executive – South Staffordshire Plc	01/07/1998	29/04/2020	8/9
Catherine May	Senior Independent Non-executive Director	25/10/2018		8/9
Stephen Kay	Independent Non-executive Director	01/04/2013		9/9
Michael McNicholas	Independent Non-executive Director	25/10/2018	01/04/2019	0/9
Keith Harris	Non-executive Director	30/04/2015		9/9
Michihiko Ogawa	Non-executive Director	25/10/2018		9/9
Peter Antolik	Non-executive Director	25/10/2018		9/9

1. In addition to the seven scheduled Board meetings, there were two Board calls in August to discuss the company's response to Ofwat's PR19 draft determination.
2. Phil Newland resigned as Managing Director of South Staffs Water on 29 April 2020 and was appointed Group Chief Executive of South Staffordshire Plc on the same day.

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 accounts on pages 97 to 128.

Dividends of £8.0m were paid during the year (2019: £8.4m), including appointed dividends of £4.3m (2019: £3.5m). 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 page 35.

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 2020 represent 31 days (2019: 52 days) of purchases. The company is not reliant on any single commercial arrangement.

No political donations were made during the financial year (2019: 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, the Workplace internal communications channel and a regular email 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 10 to 53.

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.

Scope 1 energy use and emissions

Scope 1 emissions are directly associated with the company's operations. They include the use of natural gas and fuel oils for the operation of its on-site generator plant and fuel for transportation on direct company business, such as transport to different sites.

During 2019/20, the Scope 1 energy use and carbon dioxide emissions were as follows.

Fuel	kWh	Tonnes CO_2
Natural gas	871,928	161
Diesel BS EN 590	586,073	143
Gasoil (Class A2)	200,715	51.5
Kerosene	35,966	9
Unleaded 95	18,202	4.25
Total	**1,712,844**	**368.75**

This disclosure is a new for this year and therefore prior year breakdown comparatives are not available. (2019: 2,246,588 Kwh 453.00 tonnes CO_2).

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, as well as relatively small amounts for the operation of its buildings.

The company consumed 126,811,234 kWh (2019: 13,2344,309 kWh) of grid electricity with associated emissions of 32,431 tonnes (2019: 37,463 tonnes) of CO_2.

Total emissions

Scope 1 and 2 emissions are those directly associated with the operation of the company's business. Between them, they represent 32,800 tonnes (2019:37,900 tonnes) of carbon dioxide (CO_2) emissions during 2019/20. Relative to water production, Scope 1 and 2 emissions represent 203 kg (2019: 239 kg) of CO_2 per million litres of water treated.

Methodology

These figures have been prepared broadly in compliance with the principles of the Greenhouse Gas Protocol (GHGP) as developed by the World Resources Institute[22], which promotes environmental sustainability, economic opportunity, and human health and wellbeing; and the World Business Council for Sustainable Development[23], which is leading the transition to a sustainable world.

Efficiency measures

During the reporting period, the company has continued to invest in the efficiency of its network through ongoing pump efficiency and leakage reduction, improving production and reducing demand for energy, respectively. In March, the company also completed the construction of a 5.6MW combined heat and power (CHP) plant at its Hampton Loade treatment works in its South Staffs region. This is a major investment, which will also ensure the security of the energy supply at the company's largest and most important facility.

Corporate governance

A detailed corporate governance report is set out on pages 64 to 84. The Group structure is shown in the chart on page 66.

Risk management

The company's practices in respect of risk management are set out on pages 38 to 47 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 page 72.

[22] www.wri.org/.
[23] www.wbcsd.org/.

Subsequent events

The company's statement on subsequent events are set out on page 127.

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 reappointment of Deloitte LLP as independent auditor will be put to the Board.

Approved by the Board and signed on its behalf by:

Andrew McGeoghan
Company Secretary

Registered Office: Green Lane, Walsall, West Midlands, WS2 7PD. Registered in England and Wales, number 2662742.

Corporate governance report

The Directors of South Staffs 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.

Following the publication of Ofwat's updated principles on Board leadership, transparency and governance, which came into effect on 1 April 2019, the company updated its own corporate governance code ('the SSW Code') and seeks to not only meet but exceed these principles. A copy of the SSW Code can be found on the company's website[24].

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. The SSW Code has specifically drawn on Ofwat's principles and certain principles of the UK Corporate Governance Code ('the UK Code') – in particular, those considered applicable and appropriate to a privately owned but regulated company providing essential services. The company believes this approach enforces effective leadership and appropriate governance arrangements. Details of 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

[24] www.south-staffs-water.co.uk/media/2678/ssw-corporate-governance-code-2019.pdf.

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 10 to 53.

Compliance with the 2018 Corporate Governance Code

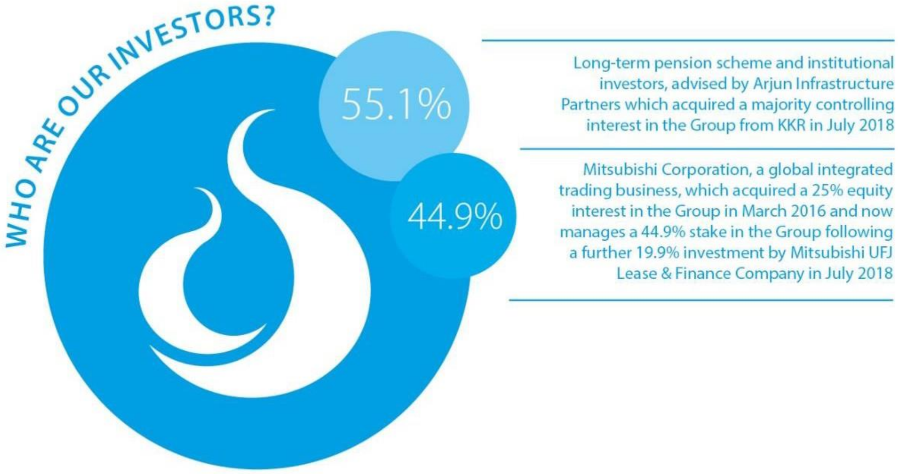
The company is committed to delivering good corporate governance and believes it is essential to give customers confidence in its performance. Some of the ways in which the company can demonstrate its compliance with the Corporate Governance Code are set out below.

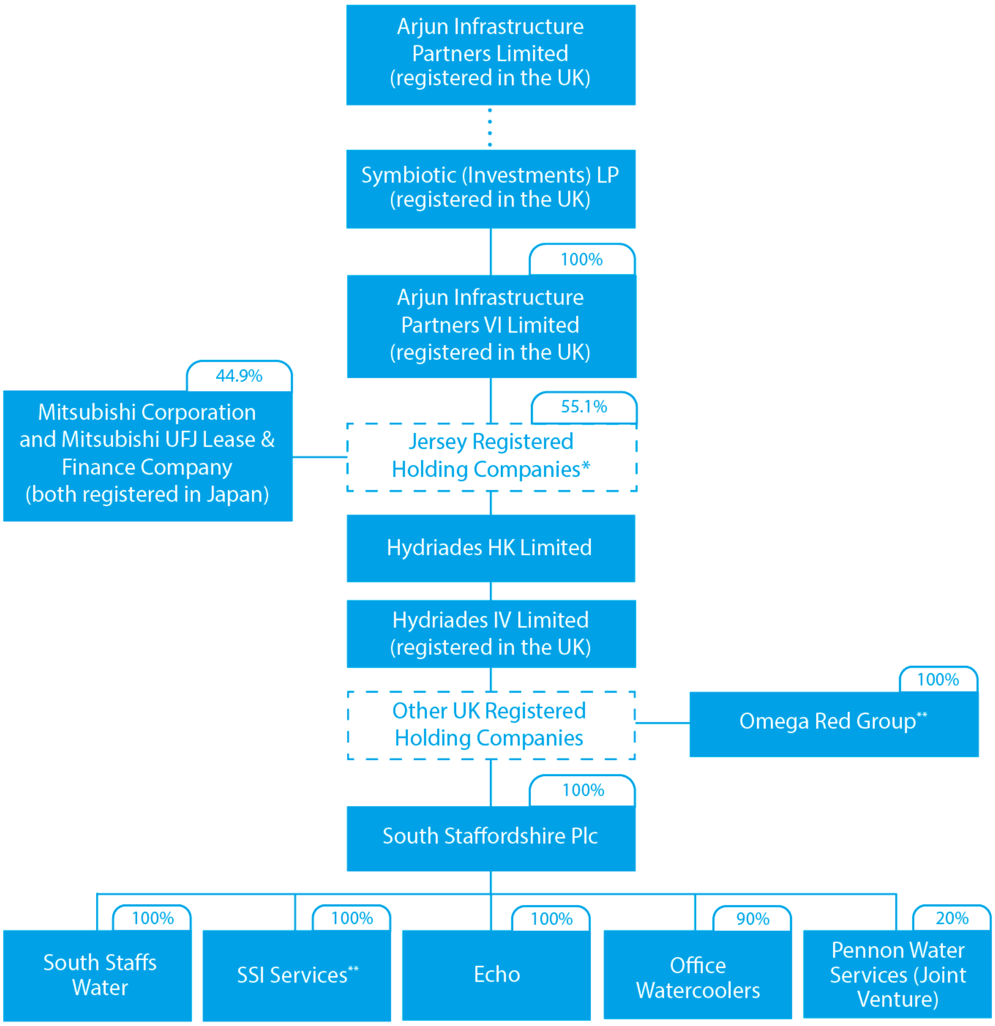
Corporate Governance Code requirement	How the company demonstrates compliance
Board leadership and company purpose	• Company vision and purpose (page 4). • Section 172(1) statement (page 54). • Corporate social responsibility (page 62). • Company direction and performance statement (page 143).
Division of responsibilities	• Functions of the Board (page 68). • Board Committees (pages 73 to 78). • Directors' responsibilities statement (page 85). • Statement of Directors' responsibilities for regulatory information (page 144.
Composition, succession and evaluation	• Board structure (page 56). • Board effectiveness (page 83).
Audit, risk and internal control	• Risk review and analysis of key risks for the business (pages 38 to 47). • Long-term viability statement (page 135). • Long-term viability statement Board statement (page 142). • Risk and compliance statement (page 152).
Remuneration	• Remuneration report (page 79).

Group structure

South Staffordshire Plc, as the immediate parent company of South Staffs 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 Staffs 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 Staffs 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 borrowings of the company's borrowings are provided in the accompanying reported accounts 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.





* 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.

Two of the UK-registered holding companies have loans payable to South Staffs Water, both of which bear interest that is paid in full each year. One of the loans was repaid on 24 May 2019. Any UK tax losses surrendered to South Staffs 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 56 to 59.

Sir James Perowne was appointed Independent Non-executive Chair on 1 April 2017. Following his resignation, he was replaced by the Rt Hon Lord Smith of Finsbury 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 2020.

Michael McNicholas resigned as Independent Non-executive Director on 1 April 2019. Alice Cummings was appointed as an Independent Non-executive Director on 14 May 2020.

At 31 March 2019, Adrian Page was also 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. Andrew Willicott, South Staffs 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 Staffs 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.

Jason Goodwin resigned as Company Secretary on 10 May 2019 and was replaced by Andrew McGeoghan.

Functions of the Board

Under the SSW Code, the company should have an effective 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 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 page 60.

In accordance with the SSW Code, 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.

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:

- 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 business plan for the period from 2020 to 2025;
  - 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 Staffs 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 nine Board meetings (seven scheduled and two additional meetings).

In compliance with the SSW Code, 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 61.

Since the onset of the Covid-19 outbreak, 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 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 Committee.

Further details of risk management and principal risks are set out on pages 38 to 47 of the strategic report.

Regulatory reporting

South Staffs 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 186 to 228.

Going concern and basis for assumption

The Directors consider that it is appropriate to prepare the accounts on a going concern basis. The Company is in a net liabilities position, however based on a review of the company's budget for the year ending 31 March 2020, 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 135 to 141 of the annual performance report going concern basis is considered appropriate. 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 outbreak (see page 51).

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 accounts. 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. Commercial terms for a new £30m RCF with NatWest Bank have been agreed in order to refinance the two expiring facilities in December 2020. Finalisation of the legal agreement is expected in Q2 of the 2020/21 financial year.

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 10 to 53. The company's financial position, its liquidity position and available borrowing facilities are set out on the balance sheet on page 98 and in note 1 to the accounts, 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 Committee

Catherine May
(Chair)

Alice Cummings

Stephen Kay

Keith Harris

Michihiko Ogawa

Membership for the year ended 31 March 2020

Director	Role	Meeting attendances
Catherine May	Member and Chair	2/2
Sir James Perowne (resigned 27/03/2020)	Member	1/2
Stephen Kay	Member	2/2
Alice Cummings (appointed 14/05/2020)	Member	0/0
Keith Harris	Member	2/2
Michihiko Ogawa	Member	2/2

Catherine May was appointed Chair of the Audit Committee on 1 April 2019 following the resignation of Michael McNicholas. Sir James Perowne resigned from the Audit Committee on 27 March 2020. Alice Cummings was appointed to the Audit Committee on 14 May 2020.

Audit 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

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

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

The Committee is responsible for recommending to the Board the appointment, reappointment and – if necessary – the removal of the external auditor; and monitoring the auditor's independence, performance and effectiveness. Responsibilities extend to approving the nature and scope of external audits and the auditor's remuneration.

As noted on page 52, a review of the Audit Committee's terms or reference will be carried out later this year. We will present the results of this review in next year's annual report and accounts.

Key terms of reference

- Reviewing and appraising the work of the external auditor by meeting with the auditor twice a year, 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 statutory accounts, annual performance report, interim accounts and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain.
- Keeping under review the effectiveness of the company's internal audit arrangements, internal controls, and risk management policies and practices.
- Reporting to the Board of Directors on how it has discharged its responsibilities.

Audit Committee activities

In the year ended 31 March 2020, the Committee focused on the key business risks as set out on pages 38 to 47 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 Committee twice a year.

During the reporting year, particular emphasis was placed on the primary business risks, which are identified as business planning for 2020 to 2025 and water quality.

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.

The Committee also focused on how water quality risks will be mitigated and proactively managed. Future plans are incorporated in the business plan for 2020 to 2025.

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 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 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.

As set out in the annual performance report, stress testing has been carried out on the company's longer-term financial forecasts to ensure its long-term viability; for the current year, this included two Covid-19 scenarios. This ensures the company has the ability to withstand a series of severe, plausible and reasonable events. The Audit Committee is integral in assessing the tests carried out and the conclusions formed so that the Board is assured of the company's long-term viability and financial resilience.

Internal control

The Board, supported by the Audit 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 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 38 to 47 of the strategic report.

The Audit Committee has also challenged the company to identify and mitigate against upcoming risks; this has ensured close attention has been paid to current issues, such as the UK's departure from the European Union.

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 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 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 over a new payroll and HR system, which went live earlier this year.

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 Committee.

External independent auditor

The Board, supported by the Audit 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 Committee assesses the calibre of the audit firm, the audit scope and plan (which is agreed in advance with the Audit Committee through discussions with the Chair) and the level and nature of audit communications, including the reporting to the Audit 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. Based on current legislation, Deloitte can be re-appointed for all financial years up to and including the year ending 31 March 2022.

Thereafter, auditor rotation is required once every ten years, extendable to 20 years, if a tender is conducted after ten years.

Nomination Committee


Rt Hon Lord Smith of Finsbury (Chair)


Catherine May


Stephen Kay


Keith Harris


Michihiko Ogawa

Membership for the year ended 31 March 2020

The Nomination Committee primarily comprises Independent Non-executive Directors and is chaired by the company's Independent Chair.

Adrian Page resigned from the Nomination Committee on 27 June 2019. The Rt Hon Lord Smith of Finsbury and Michihiko Ogawa were appointed on 27 June 2019, and Catherine May was appointed on 26 March 2020. Sir James Perowne resigned as Chair of the Nomination Committee on 27 March 2020.

Due to circumstances, no meetings were held during the reporting year and the Nomination Committee met on 20 April 2020.

Roles and responsibilities

Considerable attention is given by the Committee to the composition of the Board. This includes reviewing the balance of skills, knowledge, experience, diversity (including gender), and the level of non-executive and independent challenge.

External search advisors are engaged to assist the Nomination Committee where considered appropriate, but are not considered necessary for all appointments.

As noted on page 52, a review of the Nomination Committee's terms or reference will be carried out later this year. The results of this review will be presented in next year's annual report and accounts.

Key terms of reference

- Preparing an appropriate specification for open Board positions.
- Making sure any appointment to the Board carefully considers the balance of the Board composition.
- Making sure successful candidates have the necessary skills, experience, information and knowledge to fulfil their duties.

Diversity

Information about the company's gender diversity is set out on page 28 of the strategic report.

Remuneration Committee


Rt Hon Lord Smith of Finsbury (Chair)


Catherine May


Stephen Kay


Keith Harris


Michihiko Ogawa

Membership for the year ended 31 March 2020

Director	Role	Meeting attendances
Rt Hon Lord Smith of Finsbury	Chair	1/1
Sir James Perowne (resigned 27/03/2020)	Member	1/1
Catherine May	Member	0/0
Stephen Kay	Member	1/1
Keith Harris	Member	1/1
Michihiko Ogawa (resigned 26/06/2020)	Member	1/1

The Committee primarily comprises Independent Non-executive Directors and is chaired by the company's Independent Chair.

Adrian Page resigned from the Remuneration Committee on 27 June 2019. The Rt Hon Lord Smith of Finsbury and Michihiko Ogawa were appointed on 27 June 2019, and Catherine May was appointed on 26 March 2020. Sir James Perowne resigned as Chair of the Remuneration Committee on 27 March 2020 and Michihiko Ogawa resigned on the 26 June 2020.

Roles and responsibilities

The Committee is responsible for the remuneration policy and for setting the remuneration packages of the Board, the Executive team and other senior management. The Committee meets at least once a year.

As noted on page 52, a review of the Remuneration Committee's terms or reference will be carried out later this year. The results of this review will be presented in next year's annual report and accounts.

Key terms of reference

- 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 of 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.

A detailed remuneration report is set out below.

Remuneration report

Remuneration policy

Remuneration packages and fees are designed to attract, retain and motivate high-calibre Directors and Executive team members. The 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. Annual salary, benefits and annual bonus awards are normally pensionable, whereas deferred bonuses are not.

The 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. The company has an obligation under Section 35A of the Water Industry Act 1991 to make a statement in relation to remuneration that is linked to standards of performance.

Board and Executive terms of engagement

As Group Chief Executive, Adrian Page was appointed to the company's Board in accordance with the requirements of his Group-wide role until his resignation on 29 April 2020.

Peter Antolik and Keith Harris were appointed to the Board as representatives of Arjun Infrastructure Partners Limited and Michihiko Ogawa was appointed to the Board as a representative of Mitsubishi; their appointments have no fixed term.

Sir James Perowne (resigned 27 March 2020), Stephen Kay, the Rt Hon Lord Smith of Finsbury and Catherine May, 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 contacts 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 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. Therefore, there is participation in the bonus scheme. Bonus awards are linked to personal objectives, as well as being aligned to the company's standards of performance in the areas of:

- customer service;
- achievement of ODI performance targets (as reported in table 3a of the annual performance report); and
- financial performance based on profitability, operating costs and cash generation.

Bonus awards are linked to the standards of performance outlined above as the Remuneration Committee considers such arrangements will drive and reward performance, while maintaining consistency between the objectives of the Directors and principal stakeholders, including customers and investors.

The company's standards of performance are aligned with the targets set out in our business plan and personal objectives are set at the start of every year and. All of the standards of performance are subject to defined quantitative targets. The measures, weighting and threshold levels may be adjusted in future years.

Salaries are reviewed annually and any changes are effective from 1 July each year. In normal circumstances, Executive salary increases will not be materially different to general employee pay increases.

Each year, the 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.

As Group Chief Executive and an Executive Director of the parent company, South Staffordshire Plc, Adrian Page had, as part of his remuneration package, an element of his bonus specifically linked to the company's performance until his resignation on 29 April 2020.

Further details in respect of the Managing Directors and Executive team's remuneration are set out below, while a more detailed breakdown of bonus awards is available on page 82, including the detail in respect of Adrian Page.

Peter Antolik and Michihiko Ogawa were not remunerated by the company or South Staffordshire Plc during the year.

Board £'000														
Name	Basic salary		Bonus[1]		Other benefits and pay[2]		Fees		Total emoluments		Pension contributions[3]		Total remuneration	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Lord Smith of Finsbury							30	13	30				30	13
Sir James Perowne							40	40	40	40			40	40
Andy Willicott														
Phil Newland	195	178	70	59	15	16			280	253	24	21	304	274
Adrian Page[4]														
Catherine May							30	13	30				30	13
Stephen Kay							30	30	30				30	30
Keith Harris[5]								17					30	17
Michael McNicholas								13						
Peter Antolik[4]														
Michihiko Ogawa[4]														
Alice Cummings														
Total	195	178	70	59	15	16	130	126	410	379	24	21	434	400
Executive team £'000														
	Basic salary		Bonus[1]		Other benefits and pay[2]		Fees		Total emoluments		Pension contributions[3]		Total remuneration	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Total	319	279	75	76	28	32			422	387	67	45	489	432
Average	106	93	38	25	8	11			152	129	22	15	174	144

Notes: 1. Bonus figures include any deferred amounts paid in the year and approved figures in respect of the year ended 31 March 2019. 2. 'Other benefits and payments' combines company car benefit in kind, car cash and benefit allowances, fuel allowances, and the taxable value of private medical insurance provision. 3. Pension contributions are payments by the company in respect of money purchase pension schemes. 4. These Directors were remunerated either by the immediate parent company, South Staffordshire Plc, or received no remuneration for their services during the year. 5. This Director was an independent Non-executive Director until 25 October 2018, at which date his status changed to a Non-executive Director as an industry partner of Arjun Infrastructure Partners.

Bonus awards

The maximum levels of bonus available to the Managing Director and Executive team are 60% and 50%. For the year ended 31 March 2020, the Remuneration Committee awarded average bonus payments of 35% and 23%, reflecting the level of performance of individuals and the company during the year.

As Managing Director of South Staffordshire Water PLC during the reporting year, Phil Newland is due an approved bonus of £70,000 in respect of the performance outlined in this annual report and individual targets in respect of the year ended 31 March 2020, reflecting the performance of the business in the year. This bonus is payable following the year end.

The bonus awarded to Phil Newland is based on a sliding scale, with the bonus award in each category increasing with performance up to a specified maximum award for excellent performance. In addition, Phil had a number of personal targets to achieve for the year, primarily focused on the development of a high-quality business plan for the five years from 2020 to 2025 and the required customer engagement. A bonus of 20% of a possible 20% has been proposed to be paid. This reflects a satisfactory final determination from Ofwat.

The following performance against target was achieved during the year.

Standard of performance	Target	Actual	Maximum % of salary awarded
Customer service	Reduction in complaints by 5%; upper quartile on SIM and new shadow C-MeX reporting	Complaints target not achieved, although SIM and C-MeX achieved	5% out of 10%
ODIs	Achieve target for key operational performance	Strong outcome performance, including achievement of leakage target and overall reward of £954k	10% out of 10%
Financial performance	Achieve profitability, cost and cash generation	Financial targets not achieved – materially adverse performance largely because of additional costs, including an increase in bad debt provision due to a deterioration in collection performance	0 out of 20%

There was no bonus in the year for Adrian Page.

As committed to in the business plan, a revised bonus structure and long-term incentive arrangement will be implemented for the five years to 2025. More detail will be included in next year's annual report and accounts.

Executive pay ratio

There is increased scrutiny being placed upon the pay for Board members in the water sector (and other public service organisations), particularly when set against that of the lowest paid employees within an organisation. A 20:1 ratio has been discussed within political and social forums as an acceptable maximum multiplier with regards to the gap between the lowest paid employees and highest paid Board member.

The company is committed to paying the foundation living wage to employees. Based on a 37-hour a week contract at £9.30 an hour (2019: £9.00) rate for outside London, this would give an annual salary of £17,893. All our people, with the exception of our apprentices, are paid at or higher than the foundation rate. In comparison to Phil Newland, the highest paid directly employed Board member, this gives a ratio of 11:1 against basic salary and 16:1 against total remuneration, both of which sit within the 20:1 ratio.

Board effectiveness

In accordance with the SSW Code, the Board's effectiveness is reviewed periodically, and individual Directors' performance is evaluated 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. In January 2019, Ofwat introduced two new provisions against which the company has to report. These have now formally come into effect.

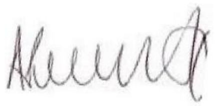
The first of these provisions is that the Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business aligns with the company's purpose, taking action if it finds any misalignment. The second is that that Board evaluates its performance each year, taking into account the balance of skills, experience, independence, knowledge and diversity of the Board, along with how stakeholders' needs are addressed and the company's overarching objectives are met. The outcome of this is reported in the annual report and accounts, with any weaknesses acted on and explained.

In the 2018/19 annual report, the Board committed to review these provisions in more detail and consider the links between culture, purpose and values. During the period covered by this report, the Board shaped and approved a new vision and purpose for the company. The Board has also committed to reviewing the terms of reference for the Audit, Nomination and Remuneration Committees to ensure they remain consistent with best practice and reflect the company's purpose.

In addition, the Chair committed to carrying out an independent review of the Board's effectiveness, surveying each member of the Board and conducting face-to-face discussions, and framing questions within the context of Ofwat's principles of Board leadership, transparency and governance. Because of timing constraints and changes to the Board's membership, the Chair has decided to carry out a fuller review later in the year. We will report on the outcome of this is next year's annual report and accounts.

Alice Cummings was appointed to the Board in May 2020. The Board is committed to improving its diversity with the appointments it makes.

This corporate governance report was approved at a meeting of Directors held on 29 June 2020 and duly signed on its behalf.



Andy Willicott
Managing Director
15 July 2020

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 86 to 96, is made with a view to distinguishing for investors the respective responsibilities of the Directors and of the auditor in relation to the accounts.

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 accounts, the Directors are required to:

- select suitable accounting policies (see pages 159 to 161) 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 2020 and duly signed on its behalf.

Andy Willicott
Managing Director
15 July 2020

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 2020 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 27.

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

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition in relation to unbilled measured water income; • Valuation of the provision for bad and doubtful debts; • Classification of costs between operating and capital expenditure; and • Impact of Covid-19. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £2.3m which was determined on the basis of 5% of EBITDA (Earnings before interest, tax, depreciation and amortisation).
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Given the inherent uncertainties arising from the spread of the Coronavirus (Covid-19), increased audit effort was required and as such we considered the impact of Covid-19 on our key audit matters, specifically, the impact it had on Management's judgements and estimates in respect of going concern.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

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 2020, included within note 15 to the financial statements, the accrued income recognised for metered household customers is £12.4m (31 March 2019: £11.8m).
How the scope of our audit responded to the key audit matter	Our procedures involved: • obtaining an understanding and testing of relevant controls over the recognition of accrued income and general IT controls over the billing system; • reviewing 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; • 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; and • 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.
Key observations	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. Valuation of the provision for bad and doubtful debts

Key audit matter description	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 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 forms the basis for Management's base methodology to support the bad debt reserve recorded in the financial statements. The significant increase in the provision in comparison to the prior year is due to Management updating their calculations to reflect the continued decline in cash collection rates in recent years together with a risk adjustment for the estimated impact of Covid-19. 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. Included within note 15 to the financial statement, the Company holds £50.7m (31 March 2019: £46.3m) of gross trade receivables from customers at 31 March 2020. The total amount of the provision for bad and doubtful debts as at 31 March 2020 was £42.3m (31 March 2019: £32.2m).
How the scope of our audit responded to the key audit matter	Our procedures involved: • obtaining an understanding and testing of relevant controls over the calculation of the bad debt provision and general IT controls over the billing system; • reviewing 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; • obtaining the year-end bad debt provision calculation and reviewing 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; • testing the accuracy and completeness of the source data from which the cash collection rates are derived by agreeing to 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 reviewing actual cash collections recognised post year-end and comparing the impact against similar companies in the Water industry.
Key observations	Overall, we concluded that the methodology and estimations used in the valuation of the provision for bad and doubtful debts are reasonable.

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 significant judgement of the specific nature of the underlying transaction. 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 a potential risk of fraud due to the level of judgement involved, 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 £45.3m (31 March 2019: £44.6m).
How the scope of our audit responded to the key audit matter	Our procedures involved: • obtaining an understanding and testing of relevant controls 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 reviewing 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 reviewing 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 capital assets and operating expenditure is appropriate.

5.4. Impact of Covid-19

Key audit matter description	A global pandemic, Covid-19, was declared a Public Health Emergency of International Concern on 30 January 2020 by the World Health Organisation. The virus has led to increased volatility and disruption to the economic environment, therefore Management have carefully considered the measurement of assets and liabilities to ensure these appropriately reflect the conditions that existed on the balance sheet date. Significant judgement is required by the Directors, with specific consideration of the impact of Covid-19, on the Company's financial position, liquidity position, level of headroom on covenants and the Company's ability to access borrowing facilities. Management's assessment of going concern considers the 12 month period of cash flows from the date of the financial statements and Management have made a number of assumptions and considered a range of factors in their assessment of the short and long term impact of Covid-19. These include adjustments to cash collection rates, water demand and the supply of materials. As noted in the going concern disclosure on page 72, Management believes that the Company continues to be a going concern, with strong business continuity plans in place, the commercial terms of a new £30m RCF with NatWest Bank having been agreed in order to refinance the two expiring facilities within 12 months of the date of the financial statements and an expectation that the delivery of all water services will be uninterrupted during the pandemic. Due to the uncertainty surrounding the impact of Covid-19 on the Company's ability to operate as a going concern, as well as the increased audit efforts required to respond to the Covid-19 risk, we have included the impact of Covid-19 as a key audit matter in our audit report.
How the scope of our audit responded to the key audit matter	Our procedures involved: • assessing the impact of Covid-19 on business operations, investing activities and financing activities; • reviewing Management's projected cash flows, which include the impact of Covid-19, and performing sensitivity analyses; • assessing Management's ability to refinance the borrowings due within one year, including the status of discussions with the lenders; • evaluating the relevance and reliability of the underlying assumptions and factors used to make the assessment of the impact of Covid-19; • considering whether appropriate plans are in place for the Company's continued supply of water to customers during the pandemic; and • assessing the adequacy of Management's disclosure of the Company's ability to continue as a going concern in light of Covid-19, including the current status of the refinancing.
Key observations	Overall, we conclude that Management's assessment relating to going concern is appropriate.

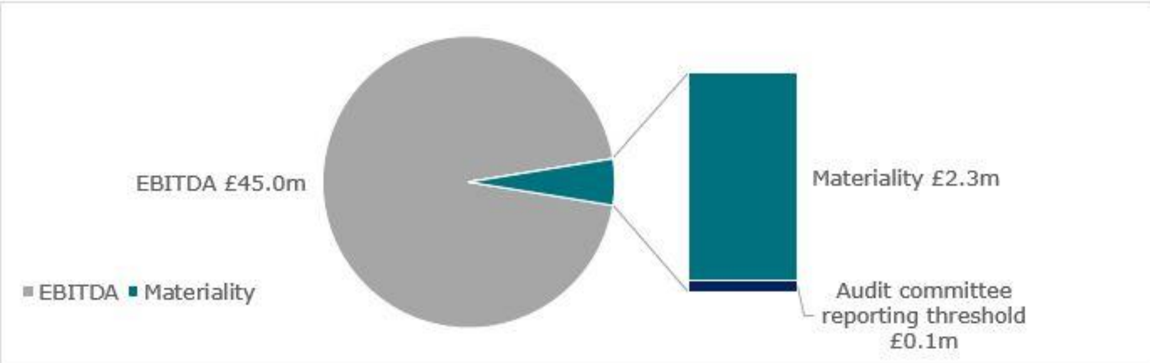
6. Our application of materiality

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:

Materiality	£2.3m (31 March 2019: £1.9m)
Basis for determining materiality	5% of EBITDA (31 March 2019: 3% of EBITDA excluding infrastructure renewals expenditure). The change in basis and percentage in comparison to the prior year reflects our reassessment of what is most important to the users of the financial statements and following a benchmarking exercise against similar Water companies.
Rationale for the benchmark applied	We have used EBITDA as the benchmark for determining materiality as this benchmark is 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.



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 2020 audit (31 March 2019: 70%). In determining performance materiality, we considered the following factors:

- the control environment and our ability to take control reliance on certain manual controls within the revenue and fixed asset business processes; 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 £117,500 (31 March 2019: £93,000), 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

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

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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

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

We have nothing to report in respect of these matters.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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. This description forms part of our auditor's report.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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; and
- the matters discussed among the audit engagement team involving relevant internal specialists, including tax, financial instruments, pensions, IT and 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; valuation of the provision for bad and doubtful debts; and classification of costs between operating and capital expenditure. 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 regulation by OFWAT, the economic regulator of water and sewerage companies in England and Wales.

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, valuation of the provision for bad and doubtful debts and classification of costs between operating and capital expenditure 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

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 18 years, covering the years ending 31 March 2003 to 31 March 2020.

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 2020

Financial statements

Profit and loss account – for the 12 months ended 31 March 2020

	Note	31 Mar 20 £'000	Restated 31 Mar 19 £'000
Turnover	2	129,796	128,781
Operating costs	3	(112,830)	(106,127)
Other operating income	6	5,384	8,418
Operating profit		**22,350**	**31,072**
Finance costs (net)	7	(13,013)	(12,237)
Profit before taxation		**9,337**	**18,835**
Tax on profit	8	(6,744)	(3,346)
Profit for financial year attributable to the equity shareholders of the Company		2,593	15,489
Earnings per share			
Basic	10	122.1p	729.5p
Diluted	10	122.1p	729.5p

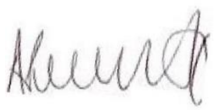
The results above are derived from continuing operations. The accompanying notes are an integral to these financial statements.

Balance sheet – as at 31 March 2020

	Note	31 Mar 20 £'000	Restated 31 Mar 19 £'000
Fixed Assets			
Tangible assets	11	551,578	531,869
Current Assets			
Stocks	14	2,487	2,366
Debtors - amounts recoverable within one year	15	30,114	47,398
Debtors - amounts recoverable in more than one year	15	28,302	28,424
Investments	16	2	2
Cash at bank and in hand		26,425	8,170
		87,330	86,360
Borrowings - amounts falling due within one year	17	(29,985)	-
Other creditors - amounts falling due within one year	17	(57,919)	(58,068)
Net current (liabilities)/assets		(574)	28,292
Total assets less current liabilities		551,004	560,161
Borrowings - amounts falling due after more than one year	18	(262,210)	(276,520)
Other creditors - amounts falling due after more than one year	18	(15,594)	(16,590)
Accruals and deferred income - falling due after more than one year	13	(159,328)	(152,310)
Provisions for liabilities - falling due after more than one year	20	(44,545)	(39,732)
Net Assets		69,327	75,009
Capital and reserves			
Called up share capital	21	2,123	2,123
Share premium account		495	495
Capital redemption reserve		4,450	4,450
Revaluation reserve		33,954	33,987
Profit and loss account		34,999	40,361
Hedging reserve		(6,694)	(6,407)
Shareholders' Funds		69,327	75,009

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

The financial statements of South Staffs Water (company number 2662742) were approved by the Board of Directors and authorised for issue on 15 July 2020.



Andy Willicott
Managing Director
15 July 2020

Statement of comprehensive income – for the 12 months ended 31 March 2020

	31 Mar 20	31 Mar 19
	£'000	£'000
Profit after taxation	2,593	15,489
Movement in hedging reserve (gross of deferred tax)	(545)	(306)
Deferred tax impact of movement in hedging reserve	104	52
Deferred tax rate move impact in year	154	-
Total comprehensive income	2,306	15,235

Statement of changes in equity – as at 31 March 2020

	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 2018	2,123	495	4,450	34,441	32,842	(6,153)	68,198
Profit for financial period	-	-	-	-	15,489	-	15,489
Change in value of hedging instruments - cash flow hedges (gross of deferred tax)	-	-	-	-	-	(484)	(484)
Deferred tax impact of change in value of hedging instruments	-	-	-	-	-	82	82
Amounts recycled to profit and loss (gross of deferred tax)	-	-	-	-	-	178	178
Deferred tax impact of amounts recycled to profit and loss	-	-	-	-	-	(30)	(30)
Amounts transferred to profit and loss	-	-	-	(454)	454	-	-
Total comprehensive income/(loss)	2,123	495	4,450	33,987	48,785	(6,407)	83,433
Dividends (note 9)	-	-	-	-	(8,424)	-	(8,424)
Balance at 31 March 2019	2,123	495	4,450	33,987	40,361	(6,407)	75,009
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)
Balance at 31 March 2020	2,123	495	4,450	33,954	34,999	(6,694)	69,327

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.

Cash flow statement – as at 31 March 2020

		31 Mar 20		Restated 31 Mar 19	
	Note	**£'000**	**£'000**	**£'000**	**£'000**
Cash inflow from operating activities			70,036		59,449
Corporation tax paid			(4,453)		(2,069)
Net cash inflow from operating activities	(a)		65,583		57,380
Cash flows from investing activities					
Purchase of tangible fixed assets		(41,607)		(44,251)	
Proceeds from sale of tangible fixed assets		580		567	
Interest received		993		2,545	
Net cash outflow from investing activities			(40,033)		(41,139)
Cash flows from financing activities					
Interest paid		(9,057)		(9,638)	
Equity dividends paid		(7,988)		(8,424)	
Repayment of bank loans		-		(2,100)	
(Repayment)/draw down of RCF		9,750		7,600	
Net cash outflow from financing activities			(7,295)		(12,562)
Increase in cash			18,255		3,680
Cash and cash equivalents at the beginning of the year			8,170		4,490
Cash and cash equivalents at the end of the year			26,425		8,170

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, £41,607,000, and additions reported in the fixed asset note 11 of £45,340,000 is due to an increase in year of creditors relating to capital purchases of £3,733,000.

Notes to the cash flow statement

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

	31 Mar 20		Restated 31 Mar 19	
	£'000	£'000	£'000	£'000
Total operating profit		22,350		31,072
Depreciation	25,549		23,654	
Amortisation of capital contributions	(2,907)		(2,701)	
Profit on disposal of tangible fixed assets	(301)		(663)	
Contributions and grants received	9,925		8,515	
		32,266		28,805
(Increase) in stocks	(121)		(652)	
Decrease/(increase) in debtors	18,802		(1,868)	
(Decrease)/Increase in creditors	(3,261)		2,092	
Cash inflow/(outflow) from operating activities		15,420		(428)
Corporation tax paid		(4,453)		(2,069)
Net cash inflow from operating activities		65,583		57,380

(b) Reconciliation in movement in net debt

	31 Mar 20	Restated 31 Mar 19
	£'000	£'000
Increase in cash	18,255	3,680
Draw down of RCF	(9,750)	2,100
Repayments of RCF	-	(7,600)
Bank term issue cost amortisation (non-cash)	(38)	45
Movement on index-linked debt (non-cash)	(5,887)	(5,823)
Decrease/(increase) in net debt in year	2,580	(7,599)
Net debt brought forward	(268,350)	(260,751)
Net debt carried forward	(265,770)	(268,350)

Notes to the cash flow statement (continued)

	Restated Balance at 31 Mar 2019	Cash Flow	Non-Cash Movements	Balance at 31 Mar 2020
	£'000	**£'000**	**£'000**	**£'000**
Cash at bank and in hand	8,170	18,255	-	26,425
Short-term bank loans	-	-	(29,985)	(29,985)
	8,170	18,255	(29,985)	(3,560)
Irredeemable debenture stock	(1,652)	-	-	(1,652)
Bank loans (net of issue costs)	(45,113)	(9,750)	29,947	(24,916)
Index-linked debt (net of issue costs and including premium)	(229,755)	-	(5,887)	(235,642)
Net debt	(268,350)	8,505	(5,925)	(265,770)

The cash flows in respect of the Company's bank loans include repayments of £174,673,000 and drawdowns of £184,423,000.

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.

	31 Mar 20	Restated 31 Mar 19
	£'000	**£'000**
Book net debt (as reported above)	(265,770)	(268,350)
Exclude book premium on issue of index linked debt	13,116	13,447
Difference between long-term RPI assumption and actual RPI inflation	8,111	7,673
Exclude unamortised issue costs	(1,657)	(1,819)
Exclude accrued interest	140	215
Net debt reported for borrowing covenants	(246,060)	(248,834)
Regulatory Capital Value	396,017	380,092
Covenant Net Debt/Regulatory Capital Value	62.1%	65.5%

Notes to the financial statements

1. Statement of accounting policies

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 Staffs 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 page 72, 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 page 109.

a) General information and basis of accounting

Although South Staffs 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 10 to 53. 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 159 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.

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 2020 was £12,399,000 (2019: £11,786,000). A 1% movement in consumption equates to a £100,000 movement. Other accrued income totalled £3,348,000 (2019: £3,816,000)

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 2020 was £235,642,000 (2019: £229,755,000). The difference between long term-RPI assumption and actual RPI inflation is set out in the notes to the cash flow above.

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. In addition, because of the current economic circumstances a further adjustment has been provided for the 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 £42,326,000 as at 31 March 2020 (2019: £32,193,000). For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase by £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 2020 was £551,578,000 (2019: £531,869,000). 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 £2,800,000.

2. Segmental information

The Directors consider that the company operates substantially in the UK in one class of business, that being water supply. No analysis of turnover, profit before tax or net assets, by geographical area or class of business, is considered necessary. Revenue from UK operations in the year was £129,796,000 (2019: £128,781,000).

3. Operating costs

	31 Mar 20	**Restated 31 Mar 19**
	£'000	**£'000**
Operating costs were as follows:		
Raw materials and consumables	5,591	5,085
Staff costs (see note 4)	20,400	19,573
Own work capitalised	(9,209)	(8,588)
Depreciation : non-infrastructure assets	21,339	19,839
Depreciation : infrastructure assets	4,210	3,815
Infrastructure renewals expenditure	11,439	14,387
Provision for doubtful debts	10,240	2,934
Other operating costs	48,820	49,082
	112,830	106,127

Auditor remuneration is analysed as follows.

	31 Mar 20	**Mar 2019**
	£'000	**£'000**
Fees payable to the company's auditor for the audit of the company's annual accounts	111	87
Other services pursuant to legislation	43	34
	154	121

There are £17,000 of non-audit services payable in the period (2019: £16,000).

4. Staff costs

	31 Mar 20	31 Mar 19
	£'000	£'000
Wages and salaries	16,538	15,788
Social security costs	1,621	1,587
Pension costs (see note 22)	2,241	2,198
	20,400	19,573

	31 Mar 20	Mar 2019
	Number	Number
Monthly average number of direct employees	365	355
Monthly average number of administration and support functions employees	70	65
Monthly average number of employees	435	420

5. Directors' remuneration

	31 Mar 20	31 Mar 19
	£'000	£'000
Emoluments	410	379
Pensions	24	21
	434	400

The highest paid directly-employed Director received emoluments of £280,000 (2019: £253,000) and received a contribution of £24,000 (2019: £21,000) 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 £294,000 (2019: 363,000). Contributions in respect of money purchase pension schemes for these Directors was £55,000 (2019: £63,000).

No Directors (2019: 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 (2019: two) were contributing members under a money purchase scheme.

The remuneration report on pages 79 to 82 gives further detail around the remuneration of the Directors and Executive team.

6. Other operating income

	31 Mar 20	Restated 31 Mar 19
	£'000	**£'000**
Profit on disposal of fixed assets	301	663
Rental income	453	474
Grants and Contributions	2,907	2,701
Infrastructure renewals contributions	1,723	4,580
	5,384	8,418

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. 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)

	31 Mar 20	31 Mar 19
	£'000	**£'000**
Interest payable and similar charges:		
Index-linked debt (cash)	7,832	7,604
Index-linked debt (non-cash)	5,887	5,822
Bank loan and other interest	916	1,110
Debenture interest	67	68
	14,702	14,604
Interest receivable:		
Loans to parent undertakings	(1,865)	(2,545)
	12,837	12,059
Other finance charges:		
Amounts recycled from hedging reserve	176	178
	13,013	12,237

8. Tax on profit

	31 Mar 20 £'000	31 Mar 19 £'000
Current tax:		
UK corporation tax at 19% (2019: 19%)	1,720	3,321
Adjustments in respect of prior periods	(47)	(423)
Total current tax charge	1,673	2,898
Deferred tax:		
Origination and reversal of timing differences	241	361
Impact of changes in future tax rates	4,829	-
Adjustments in respect of prior periods	1	87
Total deferred tax charge	5,071	448
Total tax charge	6,744	3,346

Tax included in statement of comprehensive income		
Deferred tax:		
Movement in hedging reserve	(104)	(52)
Effect of change in deferred tax rate	(154)	-
Total tax charge	(258)	(52)

Factors affecting the total tax charge

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are reconciled below.

	31 Mar 20 £'000	31 Mar 19 £'000
Profit before taxation	9,337	18,835
Profit multiplied by standard		
UK corporation tax rate of 19% (2019: 19%)	1,774	3,579
Expenses not deductible for tax purposes (net)	187	145
Deferred tax provided at lower rate	-	(42)
Effect of changes in deferred tax rate	4,829	-
Adjustments in respect of prior years	(46)	(336)
Total tax charge	6,744	3,346

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 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%. (2019: 19%)

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 £1,858,000 (2019: £1,858,000).

9. Dividends paid

	31 Mar 20 £'000	**31 Mar 19 £'000**
Equity Interests		
Ordinary Dividends paid of 376.2p (2019: 396.8p) per share	7,988	8,424

In 2020, the dividend comprised:

- £4,298,000 from the appointed business (2019: £3,486,000);
- £1,825,000 from the non-appointed business (2019: £2,393,000); and
- £1,865,000 from intra-group interest to be paid back to the company (2019: £2,545,000).

Further details of the dividend paid in the year are provided on page 35 of the strategic report.

10. Earnings per share

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 following profits and number of shares.

	31 Mar 20 £'000	**31 Mar 19 £'000**
Profit on ordinary activities after taxation and profit for earnings per share	2,593	15,489

	31 Mar 20 Number of Shares	**31 Mar 19 Number of Shares**
Weighted average number of shares for basic and diluted earnings per share	2,123,210	2,123,210

11. Tangible fixed assets

	Specialised Operational Assets	Non Specialised Operational Assets	Infrastructure Assets	Other Tangible Assets	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost					
At 1 April 2019	237,905	21,205	481,801	224,151	**965,062**
Additions	7,723	75	13,909	23,633	**45,340**
Disposals	(23)	(22)	-	(727)	**(772)**
At 31 March 2020	**245,605**	**21,258**	**495,710**	**247,057**	**1,009,630**
Depreciation					
At 1 April 2019	107,341	7,778	185,309	132,765	**433,193**
Charge for the year	7,539	342	4,210	13,458	**25,549**
Disposals	(18)	(6)	-	(666)	**(690)**
At 31 March 2020	**114,862**	**8,114**	**189,519**	**145,557**	**458,052**
Net Book Value					
Owned	130,428	13,144	306,191	101,198	**550,961**
Leased	315	-	-	302	**617**
At 31 March 2020	**130,743**	**13,144**	**306,191**	**101,500**	**551,578**
Net Book Value					
Owned	130,214	13,427	296,492	91,103	**531,236**
Leased	350	-	-	283	**633**
At 31 March 2019	**130,564**	**13,427**	**296,492**	**91,386**	**531,869**

Tangible fixed assets financed by leasing and hire-purchase contracts amounted to £7,375,000 (2019: £7,375,000) less accumulated depreciation of £6,758,000 (2019: £6,742,000). Tangible fixed assets include freehold land of £2,337,000 (2019: £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 £28,300,000 at 31 March 2020 (2019: £31,341,000).

12. Commitments

Capital commitments outstanding at 31 March 2020 were £5,957,000 (2019: £7,501,000). Payments due not later than one year were £5,957,000 (2019: £7,501,000)

13. Capital contributions – accruals and deferred income

	Infrastructure Assets £'000	Other Assets £'000	Total £'000
Balance at 1 April 2019	140,400	11,910	152,310
Capital contributions received	6,890	3,035	9,925
Amortised in year	(1,769)	(1,138)	(2,907)
Balance at 31 March 2020	**145,521**	**13,807**	**159,328**

An amount included in the above balance is expected to be amortised in the next year. However, due to the varied timing of receipts, the movement of associated projects from work in progress to completion, and general changes in the work carried out as part of the capital programme, this balance has not been segregated.

14. Stocks

	31 Mar 20 £'000	31 Mar 19 £'000
Raw materials and consumables	2,487	2,366

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

	31 Mar 20 £'000	31 Mar 19 £'000
Amounts recoverable within one year:		
Trade debtors	8,350	14,143
Other debtors	1,948	73
Amounts due from other group undertakings	-	1,916
Amounts due from parent undertakings	3,852	15,443
Prepayments	217	221
Accrued income	15,747	15,602
Debtors - amounts recoverable within one year	30,114	47,398
Amounts recoverable in more than one year:		
Loans receivable from parent undertakings	25,000	25,000
Other amounts due from parent undertakings	3,302	3,424
Debtors - amounts recoverable in more than one year	28,302	28,424
Total debtors	58,416	75,822

Amounts due from parent undertakings was £32,154,000 (2019: £43,867,000). Amounts of £25,000,000 (2019: £25,000,000) are identified as loans with a repayment date 3 June 2051. These loans attract interest of 7%.

Corporation tax receivable of £1,036,000 (2019: £nil) is included in other debtors.

Detail of provision against bad debt are shown in note 23 on page 125.

16. Investments

	31 Mar 20	31 Mar 19
	£'000	£'000
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

	31 Mar 20	31 Mar 19
	£'000	£'000
Bank loans (unsecured and net of issue costs)	29,985	-
Borrowings	29,985	-
Payments on account	24,494	22,369
Trade creditors	19,803	18,073
Other creditors	5,979	7,778
Amounts owed to other group undertakings	7,129	7,507
Corporation tax payable	-	1,745
Other taxation and social security	514	596
Creditors	57,919	58,068
Total creditors amounts falling due within one year	87,904	58,068

Included within amounts falling due within one year for the year ended 31 March 2020 was the gross bank loan (unsecured) of £30,000,000 used for covenant reporting purposes, however in accordance with FRS 102, are stated above net of unamortised issue costs, which mature in December 2020.

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

	31 Mar 20	Restated 31 Mar 19
	£'000	**£'000**
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 one and two years	-	29,967
payable between two and five years	24,916	15,146
Retail Price Index-linked debt (unsecured)	235,642	229,755
Borrowings	262,210	276,520
Payments on account	3,640	3,716
Other creditors	9,079	9,417
Amounts owed to other group undertakings	-	1,304
Derivative financial liabilities	2,875	2,153
Creditors	15,594	16,590
Total creditors amounts falling due after more than one year	277,804	293,110

The gross bank loans (unsecured) of £25,000,000 (2019: £45,250,000) 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 £10,000,000, of which £10,000,000 (2019: £9,950,000) was drawn; and
- another facility of £15,000,000, of which £15,000,000 (2019: £5,300,000) was drawn at 31 March 2020, maturing in 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 122.

The book value index-linked debt of £235,642,000 (2019: £229,755,000) is stated above at amortised cost in accordance with FRS 102. The indexed principal of £215,833,000 (2019: £210,097,000) is used for borrowing covenant reporting purposes. Details of the terms of our index-linked debt is shown in note 23 on page 122.

19. Irredeemable debenture stock

	31 Mar 20 £'000	31 Mar 19 £'000
3.5%	476	476
4.0%	627	627
5.0%	500	500
	1,603	1,603
Net premium on irredeemable debenture stock	30	30
	1,633	1,633

20. Provisions for liabilities

	Deferred Taxation £'000
At 1 April 2019	39,732
Charged to profit and loss account	5,071
Credit to other comprehensive income	(258)
At 31 March 2020	44,545

Analysis of deferred tax	31 Mar 20 £'000	31 Mar 19 £'000
Accelerated Capital Allowances	46,402	41,199
Timing differences in respect of hedging reserves	(1,570)	(1,312)
Timing differences in respect of finance charges	(183)	(169)
Other timing differences	(104)	14
Provision for deferred tax	44,545	39,732

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

	31 Mar 20 £'000	31 Mar 19 £'000
Authorised:		
8,800,000 Ordinary shares of £1 each	8,800	8,800
Allotted, called-up and fully-paid:		
2,123,210 Ordinary shares of £1 each	2,123	2,123

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 2020 the funding into the schemes was made indirectly through the parent company. This was to the value of £1,368,000 (2019: £1,350,000).

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 2020 being £873,000 (2019: £848,000).

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 2020, 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 £72,143,000 (2019: surplus of £52,400,000). 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.

	Mar 2020 Valuation £'000	**Mar 2019 Valuation £'000**	**Mar 2018 Valuation £'000**
Growth assets including equities and diversified growth funds	16,625	2,844	25,066
High yield bonds/gilts and liability driven investments	208,039	202,862	187,406
Emerging markets multi-asset funds	-	20,097	19,941
Cash	954	886	1,599
Market value of assets	225,618	226,689	234,012
Present value of scheme liabilities	(153,475)	(174,289)	(181,038)
Surplus in the scheme before deferred tax	72,143	52,400	52,974
Related deferred tax liability	(13,707)	(8,908)	(9,006)
Surplus after deferred tax	58,436	43,492	43,968

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 period 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.

Interest rate risk profile – borrowings

The interest rate profile of the borrowings (stated at book value) of the company as at 31 March 2020 was as follows.

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Retail Price Index-Linked debt £'000
31 March 2020	31,553	25,000	235,642
31 March 2019	31,619	15,146	229,755

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.

	31 Mar 20 £'000	31 Mar 19 £'000
Retail Price Index-Linked Loan		
Un-indexed Loan Value	111,400	111,400
Indexed/Covenant Loan Value	168,321	163,786
Book Value	185,446	180,896
Fair Value	388,017	356,124
Retail Price Index-Linked Bond		
Un-indexed Bond Value	35,000	35,000
Indexed/Covenant Bond Value	47,512	46,312
Book Value	50,197	48,859
Fair Value	60,620	60,270

Fixed-rate borrowings

	Weighted average interest rate %	Weighted average period for which rate is fixed Years
31 March 2020	2.8	0.8
31 March 2019	2.8	1.8

Borrowing facilities

The company has various borrowing facilities available to it. The undrawn committed facilities available at 31 March 2020 in respect of which all conditions precedent have been met were as follows.

	31 Mar 20 £'000	31 Mar 19 £'000
Expiring in more than two years but not more than five years	-	9,750
	-	9,750

(2019: £9,700,000 has an interest rate of 0.8% plus LIBOR and £50,000 has an interest 0.55% plus LIBOR).

In addition to the above at 31 March 2020, the company had cash balances of £26,425,000 (2019; £8,170,000), increasing liquidity headroom to £26,425,000 (2019: £17,920,000).

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 accounts.

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.

The Company has chosen to early apply the amendments to FRS 102 for the reporting period ending 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Company to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

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. On 23 March this year, the UK Government announced the creation of the Covid Commercial Finance Facility (CCFF) to help firms bridge the disruption to their cash flows as a result of the Covid-19 outbreak. In April, we 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. To date, we have not made any use of the ECP programme.

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 2019. There is no impact on reserves other than the impact on the profit and loss account after tax.

	31 Mar 20	31 Mar 19
	£'000	£'000
RPI +0.25%	(584)	(553)
RPI -0.25%	584	553
LIBOR +1.00%	(247)	(198)
LIBOR -1.00%	247	198

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 period 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 2020 detailed above has been calculated by assuming that the illustrated changes to the variables occurred on 1 April 2019 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 2017.

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 20	31 Mar 19	31 Mar 20	31 Mar 19	31 Mar 20	31 Mar 19
	%	%	£'000	£'000	£'000	£'000
Period to maturity						
5-10 years	2.14	2.14	30,000	30,000	2,875	2,153

Maturity of financial assets and liabilities

	31 Mar 20 £'000	31 Mar 19 £'000
Borrowings		
In one year or less or on demand	29,985	-
In more than two years, but not more than five years	25,000	37,844
In more than twenty years	217,485	211,749
	272,470	249,593
Other Financial Liabilities		
In one year or less or on demand	87,903	58,068
In more than one year, but not more than two years	908	596
In more than two years, but not more than five years	4,560	6,436
In more than five years, but not more than twenty years	10,127	9,559
	375,968	324,252

The table above excludes future interest payments and future indexation on financial liabilities. Index-linked borrowings of £215,833,000 (2019: £210,098,000) 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 (2019: £358,265,000) and at redemption in 2051 is £118,379,000 (2019: £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 2023.
- £15,000,000 RCF Barclays has an interest rate of 0.66% plus LIBOR and matures in December 2020.
- £15,000,000 RCF RBS has an interest rate of 0.60% plus LIBOR and matures in December 2020.
- £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 £28,302,000 (2019: £28,424,000) principally represent loans receivable from the company's parent companies of £25,000,000 (2019: £25,000,000) with the £25,000,000 having no fixed repayment date (2019: £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 2020 in respect of such provisions was £10,240,000 (2019: £3,021,000). Total trade debtors as at 31 March 2020 were £10,550,000 (2019: £14,143,000). The total amount of the provision included in the above, as at 31 March 2020, was £42,326,000 (2019: £32,193,000).

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 £200,022 at year end (2019: £182,752).

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**
2020	5,866	870	995	519	332	423	9,005
2019	8,369	2,427	1,619	1,126	831	555	14,927

Non-Regulated	**<1 month**	**1-2 months**	**>2 months**	**>3 months**	**Total**
2020	288	519	69	94	970
2019	738	60	74	25	897

Non-regulated debtors that are considered to be impaired and so netted out of the figure above are to the value of £82,000 (2019: £70,000) and were all more than two months past due. An ageing analysis of appointed debtors that are considered to be impaired is provided below.

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**
2020	5,434	5,796	3,982	3,483	3,082	20,466	42,243
2019	3,919	3,128	2,662	2,517	2,276	17,621	32,123

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 Staffs 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 2020 was £3,665,000 (2019: £3,788,000). 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, and turnover of £19,138,000 (2019; £20,267,000) in relation these transactions was recognised with £195,000 outstanding at the year end (2019: £1,000). The receivable is secured, due in 15 days from invoice date. Also at 31 March 2020, an amount of £679,000 was payable to PWSL for cash collected during the year that has not been paid over (2019: £348,000). As the company provides management services, a fee of £120,000 is payable from PWSL and remains outstanding at year end (2019: £140,000 and £nil respectively). The receivable is due in 30 days from invoice date.

There is an arrangement between senior management and Selena MEP, which has 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 81.

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 Staffs 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 Staffs Water at 31 March 2020. 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 the 16 April 2020, we took additional steps to secure access to additional liquidity through the £75 million European Commercial Paper (ECP) programme. The programme is very much like utilising Bank Revolving Credit Facilities (RCFs) and provides extra financial resilience should the business require it. To date, we have not made any use of the ECP programme or plan to make any use of the ECP programme. This facility will be available for at least 12 months from the date of commencement.

27. Prior period restatement

Other operating income

In the Profit and loss account amortisation of capital contributions received and infrastructure renewals contributions have been presented as other operating income in 2019/20. These were presented as a reduction in operating costs in prior periods. Comparatives have been restated increasing prior year other operating income by £7,281,000 and increasing operating costs by the same amount. Other operating income included in operating costs (net) has been presented as other operating income increasing prior year operating costs £1,137,000.

In the cash flow capital contributions received have been presented as operating cash flows in 2019/20 as these credits are released to operating income over the useful economic life of the non current asset to which they relate. These were presented as investment cash flows in prior periods. Comparatives have been restated increasing prior year operating cash inflows by £8,515,000 and decreasing investing cash outflows by the same amount.

Presentation of debt facilities

During the year, the directors reviewed the presentation of cash and cash equivalents along with the RCF debt facilities, in particular, the contractual right of offset between each instrument. Following this review, the Directors have adjusted the prior year to increase both cash and long-term borrowings by £7.5m. The effect of this restatement on the statement of financial position for the company for the year ending 31 March 2019 is as follows.

As previously reported:	
Cash at bank and in hand	764
Net current assets	20,886
Total assets less current liabilities	552,755
Borrowings: amounts falling due after more than one year	(269,114)
Net assets	75,009

As restated:	
Cash at bank and in hand	8,170
Net current assets	28,292
Total assets less current liabilities	560,161
Borrowings: amounts falling due after more than one year	(276,520)
Net assets	75,009

The effect of this on the cash flow statement is as follows.

As previously reported:	
Net cash outflow from financing activities	(17,669)
Decrease in cash	(1,428)
Cash and cash equivalents at the beginning of the year	2,192
Cash and cash equivalents at the end of the year	764

As restated:	
Net cash outflow from financing activities	(12,562)
Increase in cash	3,680
Cash and cash equivalents at the beginning of the year	4,490
Cash and cash equivalents at the end of the year	8,170

There is no effect on the reported profits as a result of this presentational adjustment

Part 2: Annual performance report

About the annual performance report

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

1. Regulatory accounts primary statements.
2. Price review and segmental reporting.
3. Performance summary.
4. Additional regulatory information.

Our statutory accounts on their own are considered insufficient to assess the performance of a vertically integrated, price-controlled monopoly such as South Staffs Water. This is particularly relevant in a water sector with long-life assets and where there is still an absence of competitive markets for different parts of the value chain. These regulatory accounting statements use audited information and comply with Ofwat's published regulatory accounting guidelines (RAGs), which can be found on its website[25].

Content of the APR

The APR comprises:

- a suite of data tables forming the regulatory accounts;
- a table on outcome performance for the year;
- narrative covering outcomes, totex and a reconciliation to price controls;
- a long-term viability statement covering the period to 2030;
- a statement confirming our compliance with the ring-fencing conditions of our licence (F6A); and
- a risk and compliance statement confirming that we have a full understanding of, and are meeting, all our relevant statutory, licence and regulatory obligations.

To avoid duplication, we have signposted some of the required disclosures in our statutory accounts.

We present the APR to the Audit Committee and the Board for approval.

Assurance of the APR

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

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

[25] www.ofwat.gov.uk.

There is also a section on ODIs and the indicators that carry a financial reward or penalty; Jacobs has audited this. A summary report is set out on page 174. Group Internal Audit has reviewed the remaining reputational ODIs and the summary report is set out on page 180.

Jacobs has also audited the financial flows submission and our long-term viability statement.

Board leadership, transparency and governance

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

- The first is that the Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment, it must take corrective action.
- The second is an annual evaluation of the Board's performance. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report, and any weaknesses are acted on and explained.

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

Ofwat's principle	How we have complied
Purpose, values and culture	• Revised vision and purpose, tested with customers and our people, and shaped and approved by the Board (page 4). • As part of the work being carried out to achieve Investors in People (IIP) accreditation in 2020/21, we have tested the company's values of Trust, Respect, Excellence, Service and Integrity with our people (page 29).
Stand-alone regulated company	• See 'Matters reserved for Board' (page 69). • See 'Corporate governance report' (pages 64 to 84).
Board leadership and transparency	• See 'Corporate governance report' (pages 64 to 84).
Board structure and effectiveness	• See 'Board, Directors and Executive team' (pages 56 to 60). • See 'Directors' report (page 60). • See 'Corporate governance report' (pages 64 to 84), with particular reference to the Board effectiveness section (page 84). • See 'Directors' responsibilities statement' (page 85).

Summary of regulatory performance

Performance commitments

Outcome	ODI name	Unit of measurement	Year						Target achieved	Performance against last year
			2015/16	2016/17	2017/18		2019/20			
			Actual	Actual	Actual	Actual	Target	Actual		
1 Excellent water quality	Mean Zone Compliance	%	99.884	99.982	99.943	99.915	100.00	99.984	✗	Improving
	Acceptability of water to customers	Contacts per thousand population	1.96	1.66	1.42	1.51	1.23	1.19	✓	Improving
2 Secure and reliable supplies	Interruptions to supply	Minutes and seconds per property	04:14	05:11	08:32	07:09	10:00	03:21	✓	Improving
	Asset health infrastructure	Category	Stable	Stable	Stable	Stable	Stable	Stable	✓	Stable
	Asset health non-infrastructure	Category	Stable	Stable	Stable	Stable	Stable	Stable	✓	Stable
3 Excellent customer experience	Service Incentive Mechanism	Score	86.3	84.4	87.0	86.4	90.0	81.4	✗	Declining
	Customer satisfaction	%	98	99	97	98	98	98	✓	Stable
	Community engagement	Days	257	222	425	749	400	527	✓	Declining
4 Environment	Leakage South Staffs region	Megalitres per day	69.9	69.9	72.4	70.5	70.5	68.9	✓	Improving
	Leakage Cambridge region	Megalitres per day	13.2	14.3	14.4	13.2	13.5	12.8	✓	Improving
	Water efficiency	Litres per person per day	129.59	129.85	133.09	136.41	128.31	128.57	✗	Improving
	Biodiversity	Hectares of land	76	92	119	138	116	169	✓	Improving
	Carbon emissions	Tonnes of carbon saved	178	285	550	635	5210	716	✗	Improving
5 Fair customer bills	Value for money and affordability satisfaction	%	93	91	94	95	90	93	✓	Declining
	Support for customers in debt	Number of customers	19621	23895	29036	30838	30000	38612	✓	Improving

Appointed financial performance

- Revenue for the year ended 31 March 2020 was £124.0m, with an operating profit of £15.1m. Tax charged in the year was £6.3m.

- We paid a dividend of £6.2m during the year of which £4.4m is from the appointed business, representing 3.4% of regulated equity. The remaining £1.8m was from intra-group interest to be paid back to the company.

- The regulatory book net debt stood at £265.8m, providing a gearing ratio of 67.1% against an RCV of £396.0m. The covenant net debt stood at £246.1m, with gearing of 62.1%.

- Across the asset management period (AMP) to date, an actual investor return of 15.4% has been achieved, which is 4.7% higher than the notional return in the final determination at PR14. A more appropriate calculation, using covenant net debt is 14.1%.

- Retained value for the AMP to date averaged 9.5%, 2.7% higher than the notional retained value in our final determination.

- The RORE averaged 8.6%, or 6.7% using the covenant net debt. This is higher than that allowed in the final determination of 5.97%, with outperformance on ODIs and retail costs driving this. More details are set out on page 219.

Wholesale and retail performance

- Wholesale revenue from customer charges was £2.1m below the Final Determination driven by lower new connections, an increase in voids and lower non-household revenue as a result of the impact of Covid-19.

- Wholesale totex for the year was £78.7m (2012/13 prices), which was £1.8m higher than allowed in the final determination. Over the AMP to date, totex was £3.1m higher than that allowed in the final determination, 0.8% above the final determination.

- Household retail revenue for the year was £17.2m, which was broadly in line with that allowed in the final determination.

- Retail costs stood at £19.8m. This is £4.5m higher than that assumed in the price control as a result of bad debt charges in the year.

Outcome delivery incentives

- We incurred total rewards of £0.95m for the year ended 31 March 2020, comprising:
  - a reward of £0.906m for outperforming our target for interruptions to supply; and
  - a reward of £0.0484m for outperforming our target for acceptability of water.

- Over the AMP to date, our net reward position is £2.29m.

Service incentive mechanism (SIM)

- We earned a reward of £1.4m (2012/13 prices) for our strong customer service performance over the 2015/19 period.

Long-term viability statement

We have carried out an assessment of the company's long-term financial viability. This involves considering our expectation of performance for the period to 2030 and then applying a number of plausible scenarios or 'stress tests' to consider the impact on our financial resilience.

Stress testing

We have stress-tested our financial projections 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 on pages 38 to 47 and consider financial, operational and regulatory risks.

In assessing the impact on financial resilience, we have considered the impact on:

- profitability;
- cash flows;
- liquidity;
- borrowing capacity;
- credit ratings; and
- compliance with borrowing covenants.

Where a scenario affects our credit rating, we have then considered the actions we would take to mitigate the impact.

Consistent with the Board's objective of maintaining a strong investment grade, we are targeting a credit rating of Baa1/BBB+. 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 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%.

To maintain a credit rating with S&P of BBB+, we require a minimum FFO/net debt of 9% for the appointed business. This is consistent with the target ratio of other water companies with the same target credit rating.

Our base plan, which we have used to carry out stress tests, is based on our business plan for the five years to 2025. We have modelled the five years to 2030 using the same assumptions as presented in our PR19 business plan.

Below we set out the specific scenarios we have modelled, including two related to the Covid-19 outbreak.

Scenario	Size of the impact	Explanation
Covid-19 – short wave	Various	The current impact of Covid-19 is uncertain and is likely to have multiple impacts over the 2020/25 period. This 'short' scenario assumes that the peak of infections was in April 2020 and the economy reopens by July 2020. The impacts covered are: • household bad debt: collection rate deteriorates by yr1 0.8%/yr2 0.4%; • household metered demand: household water demand increases by yr1 2.6%; • non-household water demand: non-household water demand decreases by yr1 17.5%; • retailer failure: 15% retailers collapse/having 40% collateral on 1Q of annual wholesale charge; • material shortage: material cost increases by yr1 5.5%/yr2 1.2%; • contractor shortage: contractor cost increases by yr1 4.5%/yr2 1.5%; • ODI penalty: % of penalty against regulated equity yr1 0.75%/yr2 0.5%/yr3 0.5%/yr4 0.5%/yr5 0.5%; and • cost of new debt: cost of new debt changes by yr1-70bps/ yr2 63bps/yr3 13bps/y4r 13bps/yr5 13bps.
Covid-19 – long wave	Various	This 'long' scenario assumes that it takes longer to reduce the infection rate with localised outbreaks requiring some continued restrictions imposed by the UK Government during the summer. The impacts covered are: • household bad debt: collection rate deteriorates by yr1 1.5%/yr2 1.1%/yr3 0.8%/yr4 0.4%/yr5 0.1%; • household metered demand: household water demand increases by yr1 5.4%; • non-household water demand: non-household water demand decreases by yr1 26%; • retailer failure: 25% retailers collapse/having 40% collateral on 1Q of annual wholesale charge; • material shortage: material cost increases by yr1 8.9%/yr2 2.5%; • contractor shortage: contractor cost increases by yr1 6.6%/yr2 2.2%;

Scenario	Size of the impact	Explanation
		• ODI penalty: % of penalty against regulated equity yr1 1%/yr2 0.75%/yr3 0.75%/yr4 0.75%/yr5 0.75%; and • cost of new debt: cost of new debt changes by yr1 -20bps/yr2 68bps/yr3 13bps/yr4 13bps/yr5 13bps.
Low inflation	Average CPIH is 1.5% lower than forecast in years 1 and 2 of AMP7	The Bank of England monetary report in May 2020 forecast a significant fall in CPIH over 2020, falling to 0% by the end of the year. It is also projected that the average inflation rate for 2021 is 0.5% and only returns to normal levels of around 2% by 2022. As a significant driver for the reduction in CPIH is the fall in global oil prices, there is a risk that this reduction is not seen in relation to specific industry costs and that the relative price effect increases significantly. This could lead to a real terms overspend in totex.
Overspend on our treatment works expenditure	20% overspend (£12m) over the first three years of AMP7	In AMP7, we have a significant investment in our two treatment works in the South Staffs region at a cost of £60 million. This investment is required to ensure we can continue to supply high-quality drinking water to customers and improve our operational resilience. There is a risk that the cost of delivering this investment may be more expensive than planned. This could be because of possible changes in scope or because contractors' tender prices are higher than expected. We assume that this overspend would be shared between the investors and customers based on our final determination of a 45:65 sharing rate, hence 45% of the overspend recovered from the customers partly through revenue in AMP8 and partly through RCV over a longer term.
Lower cost of capital	20bps reduction in wholesale WACC for AMP8	There is a risk that the cost of capital set at PR24 is lower than that at PR19.
Extreme weather events	£1.3m higher than assumed opex in 2022/23 and 2027/28	In the past three years, we have experienced the effects of both a severe winter (the 'Beast from the East') and a hot summer. Both of these events resulted in additional costs incurred from additional pumping costs to the cost of repairing burst mains. There is a risk that something similar could happen again in the future. We have based the estimated impact on the costs we actually incurred.
ODI penalty for CRI, leakage and interruptions to supply	CRI P10 penalty (average 1.6m/year) Leakage P10 penalty (average 0.4m/year) Interruption to supply (0.6m in year 2 and £0.4m in year3 of AMP7)	Our final determination has stretching performance commitments with the intention to achieve upper quartile performance. There is a risk that we fail to achieve our targets, resulting in us incurring a penalty being incurred. Three of our performance commitments carry the largest risks and we have run a scenario assuming we hit the penalty on all three for two successive years in AMP7.

Scenario	Size of the impact	Explanation
Penalty in C-MeX and D-MeX	Customer measure of experience (C-MeX) penalty 6% of retail revenue (0.8m/year) Developer measure of experience (D-MeX) max penalty 2.5% of developer revenue (£0.3m/year)	C-Mex and D-Mex measure how satisfied our customers and developers have been with our service. They are relative measures to the rest of the water sector. So there is a risk that our performance deteriorates compared to other companies. For C-MeX, we have had a good track record over the years in terms of our customer service performance. Although we do not envisage that we would be lower quartile, we could potentially fall to below average and we have assumed a penalty of 1.2% of retail revenue a year. Our performance on developer services has ranged from lower quartile to average over the last three years and we continue to look at ways to improve our service. However, there is a risk that we do not improve relative to other companies. We have assumed that in this scenario we are below average and incur a penalty of 2.5% of developer services revenue a year.
High interest rates	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. There is a risk the interest rate on this new debt is higher than that allowed in the final determination. Although there is mechanism to true up any difference between the actual cost of debt and the final determination, we may not achieve a deal that is consistent with the iboxx rate used in the reconciliation.
Pensions	Additional £2m per annum of pension contributions to fund a pensions deficit	Our defined benefit pension scheme is currently in surplus. However, there is a risk that with the recent fall in stock markets the scheme could be in deficit. This would mean that additional pension contributions would be required.
Combined scenario (overspend on our treatment works expenditure, extreme weather, ODI penalty and pensions	Overspend: 20% overspend (£12m) over the first three years of AMP7 Extreme weather: £1.3m higher than assumed opex in 2022/23 and 2027/28 ODI penalty: CRI P10 penalty (average 1.6m/year); leakage P10 penalty (average 0.4m/year); interruptions to supply (0.6m in year 2 and £0.4m in year 3 of AMP7)	We recognise that it is possible that a number of the scenarios outlined above could happen together. In fact, the impact of one scenario may impact another; for example, an extreme weather event may impact on our ODI performance. We recognise that this combination of scenarios is extreme; but it is still plausible and therefore from a risk perspective it is important to understand the impact on our business.

Stress-testing results

As described above, we have considered the impact of the stress tests on a range of factors. But we consider the most important of these is our ability to maintain an investment grade credit rating. Below we set out the impact of each of our stress tests on our plan along with the mitigating factors we have considered where there is a risk to financeabilty. This sets out the key financial metrics after each stress test as an average, as well as the lowest year in the period, but before management action to mitigate them. We have identified where we fall below our targeted metrics as follows.

- **Green** – the metric remains consistent with our target credit rating (Baa1/BBB+) and gearing remains at or below 70%, based on covenant debt.
- **Amber** – the metric falls below our target rating, but is still at investment grade (Baa2/BBB) and/or gearing is between 70% and 85% (highly geared but still complying with our bond and bank covenants).
- **Red** – the metric falls below that required to maintain an investment grade and/or gearing is above 85% (dividend lock up).

To maintain an investment grade credit rating of Baa2 with Moody's we would require AICR to be above 1.3. For S&P, an investment grade of BBB would require FFO/net debt to be above 7%.

		AMP7			AMP8		
		AICR (Moody's)	FFO/Net Debt (S&P)	Gearing	AICR (Moody's)	FFO/Net Debt (S&P)	Gearing
Base case	Lowest year	1.6	10.3%	67%	1.7	12.8%	65%
	Average	2.1	12.1%	65%	1.7	12.8%	64%
Covid-19 short wave scenario	Lowest year	1.5	9.9%	68%	1.6	12.4%	66%
	Average	2.0	11.5%	67%	1.7	12.4%	66%
Covid-19 long-wave scenario	Lowest year	1.5	9.6%	69%	1.6	12.1%	67%
	Average	1.9	11.1%	67%	1.6	12.1%	67%
High interest	Lowest year	1.5	10.0%	67%	1.6	12.3%	66%
	Average	2.0	11.9%	66%	1.6	12.3%	65%
Lower inflation	Lowest year	1.5	9.5%	69%	1.7	12.5%	67%
	Average	2.0	12.4%	67%	1.7	12.5%	66%
Overspend on treatment works capex	Lowest year	1.6	9.9%	69%	1.7	12.5%	67%
	Average	2.0	11.7%	67%	1.8	12.6%	66%
Lower WACC	Lowest year	1.6	10.3%	67%	1.6	12.3%	65%
	Average	2.1	12.1%	65%	1.6	12.3%	65%
Extreme weather event	Lowest year	1.6	10.3%	67%	1.7	12.4%	65%
	Average	2.1	12.0%	65%	1.7	12.7%	65%
ODI penalty	Lowest year	1.4	9.4%	67%	1.7	12.5%	66%
	Average	2.0	11.7%	66%	1.7	12.5%	65%
C-MeX and D-MeX penalty	Lowest year	1.5	9.9%	67%	1.7	12.7%	66%
	Average	2.0	12.0%	65%	1.7	12.7%	65%

		AMP7			AMP8		
		AICR (Moody's)	FFO/Net Debt (S&P)	Gearing	AICR (Moody's)	FFO/Net Debt (S&P)	Gearing
Deficit in pension scheme	Lowest year	1.4	9.4%	68%	1.7	12.3%	67%
	Average	1.9	11.3%	66%	1.7	12.4%	66%
Combined scenario	Lowest year	1.2	8.1%	71%	1.6	11.7%	70%
	Average	1.7	10.5%	69%	1.7	10.5%	69%

The gearing figures above 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 final modelling.

The outputs show that under three scenarios, we are below our targeted credit metrics in at least one of the years. However, we maintain an investment grade except under the combined scenario where in one year the Moody's metric falls below investment grade.

Mitigations considered

Based on the outputs from the stress testing, we have considered the actions senior management could take to ensure we maintain our investment grade credit rating. We believe that one or a combination of them would restore the financial metrics to an acceptable range.

Mitigation	Explanation
Risk management	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.
Reprioritising capital investment	We have a good track record historically of delivering our capital expenditure programmes. Even where we have experienced unexpected cost increases, we have been able to take actions to manage this and reprioritise our overall programme to ensure we can offset these costs while still delivering for customers. For example, in the current planning period (2015 to 2020), we have accommodated the need to install UV treatment at our Hampton Loade and Seedy Mill water treatment works by reducing our expenditure on our mains replacement programme. We appraise all our investment needs through our Investment Optimisation tool, which captures both the costs associated with delivery and the anticipated benefits that our customers will see. Combined with internal review and challenge, this allows us to re-prioritise our investment needs and fully understand the impact this will have on service. So, we believe we can offset any underperformance in the short term.
Lower dividends/capital injection	We could restrict dividend payments further to save cash and maintain investment grade credit metrics.

Mitigation	Explanation
Regulatory mechanisms	There are a number of regulatory mechanisms in place for water companies that protect them from significant shocks. These include: • totex sharing allowances that share the out- or underperformance of costs between customers and investors; • a revenue true-up mechanism for wholesale over- or under-recovery; • the impact of indexation of the cost of new debt mechanism introduced in this price control period (2020 to 2025); • uncertainty mechanisms; and • the substantial effects determination.
Non-regulated business	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.

For each stress test scenario, where we would be below the targeted credit metric for at least one year, we have set out the most appropriate mitigations we could use.

Scenario	Risk management	Reprioritise capex	Lower dividend	Regulatory mechanism
Covid-19 short wave and long wave	✓	✓	✓	✓
Low inflation				✓
Overspend on treatment works expenditure	✓	✓		✓
Lower cost of capital			✓	✓
Extreme weather event	✓	✓		✓
ODI penalty for CRI, leakage and interruptions to supply	✓		✓	
Penalty in C-MeX and D-MeX	✓		✓	
High interest	✓		✓	✓
Pension deficit repair cost	✓		✓	
Combined scenario	✓	✓	✓	✓

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 independent internal audit 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.

Long-term viability statement Board statement

The Board of South Staffs Water ('the company') is responsible for the efficient running of the company and for ensuring that it is resilient. In making the declarations below, the Board has been guided by Ofwat's information notice on expectations for companies' long-term viability statements (IN 19/07).

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 2030.

The ten-year period has been selected because:

- the five years from April 2020 are covered by the company's plans, which the Board has approved;
- the Board also 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; and
- specific stress testing has been performed for the five years to March 2030 based on assumptions used in the company's business plan submission.

The Directors also declare that the company has carried out appropriate stress testing of its proposed performance over the next ten years, and that the results of these tests show the business to be financially resilient.

- Details of the tests carried out are described on pages 136 to 138 above.
- These tests are considered to cover, severe, plausible and reasonable scenarios for key variables relevant to the company.
- Appropriate multiple scenarios have been considered.
- 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 independent specialist review.
- The basis and logic for the scenarios tested has also been verified by Jacobs.
- This assurance is in line with the company's assurance framework.

Andy Willicott
Managing Director
15 July 2020

Company direction and performance statement

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

Our vision is about making water count – for clean, affordable water every day.

This is so that we can make sure all our customers have access to high-quality drinking water, and that we always empower our people to provide an excellent and trusted service.

As a business that has provided an essential public service in our South Staffs and Cambridge regions for more than 150 years, we recognise the importance of delivering the things that matter most to our customers, now and in the future. To achieve this, we actively work in partnership with local communities and play our part to help them thrive. We also act as the guardians of our assets and work hard to protect the local environment. We are a responsible company that puts the safety of our customers and our people at the heart of all our decision-making. This helps us to run an efficient business that is in everyone's interests.

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

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

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

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

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

- gender, equality and diversity (page 28);
- corporate governance (page 64);
- Executive pay and remuneration (page 79);
- shareholder dividends (page 114); and
- our ownership structure (page 66).

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

During the year, our focus was on Ofwat's PR19 price review process, which culminated in our final determination. This will see average household customer bills reduce by around 10% in real terms over the five years to 2025. In addition, it allows us to invest in improvements to service, our resilience in the round and the environment, as well as to carry out the upgrade of our Hampton Loade and Seedy Mill water treatment works. This work is a crucial element of our business plan. Our final determination is challenging and we will have to work hard over the five years to 2025 to deliver the commitments that our customers have said are important to them.

Another area of focus during the latter part of the reporting year was the Covid-19 outbreak. This unprecedented situation presented us at times with a rapidly evolving situation, but we were able act in an agile way, putting plans in place to ensure we maintained essential public water supplies, while keeping our people and our customers safe. As a business, our focus was on building resilience around key functions directly connected to the supply of clean water to customers and asking managers to update their continuity plans to ensure we kept our water network operating as normal. We also made sure our office-based people had the tools they needed to work effectively from home and put in place a wide range of financial support for customers who were directly impacted by the outbreak.

Andy Willicott
Managing Director
15 July 2020

Statement of Directors' responsibilities for regulatory information

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

This additionally requires the Directors to:

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

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

This Directors' responsibilities statement was approved at a meeting of Directors held on 29 June 2020 and duly signed on its behalf.

Andy Willicott
Managing Director
15 July 2020

Ring-fencing certificate

Background and requirements of the statement

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

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

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

Main factors the Board has considered

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

Financial resources and facilities

Factor considered	Sufficiency of evidence
Financial position	We have committed borrowing facilities available of £25 million, which are fully drawn, and current cash balances of £26.4 million. This provides sufficient headroom for at least the next 12 months. We also have access to capital markets if further funding is required in the future. We have also taken precautionary steps to secure access to additional liquidity through the Covid Commercial Finance Facility (CCFF), by establishing a £75 million European Commercial Paper (ECP) programme. To date, we have not made any use of the ECP programme.
Credit ratings and compliance	The latest published credit ratings at February 2020 from Moody's and S&P following the PR19 final determination remain well within investment grade. The actual and forecast borrowing covenants all maintain significant headroom to allow us to operate.
Performance against the PR14 final determination	The RORE (table 4h) set out in the APR shows that we have outperformed over the past five years compared with the PR14 final determination – in particular, in relation to retail costs and outcome delivery incentives. The financial flows (table 1f) show that 2.7% of outperformance has been retained within the business.

Factor considered	Sufficiency of evidence
Budgets and plans	Our budget for 2020/21 and the associated investment programme has been reviewed, challenged and approved by the Board. Base plans used for the long-term viability statement cover the period 2020 to 2030. This is set out on pages 135 to 141, along with the stress tests applied, the results of those tests and the mitigations considered. This includes a specific Covid-19 scenario, using an independent industry assessment. The Audit Committee has reviewed the long-term viability statement on behalf of the Board; it considers that the company will continue to operate for at least the next ten years.

Management resources

Factor considered	Sufficiency of evidence
Management skills, experience and qualifications	Many key managers have been with the company for a number of years and have gained a significant level of experience in their relevant areas. Key technical managers are suitably qualified and continually developed to ensure their skills are up to date.
Recruitment process and employee management	All job vacancies are gender neutral and focus on skills, abilities and opportunities for development. We also work proactively with local schools, colleges and universities – attending careers fairs and engaging with young people about the opportunities it has to offer. All employees have two formal appraisals a year. This enables managers to review performance, progress against objectives set for the year and behaviour against company values. Appraisals also consider future aspirations and training needs.
Succession planning	Succession planning in recent years has focused on recruiting apprentices and training them in key roles, such as leakage detection and repair. We run a successful apprenticeship scheme. During the reporting year, six apprentices transitioned into full-time roles within the business.
Training and development	All new starters attend a formal induction, and health and safety presentation. Where identified, a formal training and development plan is agreed to ensure employees become fully competent in their roles. These plans are reviewed on a regular basis against specific milestones. We are applying for Investors in People (IIP) accreditation later this year. This is a measure of people investment that offers accreditation to organisations that adhere to specific standards and recognise the importance of employee engagement.
Board culture and independence	During the year, the Chair committed to carrying out a review of the Board's effectiveness, using surveys and face-to-face interviews with the Directors. Because of timing constraints and changes in Board member, the Chair decided to carry out a fuller review later in the year. The largest single group of Directors on the Board during the year was that of Independent Non-executive Directors, including the Independent Chair.

System of planning and internal control

Factor considered	Sufficiency of evidence
Risk management	The Audit Committee reviews the risk management process on behalf of the Board and every six months presents it with the key risks facing the business, the impact assessment and the controls in place to mitigate them. This is set out on pages 38 to 47.
Internal/external audit	The Audit Committee reviews and challenges papers and feedback from senior management, external auditors' reports and reports from Group Internal Audit.
Business continuity	Each department reviews and updates its business continuity plans every year. These plans consider how we would operate in the event of a significant event. They cover the ability to work remotely, disaster recovery and how we ensured a continued service to customers.
Fraud prevention, unethical behaviour and whistleblowing	The Board, supported by the Audit Committee, attaches considerable importance to our system of internal control and reviews its effectiveness. This includes making sure reasonable steps are taken to safeguard our assets, and to prevent and detect fraud and other irregularities. The internal control system can provide only reasonable and not 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. We have an established internal control framework that is continually reviewed and updated, taking into account the nature of our operations.
Risk and compliance statement	The Board reviews and approves the risk and compliance statement as set out on pages 152 to 156. This includes a statement that the company has sufficient processes and internal systems of control to meet its statutory obligations.

Other rights and resources

Factor considered	Sufficiency of evidence
Corporate purpose and values	As part of Ofwat's principles on Board leadership, transparency and governance, the Board is required to monitor to assess values and culture to satisfy itself that behaviour throughout the business aligns with the company's purpose. This is set out on page 4.
Technology, systems and security	There is an Information Security Steering Group that works in tandem with our fellow Group companies to focus on protecting the business and driving improvements through: • the creation of an Information Security Control team; • reviewing and improving our business continuity and resilience. The Group IT services provider has achieved ISO 27001 certification; • continued engagement in national and international industry forums; • providing information security awareness training for our people; and • collaboration with others across the water sector.

Factor considered	Sufficiency of evidence
Policies to encourage and integrated approach and 'systems thinking'	We have developed and implemented a framework that demonstrates an integrated approach and systems thinking, which underpins all its operations. This is published as part of our resilience action plan[26], which is available on our website.
Planning systems	As part of our published resilience action plan, we have set out seven principles of systems planning that have been linked to its business outcomes. These are: • resilience in the round; • a naturally resilient water sector; • customer engagement; • consideration of intervention options; • delivering best value solutions for customers; • having an outcomes and customer-focused approach; and • Board assurance and sign off.
Asset maintenance and insurance factors	We have a number of assets that are critical to the provision of clean, safe and high-quality drinking water. The reliability and resilience of these assets could cause risks around our delivery capacity, with loss of supplies. We have considered our long-term plans in the context of managing and maintaining its assets and supply capabilities. We have also carried out: • significant investment on our key water treatment works; and • a risk-based review of all our assets to ensure we are ready and capable of delivering clean, safe and high-quality drinking water. We have a comprehensive insurance policy that covers: • public liability; • employee liability; and • business interruption. We review the policy each year to ensure it provides appropriate cover.

Contracting

Factor considered	Sufficiency of evidence
Status of key contracts	For most key contracts, regular dialogue takes place to identify any potential supply issues at an early stage. We use multiple suppliers for critical items. We also hold additional stocks where there is a limited number of suppliers.
Contracts with associated companies comply with licence conditions	There are defined procedures to ensure contracts with associated companies are at arm's length, either through competitive tender or at cost. These are set out on page 163. We ensure the Board has visibility of our trading arrangements with associated companies, and present a paper that sets out the current arrangements in place and any risks of non-compliance. This paper also sets out the total value of transactions in the year compares with the previous year and shows them in the context of total category spend.

[26] 'Resilience action plan', South Staffordshire Water PLC, August 2019. www.south-staffs-water.co.uk/media/2732/resilience-action-plan-200819.pdf

Factor considered	Sufficiency of evidence
Details of transactions between the appointed company and associates	These are set out on pages 162 to 167 and show the: • service supplied; • value of transaction in the year; and • terms by which the contract operates.
Loans, guarantees and transfers of assets by the appointed company	No new loans, guarantees or transfers were issued during the year. Details are set out on page 162.

Material issues or circumstances

Factor considered	Sufficiency of evidence
Covid-19 outbreak	The impact of Covid-19 demonstrated that our business continuity plans have been effective. Most of our office-based people were able to work from home immediately when the UK Government put restrictions in place. In particular, we maintained service with our customer call centre so that it could help all customers, especially those who could be classed as vulnerable, and deal with emergencies. We also demonstrated the resilience of our systems, people and processes. For example, changes to working practices and remote working became the new normal. In addition, staff embraced video and telephone conferencing, and continued to provide and maintain a service to customers. Field-based teams continued to operate while observing the UK Government's guidelines on social distancing. In April, we 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. To date, we have not made any use of the ECP programme. No employees have been furloughed during the Covid-19 outbreak. As part of the long-term viability statement, the Audit Committee has considered the financial impact on the business of two scenarios for Covid-19 – a short wave where the economy reopens by July and a long wave scenario where Government restrictions continue during the summer. More details are set out on page 136.

Procedures followed to satisfy the Board that the evidence is sufficient

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

During the year, the Board discusses a wide range of agenda items. Examples of these are set out on page 157. A number of these items cover the factors considered above and allow the Directors to gain an overall picture in respect of the sufficiency of resources.

For example, the Board has been fully engaged in the formulation of the company's budget and longer-term plans. As part of the process, several key meetings were held with Board members to allow early discussion and challenge. The process culminated in the approval of the final budget at a Board meeting in April 2020.

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

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

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

Board declaration

The Directors declare that in their opinion:

a) The company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the regulated activities (including the investment programme) necessary to fulfil the company's obligations under its Instrument of Appointment.

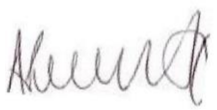
b) The company will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out its activities and fulfil its obligations.

c) All contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the appointee, to ensure it is able to meet all its obligations as a water undertaker.

d) The company will, for at least the next 12 months, have available to it systems of internal control that are sufficient to enable it to carry out its functions.

In making this declaration, the Directors have considered the main factors set out on pages 146 to 149.

This statement was approved at a meeting of Directors held on 29 June 2020 and duly signed on its behalf.



Andy Willicott
Managing Director
South Staffordshire Water PLC

Risk and compliance statement

Background and requirements of the statement

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

Ofwat guidance requires the company to confirm that it has:

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

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

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

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

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

During the year, there have been a number of licence modifications proposed or introduced. These are summarised below, along with any required actions the company has taken to ensure it meets them.

Licence modifications	How the company is meeting the new obligations
Board leadership, transparency and governance principles	The licence modification came into effect on 1 August 2019. Page 131 of the APR sets out how the company is complying with these principles.
Regulatory ring-fencing	This licence condition has not yet taken effect. But the company supports the modification, which covers the following four key areas. • Maintaining investment grade credit ratings and cash lock up. • Providing a ring-fencing certificate (see page 146). • Reporting of material issues. • Change of control and other matters.
Modifications to licence conditions, the most significant being to enable water companies to levy charges to recover shortfalls in revenue in previous charging years	These modifications came into effect in November 2019 and will apply for the five years from 2020 to 2025. Any shortfall must be calculated in accordance with Ofwat's Revenue Forecasting Incentive (RFI). The company will use the RFI reconciliation model, along with appropriate assurance, to ensure it is compliant.

At a meeting of Directors held on 29 June 2020 the Board confirmed that the company:

- has adequate financial resources and facilities, management resources and systems of internal control (including those needed to manage risk) to enable it to carry out its regulated activities (including the investment programme necessary to fulfil its obligations under its Instrument of Appointment);
- has maintained an investment grade rating from both Moody's and S&P;
- can confirm that there are sufficient rights and assets available to enable a special administrator to run the business;
- has ensured that executive Directors' remuneration packages are linked to the performance of the business, taking account of both financial and service performance;
- has ensured that each Director has confirmed that, in accordance with the Companies Act 2006, as far as they are aware, there is no relevant audit information of which the company's auditors are unaware. The Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the company's auditors are aware of that information; and
- complies with condition F of its licence. The Board can also confirm the company's compliance with the objectives and principles of RAG 5.07, namely that transactions with associate companies are at arm's length and that cross-subsidy is not occurring.

Based on the work carried out during the year, the company has not identified any exceptions and can confirm that it has a full understanding of and is meeting all its relevant statutory, licence and regulatory obligations.

2. The company confirms that it has taken steps to understand and meet customer expectations

The company has a number of outcomes that reflect what its customers have expressed as what matters to them. These outcomes have performance commitments attached that customers can expect it to achieve. Each year, the company publishes a summary of its performance for customers and makes it available on its website[27].

The company believes it is important to be transparent with its customers and other stakeholders, and regularly shares information about its performance. In addition, it reports operational performance to customers through its accessible dashboard[28]. The company also makes further disclosures around remuneration, governance, tax and its ownership structure, as it knows these are importance matters for customers.

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

- engaged with household and non-household customers to check that the promises in its business plan are acceptable to them; and
- engaged with household customers around the role a water company should play in supporting the communities it serves. This engagement has helped to shape the company's purpose so that it continue to retain high levels of customer trust.

As a result of this engagement the company has developed, among other things, a mobile app, an online leak reporting tool and voice-activated digital services. It has also carried out a full review of its IT systems and the way it manages the work it needs to do for customers. This is so that the company can be more proactive, respond quicker and communicate what it is doing more effectively. It wants to build its approach around the way customers want to engage with it.

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

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

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

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

[27] www.south-staffs-water.co.uk/publications/annual-reports.
[28] www.south-staffs-water.co.uk/about-us/our-performance-dashboard.

There is an established internal control framework that is continually reviews and updated. This process includes the identification, evaluation and management of the significant risks faced by the company as set out in the strategic report.

Alongside this, the company also has robust and transparent assurance processes in place as set out in its company monitoring framework and assurance plan[29].

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

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

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

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

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

The objectives of this risk management process are to:

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

The key risks, as identified using the process described, and details about what each risk means for the company, the actions it is taking to mitigate the impacts and any changes in risk are set out on pages 38 to 47.

[29] 'Assurance plan 2020/21', South Staffordshire Water PLC, March 2020. www.south-staffs-water.co.uk/media/3046/assurance-plan-april-2020.pdf).

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

This statement was approved at a meeting of Directors held on 29 June 2020 and duly signed on their behalf.

Andy Willicott
Managing Director
South Staffordshire Water PLC

Lord Chris Smith
Independent Chair
South Staffordshire Water PLC

Accounting disclosures

Board agendas for the year ended 31 March 2020

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

- Our business plan for 2020 to 2025, including:
  - the cost adjustment claim for our treatment works upgrade (design and build element);
  - outcome delivery incentive shadow reporting and mitigation activities;
  - our representations on Ofwat's draft determination; and
  - a review of Ofwat's final determination on our plans for 2020 to 2025.
- Ofwat's emerging strategy.
- The UK's exit from the European Union.
- Statutory accounts, APR and external assurance (including long-term viability testing).
- Overground engineering base capital maintenance – the framework for 2020 to 2025.
- Operational and performance issues.
- Customer issues, including vulnerability/affordability and tariff setting.
- Financial performance, financeability, risk and cash management.
- The views of key stakeholders and regulators, including Ofwat, the DWI, CCW and the Independent Customer Panel.
- Approvals of capital activities, budgets, proposals and reports.
- Health and safety.
- Approval for publication of a Modern Slavery policy statement.

Relationship between Directors' remuneration and standards of performance

We have an obligation under Section 35A of the Water Industry Act 1991 to make a statement in relation to remuneration that is linked to standards of performance. Please refer to page 79 of the annual report and accounts (part 1 of this document) for full details of the relationship between Directors' remuneration and standards of performance.

Disclosure of information to auditors

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

Approach to taxation

Please refer to page 36 of the annual report and accounts (part 1 of this document) for full details of our approach to taxation.

Dividend policy

Dividends of £6.2m were paid or the year for the appointed business (2019: £6.0m). This includes £1.8m (2019: £2.5m) paid to the company's holding company to enable it to pay intra-group loan interest to the company.

The Board-approved dividend policy for the period to the end of AMP6 was based on ensuring that the company maintains significant headroom to the covenants in our borrowing facilities. When considering dividend payments the Board reviews the operational and financial performance of the business and only pays a dividend subject to sufficient financial resources and distributable reserves being available. This ensures that the company continues to meet its licence requirements to maintain an investment grade rating and to ensure that dividends do not impair our ability to finance our functions as a water undertaker. The business makes two dividend payments: one interim and one final. For 2019/20, ahead of the business finalising the March dividend payment, the Board considered carefully the financial position of the business, in light of the impacts to the economy as a result of the Covid-19 outbreak.

We are pleased to have met or exceeded our targets on 11 out of 15 performance commitments in the reporting year. This is our best result in five years and is set within the context of our targets for some measures becoming tougher over the period.

It means that our customers will be seeing the benefits of lower leakage, higher water quality, improved resilience and lower levels of supply interruption – all things they have continually told us matter most to them. We are also providing more support to vulnerable customers than ever before, having vastly exceeded the targets for our financial support schemes.

Because of this strong wholesale performance and the strong financial position, the Board approved the March dividend payment.

Going forward, we have confirmed that we will adopt the expectation for dividends that Ofwat set out in its position statement on putting the sector back in balance. The Board has confirmed that when approving dividend payments, it will take into consideration:

- our actual performance in relation to our regulatory and customer targets (delivered primarily through our performance commitments);
- our continued financeability, and compliance with covenant and licence conditions;
- our continued prudent position in relation to our pension obligations;
- the emergence of new and compelling investment needs to meet service challenges or resilience issues; and
- any relevant external issues that may impact on our overall resilience.

Following the Covid-19 outbreak, however, the Board committed to reviewing the dividend policy.

Condition K

In the opinion of the Directors, the company was in compliance with paragraph 3.1 of its Instrument of Appointment as at 31 March 2020.

Accounting policies

Accounting policy for price control segments

The regulatory accounts have been prepared in accordance with RAG 2 ('Guideline for the classification of costs across price controls') and follow the company's accounting separation methodology statement. This is available on our website[30].

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

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

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

Revenue recognition

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

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

Charges may be waived in special circumstances – for example, hospitalisation, probate and incarceration. Where a property is believed to be occupied, but the occupier details are not known, the income is not recognised until the occupant details are obtained. We use Land Registry searches and void inspector visits to ascertain the identity of any occupier.

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

Void inspectors visit properties to confirm that a property is unoccupied. For void metered properties, where consumption has been measured and the identity of the customer is not known following a void inspection, the property will be billed for the full charges in the name of 'the occupier'. Charges raised are realised as revenue in the same way as other metered income.

[30] www.south-staffs-water.co.uk/publications/annual-reports.

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

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

Income recognised during the year is based on the value of bills raised. For metered consumption not yet billed, an accrual is estimated based on historical average daily consumption for each customer. The measured income accrual at March 2020 was £12.4m compared with £11.8m in the previous year. Following comparison to the income actually billed for these customers in the year there are no significant differences to report.

Capitalisation policy

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

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

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

Bad debt policy

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

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

Absconded

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

Bankruptcy

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

Deceased

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

Liquidation

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

Uneconomic to collect

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

Transactions between the appointed company and associated companies

We have a duty to trade at arm's length and ensure there is no cross-subsidy with respect to transactions with associated companies or between price control units. Our licence conditions require that all such transactions must be disclosed. In line with RAG 3.11, no single transaction exceeding £100,000 has been aggregated. Full details are set out on pages 165 to 167.

Loans by or to the appointed company

As at 31 March 2020, South Staffs Water had a loan of £25.0m to Hydriades Limited, with interest payable at 7%; in the year, we received £1.750m in interest.

On 28 May 2019, a £15.0m loan to Aquainvest Ventures Limited was repaid in full.

Dividends paid to associated companies

As a wholly owned subsidiary, South Staffs Water paid dividends of £6.2m in the year to our holding company, South Staffordshire Plc. This included £1.8m to enable it to pay intra-group loan interest to the company. The remaining £4.4m is from the appointed business.

Guarantees or other forms of security by the appointed company

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

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

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

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

We anticipate that we may claim or surrender any group loss relief for the year ended 31 March 2020 £466,000 (2019: £nil).

Other transactions

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

Supply of services by or to the appointed company

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

Competitive tenders

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

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

'At cost' transactions

If work is carried out by an associated company where no competitive tender has been undertaken, then those transactions must be at cost as set out in RAG 5.07. We take the following guidelines into account.

- All 'at cost' contracts are approved by the Executive team or the Board of Directors every 12 months. The approval should outline why the contract should continue at cost (for example, performance of the associate during the year or strategic reasons).

- All transactions under the 'at cost' contract must be signed off by the appropriate project manager.
- The cost allocation of the associated company must be fully auditable to show that it is 'at cost'. Sample audits are carried out by the Internal Audit function.

Transactions between price controls

Since Ofwat's 2014 price review (PR14), there are now separate binding price controls in place for wholesale and household retail services. Companies need to ensure that there is no cross-subsidy between price control units.

We have followed the RAGs to ensure that costs are correctly allocated between price controls. The tables in the price review and segmental reporting section of this APR and the accompanying cost allocation methodology statement have been reviewed externally by Jacobs to ensure that we are compliant with the RAGs.

In addition, there are additional requirements set out in Condition R of our licence in relation to arm's length trading with related licensees operating in the retail business market. We update this information each year and publish it on our website[31].

The following transactions occurred during the 12 months to 31 March 2020.

[31] www.south-staffs-water.co.uk/media/2621/ssc-compliance-code-final.pdf.

Services supplied to the appointee by associated companies

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Onsite	68.809	Mainlaying and repair of water mains	15.997	Competitive tendering
	-	Mains Rehabilitation	4.274	Competitive tendering
	-	Minor Civils	0.994	Competitive tendering
	-	Metering	1.342	Competitive tendering
	-	Reservoir Refurbishment	0.335	Competitive tendering
	-	Drainage Surveys	0.014	Cost
Integrated Water Services Limited	42.724	Water Treatment	0.035	Cost
	-	Mechanical and Electrical Services	0.405	Cost
	-	Capital Works	2.452	Competitive tendering
SSI Services UK Limited	0.734	Motor vehicle repair and maintenance	0.507	Cost
Hydrosave (UK) Limited	22.599	Leakage detection	0.078	Competitive tendering
Echo Managed Services Limited	28.049	Customer Services	7.231	Cost
	-	Billing Software	0.495	Cost *
South Staffordshire Plc	-	Management services	2.666	Cost
	-	HR and Health & Safety	0.019	Cost
	-	Payroll Services	0.145	Cost
	-	IT Networks, Operations, Development and Telephony	0.945	Cost
	-	Finance, Treasury, Internal Audit and Accounts Payable	0.723	Cost
Office Water Coolers	5.559	Water Coolers	0.005	Cost *

Omega Red	18.075	Lightning Protection	0.029	Cost *
		Total services supplied to the appointee by associated companies	**38.691**	

Cost* – these transactions were incorrectly charged at market rates during the year and a correcting refund will be received in 2020.

Services supplied by the appointee to associated companies

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Echo Managed Services Limited	28.049	Sewerage collections support	0.184	Cost
	-	Site Services	0.166	Cost
	-	Recharges for the use of appointed assets	0.059	Cost
South Staffordshire Plc	-	Communications and media support	0.038	Cost
Echo Managed Services Limited	28.049	Operational training	0.001	Cost
Hydrosave (UK) Limited	22.599	Operational training	0.007	Cost
Integrated Water Services Limited	42.724	Operational training	0.004	Cost
Onsite	68.809	Operational training	0.004	Cost
South Staffordshire Plc	-	IT Equipment removal	0.003	Cost
		Total services supplied by the appointee to associated companies	**0.467**	

Services supplied by the appointee to the non-appointed business

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
South Staffs Water Non appointed	5.775	Recharges for the use of appointed assets	0.002	Cost
	-	Management fees	0.203	Cost
	-	Operational training	0.002	Cost
		Total services supplied by the appointee to non appointee	**0.207**	

Data assurance summary

As a monopoly provider of an essential public service, we recognise the importance of high-quality assurance and governance to ensure our customers and other stakeholders can have trust and confidence in the information we publish and the services we provide each day across our South Staffs and Cambridge regions.

In 2015, Ofwat published its company monitoring framework. This set out the regulator's expectations for how water companies should demonstrate strong assurance and governance, and how it would monitor this.

We have worked with our major stakeholders to understand any areas of risk within our assurance processes, and to develop a holistic assurance framework that we use to assess our assurance requirements. Since 2015, we have consulted with our stakeholders each year to identify those risks and to put in place a plan to address them. Our latest assurance plan, covering this APR and other important submissions during the financial year, is available on our website[32].

Our auditors

We have two primary audit requirements for the APR information.

- Financial data relating to our accounting reporting and financial performance.
- Technical data relating to our water service performance.

We use a financial auditor, Deloitte LLP, for the statutory and regulatory financial accounting audits. Deloitte has an extensive understanding of the statutory and regulatory accounting requirements.

We use a technical auditor, Jacobs UK Limited, for the water service performance, which includes performance commitments and other technical data related to water supply reporting. We appointed Jacobs in 2017 after a competitive tender process, as we recognised that its broad experience of technical audit and its extensive knowledge of the current regulatory environment would work well with our continued data quality improvements.

Assurance of this APR

We summarise below our overall principles of assurance for each of the four sections in this APR.

[32] www.south-staffs-water.co.uk/about-us/our- strategies-and-plans/our-assurance-framework.

Sections 1 and 2 – regulatory financial reporting, price review and other segmental reporting

The data we report in sections 1 and 2 is consistent with the RAGs published in early 2019. Deloitte LLP audits this section of the APR and its audit assessment is set out on page 181. In addition, we have used Jacobs to carry out further assurance that table 1F is consistent with Ofwat's guidance.

Section 3 – performance summary

This section sets out our performance against our outcomes and ODIs.

We have used Jacobs to audit our:

- financially incentivised ODIs;
- asset health sub-measures;
- SIM performance; and
- Shadow performance commitments

A statement from Jacobs is set out on page 174.

Section 4 – additional regulatory information

There is a mix of tables and data within this section. Where data in these tables is the same as that used in other areas of the APR, then these data items are covered by the audits in sections 1, 2 and 3. The remaining data has been audited by Jacobs in accordance with the judgement of risk set out in our 2019/20 assurance plan. We have also used Jacobs to review our RORE calculation, as this is a key metric used by Ofwat and other key stakeholders.

Improvements we have made to the APR

In our assurance plan published in April 2019, we defined a number of targeted areas that required extra focus in the 2019/20 reporting year. We set out those targeted areas below and explain how we have addressed them.

Targeted area	How we have improved
PR19 business plan	We received our final determination from Ofwat in December 2019, the culmination of more than three years of work to develop our plans and deliver our largest-ever customer engagement programme. The Board accepted out final determination in February and we are set to deliver real improvements in service, resilience and investment in our infrastructure over the next five-year period.

Targeted area	How we have improved
Developer charges	We undertook an independent review of our approach to setting bulk charges for NAVs to ensure that it was compliant with Ofwat guidance. Subsequently, we issued our bulk NAV tariff for 2020/21 setting out how this had been calculated. In preparation for the 2020/21 charging year we consulted with our developer customers through the publication of a consultation document, meeting key trade bodies and regulators and attended developer days hosted by our peers. We have changed the structure of our mains charges from a simplified 'per plot' structure to a more granular menu of rates approach which aligns to the majority of the market and provides the consistency that developer customers seek.
Annual customer charges	Each year, we engage with CCW, which is a statutory consultee. We also engage with water retailers on our wholesale charges. We focus on any areas that could mean bill changes for customers. We model the impact of our charges across a wide range of customer types and usage levels; this enables us to identify any groups of customers that may be adversely affected.
APR	As in previous years, we have used Deloitte LLP to externally audit our financial reporting for the APR. We have also produced a summary of the APR with the aim of ensuring the key information is accessible to customers. We have also sought the views of our people and our customers and developed a revised vision and purpose for the business, which the Board has shaped and approved.
Reporting of key metrics in a consistent way across the sector	We have continued to develop our level of compliance with the common reporting guidance now in place for several of the performance commitments that will be reporting during the five years from 2020 to 2025. We now have full compliance against several reporting measures; but we still have work to do on leakage and water consumption compliance. We have submitted a separate commentary to Ofwat detailing our level of compliance for each of these measures.
Preparation for 2020 to 2025	During the 2019/20 reporting year, we have been putting in place our preparations to deliver our business plan commitments, and which form part of our final determination from Ofwat. We have already begun the procurement and design stages for our major water treatment works investment schemes that will deliver improved water quality to our customers in the South Staffs region. In addition, we have been engaging with the Environment Agency to determine the full scope of the national environment programme (NEP) schemes in both our South Staffs and Cambridge regions. We have also started work on developing the reporting processes for our new performance commitments and putting delivery plans in place to meet our new targets.
Making sure our publications are customer friendly	We have continued to think about the audiences for our published documents and, where possible, we have created customer-friendly summary documents for our main submissions. We have also continued to improve our website content to make it accessible and informative for customers. This includes making more use of video, animations and infographics. In addition, we have continued to increase our use of social media channels for customer information, and regularly communicate using Twitter, Facebook, Instagram and YouTube.

Targeted area	How we have improved
Making sure our cost assessment data is robust	Ofwat collects operational information to determine cost allowances at price reviews. Much of this data is longstanding; however, definitions sometimes change over time. To ensure our cost assessment data is fully compliant with the latest definitions, we have implemented additional checks and external assurance. We engaged Jacobs to carry out assurance on the data lines in tables 4P and 4Q, which Ofwat may use for cost assessment purposes in future price reviews.

The Independent Customer Panel

Throughout the year, we have provided quarterly updates to the Independent Customer Panel (our name for the Customer Challenge Group or CCG) on our performance and year end forecasts.

Other significant publications

Below, we set out the other significant documents we have published during 2019/20.

Targeted area	How we have improved
Our response to Ofwat's draft determination	In August, we submitted our response to Ofwat's draft determination. The process culminated in December with the publication of our final determination, which we accepted in February. Our business plan is available on our website[33].
Summary performance report	As well as publishing our full APR each year containing the statutory and regulatory accounts with detailed narrative, we also publish a summary version for customers and non-technical stakeholders. This is part of our commitment to making information accessible to as wide an audience as possible.
Final water resources management plans	Our water resources management plans (WRMPs) describes how we will continue to meet the demand for water in our South Staffs[34] and Cambridge[35] regions over the long term. After receiving permission from the Secretary of State at the Department for Environment, Food and Rural Affairs (Defra), we published our 2019 WRMPs in December.
Environment Agency annual return 2019/20	Each year, we report our progress against our water resources management plans (WRMP) to Defra and the Environment Agency. This annual review includes commentary on progress, as well as data such as our actual 2019/20 water consumption. We followed the Environment Agency's reporting guidance to produce our annual review for 2019/20 and produced separate submissions for our South Staffs and Cambridge regions. As most of the data in our annual review is from the APR it has been through that level of assurance. We submitted our reviews for 2019/20 on 30 June 2020, in line with the Environment Agency's recommended deadline.

[33] www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/business-plan-2020-2025.
[34] www.south-staffs-water.co.uk/media/2676/final-wrmp-2019-south-staffs-water.pdf.
[35] www.cambridge-water.co.uk/media/2546/final-wrmp-2019-cambridge-water.pdf.

Targeted area	How we have improved
Drinking Water Inspectorate (DWI) annual return 2019	Over the reporting year, we have extensive ongoing engagement with the DWI across a range of day-to-day processes, regular data submissions and end-of-year data submissions. Our data submission in February 2020 covered the 2019 calendar year and provided data on customer contact rates to the DWI. The Inspectorate uses this information, alongside regulatory sample data provided throughout the year, to monitor and report on our compliance. The DWI's drinking water report for 2019 is due to be published in July 2020.
Streamlined Energy and Carbon Reporting (SECR) 2019/20	For financial years beginning on or after 1st April 2019, the Streamlined Energy and Carbon Reporting Regulations (SECR) require large UK companies to report publicly on their UK energy use and carbon emissions within their Directors' Report. SECR replaced the reporting obligations within the Carbon Reduction Commitment scheme that ended on 31 March 2019. To comply with SECR, each financial year we collate and report information about our energy supplies, consumption and associated carbon emissions. We also collate information regarding the measures that we have implemented in order to reduce energy consumption and carbon emissions. We publish this information in our annual report (see page 62). To ensure accuracy and consistency, we engage independent internal audit to check data sources and calculation methodologies.
CCW annual update 2019/20	We supply CCW with final, audited, year-end data at the same time as we publish our APR. The data we submit is the final, year-end update to the quarterly reporting information that we submit throughout the year.
Developer Services charges	In April, new rules came into effect about how developers, self-lay providers (SLPs) and new appointments and variations – or new appointees – (NAVs) are charged. We consulted on our approach to ensure that we are clear and transparent in how we are charging. In September, along with the other water companies in the sector, Ofwat asked us about we are supporting a vibrant competitive market for developer services. We responded to this in October and await any specific feedback that we may need to address. We also carried out an independent review of our approach to setting bulk charges for NAVs to ensure that it was compliant with Ofwat's guidance. Subsequently, we issued our bulk NAV tariff for 2020/21, setting out how this had been calculated. In preparing for this, we consulted with our developer customers, met representatives from key trade bodies and regulators, and attended developer days hosted by our peers. Our latest charging arrangements document is available on our website[36].
Customer charges scheme 2019/20	We engage with CCW on our customer charges scheme each year. We also engage with water retailers on our wholesale charges. We focus on any areas that could mean bill changes for customers. We model the impact of our charges for our South Staffs [37] and Cambridge[38] regions across a wide range of customer types and usage levels; this enables us to identify any groups of customers that may be adversely affected.

[36] www.south-staffs-water.co.uk/media/2964/developer-services-charging-arrangements-300120final.pdf.
[37] www.south-staffs-water.co.uk/media/2968/south-staffs-charges-20-21-web.pdf.
[38] www.cambridge-water.co.uk/media/2732/cambridge-charges-20-21-web.pdf.

Board governance

The Board has had extensive involvement in the production, audit and publication of our APR, including the summary version intended for customers and non-technical stakeholders.

The Audit Committee has overseen the external and internal assurance that has been carried out on the APR, and all audit reports produced internally and externally have been made available to the Committee and to the full Board for review and challenge.

With sight of all of the above audit information, the Board has signed off the APR submission as being an accurate set of information on our 2019/20 regulatory accounts and performance.

External assurance of financial outcome delivery incentives

Annual Performance Report 2019-20 Letter of Assurance

Jacobs

Letter of Assurance

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

Annual Performance Report 2019 -20

To the Board

For the period 2015-20 (AMP6) Ofwat requires companies to complete an Annual Performance Report (APR). Through IN 20/03 in April 2020, Ofwat carried forward existing reporting guidance with only minor adjustments to specific measures (e.g. new requirement to report three years performance for Leakage and PCC common Performance Commitments (PCs)).

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

- **Performance commitments (PCs)** – the proposed performance figures for the PCs in your final determination (FD) that have financial rewards and penalties associated with them and your reputational per capita consumption (PCC) PC;
- **Common PCs** – your reporting across each of the eight common PCs Ofwat requires water only companies to shadow report in the APR, focusing on the compliance assessments you are required to make; and
- **APR section 4 tables and lines** – a selection of the non-financial lines in APR section 4 tables 4P and 4Q, focusing mainly on sample checking across the lines you asked us to review.

For AMP6 PCs and Common PCs you asked us to provide an assessment based on our scores of A, B, C or D reflecting level of reporting risk. For APR section 4 data you asked us to indicate material reporting risk with a yes or no. The criteria for these scores are included in Appendix 1.

We also undertook a risk-based review of:

- **Return on Regulated Equity (RoRE) and financial flows** – your notional RoRE figure and calculations and your interpretation of Ofwat's financial flows methodologies (now that reporting is part of the APR); and
- **Long-term viability statement (LTVS)** – your LTVS for consistency with Ofwat guidance (including IN 19/07 that clarified Ofwat's LTVS requirements). As requested for these four areas we have provided our observations in separate letters.

We note you did not ask us to review any reporting documentation or processes (stages 1-2 of our 3-stage approach) in relation to 2019-20 reporting but did ask us to undertake early engagement on:

- Unplanned Outage Common measure (3S.7)
- Leakage Common measure (3S.1-4)

We provided you with feedback on this early engagement on these measures during February and March 2020.

On 28th March 2020 Ofwat requested additional information relating to retail social tariffs and we note that you have decided to assure this information yourselves.

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

Overview of Findings

We observed some areas of improvement in your processes for producing reporting data this year. For example, there is now a process document for bottom up leakage, some documentation for unplanned outage and some documentation for property data. We recommend you continue to build on these pockets of good practice across other key reporting processes.

We also observed improvement in the level of risk associated with some of your data this year compared to last year. In particular, level of risk reduced for the following PCs and Common PCs:

- 2.2 water quality serviceability indicators improved from low to medium risk (B) to low risk (A)
- 3S.6 mains bursts improved from medium to high risk (C) to low to medium risk (B).
- 3S.8 PCC (SST region) improved from high risk (D) to medium to high risk (C)
- 3S.14 PSR reach improved from high risk (D) to low to medium (B).

In total we reviewed 18 Company PCs and found medium to high risk for 3 (SIM, PCC and leakage). The detail of these areas of risk is described in the material issues section of this letter.

We also reviewed 8 Common PC measures. We note you have assessed that you are fully compliant in your methodology for 3 of the 5 Common PCs where you are required to report against a RAG status. Ofwat do not require compliance assessments for 3S.9 (Risk of restrictions in severe drought), 3S.14 and 15 (PSR). For leakage and PCC Common PCs which are assessed separately by region you have a number of outstanding red elements. Once you are fully compliant with the methodologies you will need to restate your data for APR20 and prior years in order to enable consistent performance monitoring going forwards.

We found no material issues with 4 of the 8 Common measures. We identified high and medium to high risk for the other 4 measures across the two regions. The detail of these areas of risk is described in the material issues section of this letter.

In total we reviewed 126 lines of Section 4 data. We found no material issues with 94 lines. Although we found material issues for 32 lines, we consider that 22 of these have a low reporting risk. The remaining material issues relate to your leakage and PCC PC data

Material Issues

Across the AMP6 PCs we reviewed we observed a number of material risks associated with the data being reported.

PC	Audit assessment	Outstanding material reporting risk
4.1 SST Leakage	C	At APR19 we identified a large number of minor issues having a material effect. The team have focused on implementing the AMP7 common measure and consequently these issues have not been resolved for APR20 reporting. The methodology is unchanged from prior year and therefore the reporting risk remains unchanged.
4.2 CAM leakage	C	At APR19 we identified a large number of minor issues having a material effect. The team have focused on implementing the AMP7 common measure and consequently these issues have not been resolved for APR20 reporting. The methodology is unchanged from prior year and therefore the reporting risk remains unchanged.
4.3 PCC	C	You do not have a consumption monitor for unmeasured household consumption in your Cambridge region.

PC	Audit assessment	Outstanding material reporting risk
C-MeX (SIM proxy)	C	During sampling we identified issues with the exclusions for August 2019. As our assurance is samplebased we advised the team torecheck all other data.

Across the Common PCs we reviewed we observeda number of material risks associatedwith the data being reported.

Common PC	Audit assessment	Outstanding material reporting risk
3S.2 Common leakage CAM	C	The water balance gap for 2019/20 is greater than 3% and in accordance with the guidance this element of the RAG is thereforered and requires explanation of the gap. You do not have a monitor for unmeasured household consumption and this input to the water balance is therefore not compliant with the methodology. The team stated that the Common reporting input data and calculations had not been checked and we identified potential errors in the data used to calculate performance during the audit. At the time of the audit you had not completed the full commentary required by Ofwat regarding the red/amber components of the measure. You are continuing to base the number of properties on the definitions used prior to market opening. The team are unclear whether they should adopt the new definitions.
3S.1 Common Leakage SST	C	The water balance gap for 2019/20 is greater than 3% and in accordance with the guidance this element of the RAG is therefore red and requires explanation of the gap. The team stated that the Common reporting input data and calculations had not been checked and we identified potential errors in the data used to calculate performance during the audit. At the time of the audit you had not completed the full commentary required by Ofwat regarding the components of the measure scoring red and amber. You are continuing to base the number of properties on the definitions used prior to market opening. The team are unclear whether they should adopt the new definitions.
3S.8 Common PCC CAM	D	You do not have a consumption monitor for unmeasured household consumption. The risks listed above for the Common leakage PC are also relevant as the methodologies are in part the same.
3S.8 Common PCCSST	C	The risks listed above for the Common leakage PC are also relevant as the methodologies are in part the same.
3S.9 Risk of restrictions in severe drought	C	We observed that your approach does not align with the guidelines. We note you have stated that other companies are also interpreting the guidance as you are. Your ODI target is set in line with your interpretation of the guidelines and you may need to restate your target
3S.15 PSR	D	You are unable to identify contact with customers on the register after they have been placed on the register.

In common with our observations last year, we continued to observe the existence of formal reporting documentation is not widespread, although as noted above we did see pockets of good practice emerging. Where that was the case we have not reviewed these documents and would recommend a formal review at some point in the future to consider how they address risks and checks and controls in the processes.

Most processes were not materially changed from prior years, and we recognise that some processes will become redundant under new data requirements from AMP7 making the benefit of documentation limited. However, for some data there was a lack of process documentation and the individual subject matter expert that you have relied on in the past to carry out complex processes had left the business, for example 4P.80-82. In these instances, audits were challenging and the robustness of the data more difficult to evidence. As such, we consider there is scope to materially reduce your reporting risk by reviewing and improving your supporting documentation and processes, together with implementing appropriate succession planning. We would recommend doing this early in the 2020-25 reporting cycle as we have observed with other clients that a more detailed examination of reporting documentation, processes and data can lead to identifying additional opportunities to lower reporting risk.

Return on Regulatory Equity, Financial Flows (table 1F) and Long-Term Viability Statement

We note that based on our review of your team's Return on Regulatory Equity (RoRE) model, we consider that the calculations, assumptions and inputs to the headline model are consistent with the methodology provided by Ofwat and consequently provide the outputs required to populate APR table 4H, consistent with the guidance.

For financial flows, we observed the team's methodology for completing APR table 1F is consistent with Ofwat guidance; and that the inputs to the financial flows model are consistent with the Ofwat guidance and tie to relevant source data. Your team has addressed feedback provided by Ofwat last year. We have reviewed your commentary associated with both these measures. This commentary provides useful clarification of your assumptions and the key drivers of movement from the prior year. This should mitigate the risk of queries from Ofwat this year.

We peer reviewed your Long Term Viability Statement (LTV). Your general approach is consistent with that used last year to provide a statement that Ofwat considered met expectations and in a small number of places exceeded expectations. Your team has applied appropriate rigour when making its assessment of long-term viability and the information provided to stakeholders appears suitably transparent and robust. Your statement provides an explanation of how your team assessed the prospects over the appropriate period. The LTV rightly includes scenarios relating to the potential impact of COVID-19.

Conclusions

Overall, for the data we covered, and other than where indicated above and in our detailed feedback, we consider:

- PCs – we identified a limited number of PCs we consider might carry a material reporting risk;
- Common PCs – we consider your reporting for four of the 8 measures currently carries a material level of reporting risk;
- APR Section 4 data – although we found material issues for 32 lines, we consider that 22 of these have a low reporting risk. The remaining material issues relate to your leakage and PCC PC data;
- RoRE - we consider that the calculations, assumptions and inputs and the subsequent outputs from you models provide data to populate APR table 4H, consistent with the Ofwat guidance;
- APR table 1F – we consider that the calculations, assumptions and inputs to the headline model are consistent with the methodology provided by Ofwat; and

- LTVS - we consider your team has applied appropriate rigour when making its assessment of long-term viability and the information provided to stakeholders appears suitably transparent and robust. Your statement provides an explanation of how your team assessed the prospects over the appropriate period.

This letter summarises the results of our APR assurance. We are providing you with separate reports that set out our scope, findings and general observations in more detail.

Yours sincerely

Alexandra Martin
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Appendix 1: Scoring criteria

For PCs and Common PCs

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

For Section 4 data

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

Our response to Jacobs' letter of assurance

Jacobs has carried out a detailed and extensive review. We have engaged closely with this review and made a number of changes as a result of the insight provided, and continue to address some of the longer-term advice and observations. The key purpose of this review has been to provide assurance to the Board about the quality and accuracy of the reporting within our APR; this assurance has been successfully delivered. Jacobs raised a number of points that warrant management comment.

Leakage and per capita consumption

We acknowledge that there are some limitations with the methodology we currently use for 2015/20 (AMP6) leakage. During AMP6, we have been mindful of making changes to our methodology that would alter the basis of the calculation against which our AMP6 targets were set.

We have been continuing work to achieve compliance with the common definitions for future AMP7 leakage and per capita consumption. We still have further work to do on this, which will continue into the 2020/21 reporting year. We provide a separate RAG assessment to Ofwat covering the common reporting compliance. We also provide a document to Ofwat setting out the impact of our level of compliance on our AMP7 performance commitments.

C-MeX (SIM proxy)

The audit found an issue with our process where a set of monthly data was not saved in the designated central location due to annual leave of the subject matter expert who normally undertakes the process. We have now rectified this process issue, which does not impact on the reported number.

Risk of severe restrictions in a drought

Our interpretation of the guidance at PR19, and subsequent discussions with Jacobs and other companies, have revealed different approaches to how this measure is reported. We are reporting this measure consistently with how we set our PR19 performance commitment, which is to report the value aligned to our final water resources plan delivery. We will continue to monitor the guidance and engage with other companies to ensure consistency as we enter the 2020/21 reporting year.

Priority Services Register (PSR)

During the year, we embarked in a journey of changes in our systems and processes in order to reliably report against our progress on our commitments. The changes were needed in order to be able to record in our systems our work for attempted and actual contact that we are making every day with our customers. Furthermore, we were waiting for final agreement on the cross industry sharing PSR codes. As that did not occur until later in the reporting year, we decided to make all changes at once at end of year in order to minimise reporting complexity and most importantly agent training. The changes have been live since 1 April 2020. As these changes were not in place within the 2019/20 year , despite the fact the we were working daily with our customers, we cannot reliably state how many customers we did contact to confirm their PSR needs. Therefore, we are reporting 0% for actual and attempted contact.

Internal independent assurance of reputational outcome delivery incentives

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

- Biodiversity.
- Carbon emissions savings.
- Support for customers in debt.
- Community engagement.
- Customer satisfaction.
- Value for money and affordability.
- Abstraction incentive mechanism.

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

Glyn Palmer BA (Hons) FCA
Group Internal Audit Manager
15 July 2020

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

Report on the audit of the Regulatory Accounting Statements

Opinion

We have audited certain sections of South Staffordshire Water's ('the Company') Annual Performance Report for the year ended 31 March 2020 ('the Regulatory Accounting Statements'), which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), Lines 1F.1 to 1F.9, Line 1F.13, Line 1F.19, Line 1F.21 to Line 1F.23 of the statement of financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis and wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K) and the related notes.

We have not audited Lines 1F.10 to 1F.12, 1F.14 to 1F.18, and 1F.20 of Table 1F, the outcome performance table (tables 3A to 3S) and the additional regulatory information in tables 4A to 4W.

In our opinion, South Staffordshire Water PLC's Regulatory Accounting Statements within the Annual Performance Report have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.08, RAG 2.07, RAG 3.11, RAG 4.08 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2), set out on pages 186 to 228.

Basis for opinion

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

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

Emphasis of matter – special purpose basis of preparation

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

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ('IFRSs'). Financial information other than that prepared on the basis of IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 186 to 228 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from FRS102. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

The Regulatory Accounting Statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Responsibilities for the audit of the Regulatory Accounting Statements section below. As a result, the Regulatory Accounting Statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Regulatory Accounting Statements is not appropriate; or

- the directors have not disclosed in the Regulatory Accounting Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Regulatory Accounting Statements are authorised for issue.

Other information

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

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

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 145, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.11, appendix 2).

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

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

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

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Regulatory Accounting Statements.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for.

This description forms part of our auditors' report.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Use of this report

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

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2020 on which we reported on 15 July 2020, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'Statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.

Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
15 July 2020

Section 1 – regulatory accounts primary statements

1a) Income statement – for the 12 months ended 31 March 2020

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Revenue	129.796	-	5.779	(5.779)	124.017
Operating costs	(112.830)	-	(3.848)	3.848	(108.982)
Other operating income	5.384	(5.083)	0.238	(5.321)	0.063
Operating profit	22.350	(5.083)	2.169	(7.252)	15.098
Other income	-	5.083	0.096	4.987	4.987
Interest income	1.865	-	-	-	1.865
Interest expense	(14.702)	-	(0.012)	0.012	(14.690)
Other interest expense	(0.176)	-	-	-	(0.176)
Profit before tax and fair value movements	9.337	-	2.253	(2.253)	7.084
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	9.337	-	2.253	(2.253)	7.084
UK corporation tax	(1.673)	-	(0.428)	0.428	(1.245)
Deferred tax	(5.071)	-	-	-	(5.071)
Profit for the year	2.593	-	1.825	(1.825)	0.768
Dividends	(7.988)	-	(1.825)	1.825	(6.163)
Tax analysis					
Current year	1.720	-	0.428	(0.428)	1.292
Adjustments in respect of prior years	(0.047)	-	-	-	(0.047)
UK Corporation tax	1.673	-	0.428	(0.428)	1.245

Analysis of non-appointed revenue	**Non-appointed**
Imported sludge	-
Tankered waste	-
Other non-appointed revenue	5.779
Revenue	5.779

Activities outside of the appointed business include:

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

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

1a) Income statement (continued)

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

	Revenue £m	**Operating costs £m**	**Other operating income £m**	**Other income £m**	**Profit for the year £m**
Rental income	-	-	(0.453)	0.453	-
Amortisation of capital contributions	-	-	(2.907)	2.907	-
IRE contributions	-	-	(1.723)	1.723	-
Net adjustments	-	-	(5.083)	5.083	-

Reconciliation of appointed current taxation to standard tax rate

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

	2019		Current Tax
	£m		£m
PBT			
Appointed	7.084		(1.245)
Non appointed	2.253		(0.428)
Total	**9.337**		**(1.673)**
Appointed profit on ordinary activities	**7.084**		
Appointed profit before tax and fair value movements at standard UK corporation tax rate of 19%	1.346		
Expenses not deductible for tax purposes		0.187	
Capital allowances less than depreciation		(0.354)	
Other timing differences		0.113	
Adjustments in respect of prior years		(0.047)	
	(0.101)		
Appointed current tax charge	**1.245**		
Appointed total current tax charge allowed in price limits	**2.138**		
Variance			
Impact of difference between tax rate used in price limits (20%) and actual tax rate (19%)		(0.107)	
Differences in profit before tax		(1.576)	
Taxable interest income for which no tax allowance given in price limit		0.354	
Expenses not deductible for tax purposes for which no tax allowance given in price limit		0.298	
Capital allowances in advance of depreciation		0.149	
Other timing differences		0.036	
	(0.846)		
Current year	**1.292**		
Adjustments in respect of prior years	(0.047)		
Appointed current tax charge	**1.245**		

The current tax charge in respect of the year at £1.3m was lower than that allowed in price limits by £0.8m and was offset by adjustments from prior years of £0.05m.

1b) Statement of comprehensive income – for the 12 months ended 31 March 2020

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	2.593	-	1.825	(1.825)	0.768
Actuarial gains/(losses) on post employment plans	-	-	-	-	-
Other comprehensive income	(0.287)	-	-	-	(0.287)
Total comprehensive income for the year	2.306	-	1.825	(1.825)	0.481

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

1c) Statement of financial position – as at 31 March 2020

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	551.578	-	1.798	(1.798)	549.780
Intangible assets	-	-	-	-	-
Investments - loans to group companies	-	25.000	-	25.000	25.000
Investments - other	-	-	-	-	-
Financial instruments	-	-	-	-	-
Retirement benefit assets	-	-	-	-	-
Total non-current assets	551.578	25.000	1.798	23.202	574.780
Current assets					
Inventories	2.487	-	0.035	(0.035)	2.452
Trade & other receivables	58.418	(15.427)	1.496	(16.923)	41.495
Financial instruments	-	-	-	-	-
Cash & cash equivalents	26.425	-	0.001	(0.001)	26.424
Total current assets	87.330	(15.427)	1.532	(16.959)	70.371
Current liabilities					
Trade & other payables	(48.845)	(9.573)	4.733	(14.306)	(63.151)
Capex creditor	(9.074)	-	-	-	(9.074)
Borrowings	(29.985)	-	-	-	(29.985)
Financial instruments	-	-	-	-	-
Current tax liabilities	-	-	-	-	-
Provisions	-	-	-	-	-
Total current liabilities	(87.904)	(9.573)	4.733	(14.306)	(102.210)
Net current assets/(liabilities)	(0.574)	(25.000)	6.265	(31.265)	(31.839)
Non-Current liabilities					
Trade & other payables	(12.719)	-	-	-	(12.719)
Borrowings	(262.210)	-	(0.317)	0.317	(261.893)
Financial instruments	(2.875)	-	-	-	(2.875)
Retirement benefit obligations	-	-	-	-	-
Provisions	-	-	-	-	-
Deferred income - G&C's	(159.328)	-	(0.007)	0.007	(159.321)
Deferred income - adopted assets	-	-	-	-	-
Preference share capital	-	-	-	-	-
Deferred tax	(44.545)	-	-	-	(44.545)
Total non-current liabilities	(481.677)	-	(0.324)	0.324	(481.353)
Net assets	69.327	-	7.739	(7.739)	61.588
Equity					
Called up share capital	2.123	-	-	-	2.123
Retained earnings & other reserves	67.204	-	7.739	(7.739)	59.465
Total Equity	69.327	-	7.739	(7.739)	61.588

See table 1a for a list of activities outside of the appointed business.

1c) Statement of financial position – continued

The statement of financial position reflects the balance sheet as at 31 March 2020. Both statutory financial statements and regulatory reporting is based on FRS 102, with the following adjustments to reflect the RAGs.

	Investments - loans to group companies £m	**Trade & other receivables £m**	**Trade & other payables £m**	**Net assets £m**
Long term group debtor	25.000	(25.000)	-	-
Inter company alignments	-	9.573	(9.573)	-
Net adjustments	25.000	(15.427)	(9.573)	-

1d) Statement of cash flows – for the 12 months ended 31 March 2020

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Statement of cashflows					
Operating profit	22.350	(5.083)	2.169	(7.252)	15.098
Other income	-	5.083	0.096	4.987	4.987
Depreciation	25.549	-	0.217	(0.217)	25.332
Amortisation - G&C's	(2.907)	-	-	-	(2.907)
Changes in working capital	15.421	-	(0.343)	0.343	15.764
Pension contributions	-	-	-	-	-
Movement in provisions	-	-	-	-	-
Profit on sale of fixed assets	(0.301)	-	(0.238)	0.238	(0.063)
Cash generated from operations	60.112	-	1.901	(1.901)	58.211
Net interest paid	(8.064)	-	(0.012)	0.012	(8.052)
Tax paid	(4.453)	-	(0.428)	0.428	(4.025)
Net cash generated from operating activities	47.595	-	1.461	(1.461)	46.134
Investing activities					
Capital expenditure	(41.607)	-	(0.034)	0.034	(41.573)
Grants & contributions	9.925	-	-	-	9.925
Disposal of fixed assets	0.580	-	0.080	(0.080)	0.500
Other	-	-	-	-	-
Net cash used in investing activities	(31.102)	-	0.046	(0.046)	(31.148)
Net cash generated before financing activities	16.493	-	1.507	(1.507)	14.986
Cashflows from financing activities					
Equity dividends paid	(7.988)	-	(1.825)	1.825	(6.163)
Net loans received	9.750	-	0.318	(0.318)	9.432
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	1.762	-	(1.507)	1.507	3.269
Increase/(decrease) in net cash	18.255	-	-	-	18.255

Capital expenditure relates to the cash paid out in the year in relation to fixed asset additions. The difference in what was paid for in the appointed business (£41,573,000) and additions reported in the fixed assets note 2d (£45,167,000) is due to an increase in year of creditors relating to capital purchases of £3,594,000.

1d) Statement of cash flows (continued)

	Operating profit £m	Other income £m	Changes in working capital £m	Increase / (decrease) in net cash £m
Rental income	(0.453)	0.453	-	-
Amortisation of capital contributions	(2.907)	2.907	-	-
IRE contributions	(1.723)	1.723	-	-
Net adjustments	(5.083)	5.083	-	-

1e) Net debt analysis – as at 31 March 2020

	Interest rate risk profile			
	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings (excluding preference shares)	31.637	24.916	235.642	292.195
Preference share capital	-	-	-	-
Total borrowings	31.637	24.916	235.642	292.195
Cash				(26.425)
Short term deposits				0.000
Net debt				**265.770**
Gearing				67.11%
Adjusted gearing				62.13%
Full year equivalent nominal interest cost	0.897	0.311	13.898	15.106
Full year equivalent cash interest payment	0.897	0.311	7.205	8.413
Indicative interest rates				
Indicative weighted average nominal interest rate	2.84%	1.25%	6.44%	5.54%
Indicative weighted average cash interest rate	2.84%	1.25%	3.34%	3.09%
Weighted average years to maturity	1.86	3.60	26.77	22.09

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

The adjusted gearing of 62.1% is based on the company's covenant net debt of £246.1m, which differs to the book net debt by £19.7m. Covenant debt is the key metric used by the Board, investors, lenders and rating agencies in assessing gearing.

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

The difference between book net debt in table 1e of £265.8m and that stated in the table below at £265.63m is in relation to accrued interest of £0.14m, which is not recognised as part of net debt in accordance with the RAGs. The regulatory gearing ratio is at 67.08% (67.11% using statutory book debt below and 62.13% using covenant debt).

The difference between covenant and book net debt includes £11.5m, which relates to the unamortised premium and costs on issuance of the company's debt. The remaining £8.1m relates to the difference in the long-term inflation assumption to maturity used for the book value of index-linked debt compared to the lower actual inflation rate used for covenant reporting.

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

	31 March 2020	
	£'000	**Gearing %**
Book net debt - statutory accounts	(265.770)	67.11%
Exclude accrued interest	0.140	(0.04%)
Book net debt (as reported above)	(265.630)	67.08%
Exclude book premium on issue of index linked debt	13.116	(3.31%)
Difference between long-term RPI assumption and actual RPI inflation	8.111	(2.05%)
Exclude unamortised issue costs	(1.657)	0.42%
Net debt reported for borrowing covenants	(246.060)	62.13%

1f) Financial flows – for the 12 months ended 31 March 2020

			12 Months ended 31 March 2020					
				%			£m	
	Units	DP	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Return on regulatory equity	%	2	5.82%	4.83%	5.82%	7.172	5.956	5.956
Actual performance adjustment 2010-2015	%	2	2.18%	1.81%	2.18%	2.690	2.234	2.234
Adjusted return on regulatory equity	%	2	8.00%	6.64%	8.00%	9.862	8.190	8.190
Regulatory equity base	£m	3	123.266	123.266	102.362			
Financing								
Gearing	%	2	0.00%	1.10%	1.10%	-	1.130	1.130
Variance in corporation tax	%	2	0.00%	0.81%	0.98%	-	1.004	1.004
Group relief	%	2	0.00%	0.00%	0.00%	-	-	-
Cost of debt	%	2	0.00%	(0.05%)	(0.10%)	-	(0.058)	(0.106)
Hedging instruments	%	2	0.00%	(0.33%)	(0.40%)	-	(0.406)	(0.406)
Financing total	%	2	8.00%	8.19%	9.59%	9.862	9.860	9.812
Operational Performance								
Totex out / (under) performance	%	2	0.00%	(0.30%)	(0.37%)	-	(0.374)	(0.374)
ODI out / (under) performance	%	2	0.00%	0.77%	0.93%	-	0.954	0.954
Retail out / (under) performance	%	2	0.00%	(3.60%)	(4.34%)	-	(4.441)	(4.441)
Other exceptional items	%	2	0.00%	0.00%	0.00%	-	-	-

Operational performance total	%	2	0.00%	(3.13%)	(3.77%)	-	(3.861)	(3.861)
Total earnings	%	2	8.00%	5.05%	5.81%	9.862	5.999	5.951
RCV growth from RPI inflation	%	2	2.59%	2.59%	2.59%	3.191	3.191	2.650
Total shareholder return	%	2	10.59%	7.64%	8.40%	13.053	9.190	8.600
Net dividend	%	2	4.00%	3.24%	3.90%	4.931	3.995	3.995
Retained value	%	2	6.59%	4.40%	4.50%	8.122	5.195	4.605

Dividends reconciliation								
Gross dividend	%	2	4.00%	4.21%	5.07%	4.931	5.188	5.188
Interest receivable on intercompany loans	%	2	0.00%	0.97%	1.17%	-	1.193	1.193
Net dividend	%	2	4.00%	3.24%	3.90%	4.931	3.995	3.995

1f) Financial flows – average for AMP6

	Units	DP	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
			Average 2015-20					
			%			£m		
Return on regulatory equity	%	2	5.88%	4.79%	5.88%	7.03	5.73	5.73
Actual performance adjustment 2010-2015	%	2	2.37%	1.93%	2.37%	2.84	2.31	2.31
Adjusted return on regulatory equity	%	2	8.26%	6.72%	8.26%	9.87	8.04	8.04
Regulatory equity base	£m	3	119.569	119.569	97.364			
Financing								
Gearing	%	2	0.00%	1.44%	1.44%	-	1.40	1.40
Variance in corporation tax	%	2	0.00%	1.09%	1.34%	-	1.30	1.30
Group relief	%	2	0.00%	0.00%	0.00%	-	-	-
Cost of debt	%	2	0.00%	(0.51%)	(0.75%)	-	(0.61)	(0.73)
Hedging instruments	%	2	0.00%	(0.33%)	(0.40%)	-	(0.39)	(0.39)
Financing total	%	2	8.26%	8.41%	9.87%	9.87	9.74	9.61
Operational Performance								
Totex out / (under) performance	%	2	0.00%	(0.26%)	(0.31%)	-	(0.306)	(0.306)
ODI out / (under) performance	%	2	0.00%	0.62%	0.76%	-	0.739	0.739
Retail out / (under) performance	%	2	0.00%	1.10%	1.35%	-	1.317	1.317
Other exceptional items	%	2	0.00%	1.01%	1.24%	-	1.211	1.211
Operational performance total	%	2	0.00%	2.48%	3.04%	-	2.961	2.961
Total earnings	%	2	8.26%	10.89%	12.91%	9.872	12.697	12.574
RCV growth from RPI inflation	%	2	2.52%	2.52%	2.52%	3.012	3.012	2.452

Total shareholder return	%	2	10.78%	13.40%	15.43%	12.884	15.709	15.026
Net dividend	%	2	4.00%	4.86%	5.97%	4.783	5.815	5.815
Retained value	%	2	6.78%	8.54%	9.46%	8.101	9.894	9.211
Dividends reconciliation								
Gross dividend	%	2	4.00%	6.30%	7.74%	4.783	7.537	7.537
Interest receivable on intercompany loans	%	2	0.00%	1.44%	1.77%	-	1.722	1.722
Net dividend	%	2	4.00%	4.86%	5.97%	4.783	5.815	5.815

Commentary to the financial flows

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

We exited the non-household retail market on 1 April 2017 and this reduces the final determination RORE by 0.15% in each subsequent year.

The SIM reward of £1.4m (12/13 prices) confirmed in the PR19 final determination has been reflected equally over the 2015/19 period in line with IN 20/03.

The five-year actual average shareholder return based on actual regulatory equity and using book debt is 15.4%, 4.7% above the notional return in the final determination. This is driven by:

- returns from higher gearing using the five-year average book debt of 70.3% compared to the notional gearing of 62.5%, this is 1.4%;
- higher returns from a lower tax charge of 1.3%. This is predominantly because of a change in the tax impact of the transition to FRS 102. The change of basis of accounting for certain historical items gave rise to a current tax credit and a deferred tax charge;
- operational outperformance, resulting in a benefit of 1.8% driven by significant cost reductions in the household retail business and outperformance on ODIs and SIM of 0.8%; and
- the benefit of the sale of the non-household retail business in 2017/18 of 1.2%.

Dividend yield is 2.0% above the final determination, with 1.2% of this outperformance the result of the sale of the non-household retail business, which generated a dividend of £8.4m in 2017/18. Excluding this one-off dividend results in an outperformance of 0.7%.

The remaining 2.7% of outperformance on shareholder returns has been retained within the business.

Calculating the financial flows using the more appropriate measure for gearing of covenant debt gives an actual shareholder return of 14.1% instead of 15.4%.

Section 2 – price review and segmental reporting

2a) Segmental income statement – for the 12 months ended 31 March 2020

	Retail		Wholesale			
	Household	Non-household	Water Resources	Water Network +	Water Total	Total
	£m	£m	£m	£m	£m	£m
Revenue - price control	17.162	-	-	104.534	104.534	121.696
Revenue - non price control	-	-	-	2.321	2.321	2.321
Operating expenditure	(19.812)	-	(6.846)	(56.991)	(63.837)	(83.649)
Depreciation - tangible fixed assets	(0.827)	-	(0.307)	(24.199)	(24.506)	(25.333)
Amortisation - intangible fixed assets	-	-	-	-	-	-
Other operating income	-	-	-	0.063	0.063	0.063
Operating profit before recharges	(3.477)	-			18.575	15.098
Recharges in respect of 'principal use' assets						
Recharges from other segments	0.023	-	-	-	-	0.023
Recharges to other segments	-	-	-	(0.023)	(0.023)	(0.023)
Operating profit	(3.454)	-			18.552	15.098

2b) Wholesale totex analysis – for the 12 months ended 31 March 2020

	Water Resources £m	Water Network + £m	Total £m
Operating expenditure			
Power	2.279	11.779	14.058
Income treated as negative expenditure	-	-	-
Abstraction charges/discharge consents	2.841	0.211	3.052
Bulk supply/bulk discharge	0.003	0.011	0.014
Other operating expenditure - renewals expensed in year (Infrastructure)	-	11.439	11.439
Other operating expenditure - renewals expensed in year (Non-Infrastructure)	-	-	-
Other operating expenditure - excluding renewals	1.560	26.589	28.149
Local authority and Cumulo rates	0.154	4.924	5.078
Total operating expenditure excluding third party services	6.837	54.953	61.790
Third party services	0.009	2.038	2.047
Total operating expenditure	6.846	56.991	63.837
Capital Expenditure			
Maintaining the long term capability of the assets - infra	-	-	-
Maintaining the long term capability of the assets - non- infra	1.476	21.189	22.665
Other capital expenditure - infra	0.436	12.616	13.052
Other capital expenditure - non-infra	0.913	7.035	7.948
Infrastructure network reinforcement	-	0.790	0.790
Total gross capital expenditure excluding third party services	2.825	41.630	44.455
Third party services	-	-	-
Total gross capital expenditure	2.825	41.630	44.455
Grants and contributions			
Grants and contributions	-	11.648	11.648
Totex	9.671	86.973	96.644
Cash Expenditure			
Pension deficit recovery payments	-	-	-
Other cash items	-	-	-
Total			
Totex including cash items	9.671	86.973	96.644

Wholesale pension deficit recovery payments of £1.094m are included in the totex lines within operating and capital expenditure. Third party operating expenditure includes the costs of providing bulk supplies and other rechargeable works.

2c) Retail operating costs analysis – for the 12 months ended 31 March 2020

	Household	Non-household	Total
	£m	£m	£m
Operating expenditure			
Customer services	5.526	-	5.526
Debt management	0.941	-	0.941
Doubtful debts	10.151	-	10.151
Meter reading	0.853	-	0.853
Services to developers	-	-	-
Other operating expenditure	2.341	-	2.341
Total operating expenditure excluding third party services	19.812	-	19.812
Third party services operating expenditure	-	-	-
Total operating expenditure	19.812	-	19.812
Depreciation - tangible fixed assets	0.827	-	0.827
Amortisation - intangible fixed assets	-	-	-
Total operating costs	20.639	-	20.639
Debt written off	0.064	-	0.064

Total retail operating costs (before depreciation charges) of £19.8m were £4.5m higher than that allowed in price limits for the year.

The doubtful debt charge in the year was £7.2m higher than the previous year.

Delays to the implementation of a new debt recovery system in 2018/19 impacted forecast improvements in collections performance during the year and has resulted in an increase to the bad debt provision. In addition, because of the current economic circumstances a further adjustment has been provided for the 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

The emerging Covid-19 virus also affected recovery during the final month of the financial year.

This was partly offset by continued savings from:

- historic changes in metering operations;
- the transfer of non-voice back office functions off shore;
- the merging of the Cambridge customer contact centre operations with those in the South Staffs region; and
- more use of digital and self-serve communications channels.

2d) Historic costs analysis of fixed assets (wholesale and retail) for the 12 months ended 31 March 2020

	Wholesale		Retail		
	Water Resources	Water Network +	Household	Non-household	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2019	18.344	931.479	12.250	-	962.073
Disposals	-	(0.656)	-	-	(0.656)
Additions	2.498	41.957	0.712	-	45.167
Adjustments	-	-	-	-	-
Assets adopted at nil cost	-	-	-	-	-
At 31 March 2020	20.842	972.780	12.962	-	1,006.584
Depreciation					
At 1 April 2019	(3.184)	(419.088)	(9.838)	-	(432.110)
Disposals	-	0.639	-	-	0.639
Adjustments	-	0.001	-	-	0.001
Charge for the year	(0.307)	(24.199)	(0.827)	-	(25.333)
At 31 March 2020	(3.491)	(442.647)	(10.665)	-	(456.803)
Net book amount at 31 March 2020	17.351	530.133	2.297	-	549.781
Net book amount at 1 April 2019	15.160	512.391	2.412	-	529.963
Depreciation charge for year					
Principal services	(0.307)	(24.199)	(0.827)	-	(25.333)
Third party services	-	-	-	-	-
Total	(0.307)	(24.199)	(0.827)	-	(25.333)

2e) Analysis of capital contributions and land sales (wholesale)

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£m	£m	£m	£m
Grants and contributions - water				
Connection charges (s45)	-	4.415	-	4.415
Infrastructure charge receipts (s146)	-	2.230	-	2.230
Requisitioned mains (s43, s55 & s56)	-	0.247	-	0.247
Other contributions (price control)	-	-	-	-
Diversions (s185)	1.723	-	-	1.723
Other contributions (non-price control)	-	3.033	-	3.033
Total	1.723	9.925	-	11.648
Value of adopted assets	-	-	-	-

	Water
	£m
Movements in capitalised grants and contributions	
Brought forward	152.310
Capitalised in year	9.925
Amortisation (in income statement)	(2.907)
Carried forward	159.328

Land sales	
Proceeds from disposals of protected land	-

Contributions for main diversions are now shown as other income within table 1a with the cost shown in table 2b at the gross position before contributions in line with the RAGs.

2f) Revenues by customer type (household)

	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	**£m**	**£m**	**(000s)**	**£**
Unmeasured water only customer	45.018	9.210	54.228	358.215	25.71
Unmeasured wastewater only customer	-	-	-	-	-
Unmeasured water and wastewater customer	-	-	-	-	-
Measured water only customer	35.585	7.952	43.537	317.105	25.08
Measured wastewater only customer	-	-	-	-	-
Measured water and wastewater customer	-	-	-	-	-
Total	80.603	17.162	97.765	675.320	25.41

Household retail revenues are £0.2m higher than that assumed in the final determination. This is largely because of higher demand from metered customers in the year.

2g) Revenues by customer type (non-household)

As at 1 April 2017, we exited the non-household retail market. In accordance with the reporting requirements, we can confirm that our wholesale revenue relating to non-household was £23.931m for the year.

2i) Revenue analysis and wholesale control reconciliation

	Household	Non-household	Total
	£m	£m	£m
Wholesale charge - water			
Unmeasured	45.018	1.015	46.033
Measured	35.585	22.916	58.501
Third party revenue	-	-	-
Total	80.603	23.931	104.534
Retail revenue			
Unmeasured	9.210	-	9.210
Measured	7.952	-	7.952
Other third party revenue	-	-	-
Retail total	17.162	-	17.162
Third party revenue - non-price control			
Bulk Supplies - water			0.324
Bulk Supplies - wastewater			-
Other third party revenue			0.969
Principal services - non-price control			
Other appointed revenue			1.028
Total appointed revenue			**124.017**

	Water
	£m
Wholesale revenue governed by price control	104.534
Grants & contributions	6.892
Total revenue governed by wholesale price control	111.426
Amount assumed in wholesale determination	109.060
Adjustment for in-period ODI revenue	-
Adjustment for WRFIM	(0.212)
Total assumed revenue	108.848
Difference	2.578

Wholesale revenues were £2.6m higher than that assumed in the wholesale price control. £4.7m was due to income from infrastructure charges and developer contributions and this was offset by a £2.1m under recovery from customer charges.

Revenue from water customers was £2.1m lower than the final determination. This was driven by a lower number of new connections, an increase in void properties and lower non-household revenues as a result of the impact of Covid-19 at the end of March. This shortfall will be recovered in 2021/22.

Infrastructure charges were £0.5m higher due to 1,467 more connections that assumed in our PR14 final determination. This over-recovery will be reconciled as part of the new developer charging rules where companies are required to balance their costs with revenues received, as far as is reasonably possible over a rolling five year cumulative period.

Contributions from developer charges were £4.2m higher, reflecting a higher number of new property connections in the year and higher costs we incurred for a significant number of non-standard connections on brownfield sites and infill of smaller developments. The wholesale control assumed that all connections were large housing developments in greenfield sites. Ofwat accepted our claim in the PR19 final determination for the variance in developer contributions relating to the volume of connections by type.

2j) Infrastructure network reinforcement costs

	Network reinforcement capex £m	On site/site specific capex (memo only) £m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	0.790	-
Pumping and storage facilities	-	-
Other	-	-
Total	0.790	-

2k) Infrastructure charges reconciliation

	Infrastructure charges reconciliation £m
Impact of infrastructure charge discounts	
Infrastructure charges	2.230
Discounts applied to infrastructure charges	-
Gross infrastructure charges	2.230
Comparison of revenue and costs	
Variance brought forward	0.498
Revenue	2.230
Costs	(0.790)
Variance carried forward	1.938

The variance carried forward on infrastructure charge revenues compared to costs as at March 2020 is £1.9m. The infrastructure charge is based on a five year average forecast of network reinforcement expenditure. This expenditure varies each year and we have significant investment projected to 2025 as set out in our PR19 business plan. It is expected that this over recovery will reverse as this investment is made.

Section 3 – performance summary

3a) Outcome performance

Performance commitment	Unit	Unit description	Decimal places	2018-19 performance level - actual (for information)	2019-20 performance level - actual	2019-20 PCL met?	2019-20 outperformance payment or underperformance payment - in-period ODIs (indicator)	2019-20 outperformance payment or underperformance payment - in-period ODIs (£m, to 4 dp)	2019-20 outperformance payment or underperformance payment - ODIs payable at the end of AMP6 (indicator)	2019-20 outperformance payment or underperformance payment - ODIs payable at the end of AMP6 (£m, to 4 dp)
								£m		£m
1.1: Mean zonal compliance (MZC, combined company)	%	Mean zonal compliance (%)	3	99.915	99.984	No	-	0.0000	Underperformance payment deadband	0.0000
1.2: Acceptability of water to customers (combined company)	nr	No. of contacts per 1,000 population	2	1.51	1.19	Yes	-	0.0000	Outperformance payment	0.0484
2.1: Interruptions to supply (combined company)	time	Minutes / property / year	1	7.2	3.4	Yes	-	0.0000	Outperformance payment	0.9060
2.2: Serviceability infrastructure (combined company)	category	Asset health indicator	na	Stable	Stable	Yes	-	0.0000	-	0.0000
2.3: Serviceability non-infrastructure	category	Asset health indicator	na	Stable	Stable	Yes	-	0.0000	-	0.0000

(combined company)										
4.1: Leakage (South Staffordshire operating region)	nr	Megalitres per day (Ml/d)	1	70.5	68.9	Yes	-	0.0000	Outperformance payment deadband	0.0000
4.2: Leakage (Cambridge operating region)	nr	Megalitres per day (Ml/d)	1	13.2	12.8	Yes	-	0.0000	Outperformance payment deadband	0.0000
4.3: Water efficiency (household per capita consumption (PCC) reported annually, combined company)	nr	Litres per head per day (l/h/d)	2	136.41	128.57	No		0.0000	-	0.0000
4.4: Biodiversity (cumulative total hectares of land under management per year, combined company)	nr	Cumulative total hectares of land	0	138	169	Yes		0.0000	-	0.0000
4.5: Carbon emissions from power consumption (tonnes, combined company)	nr	tCO2e (tonnes CO2e) in real savings	0	635	716	No		0.0000	-	0.0000
5.1: Independent customer surveys of value for money and affordability (combined company)	%	% customers satisfied with vfm & affordability	0	95	93	Yes		0.0000	-	0.0000

5.2: Support for customers in debt (combined company)	nr	No. of customers engaged with on debt	0	30,838	38,612	Yes		0.0000	-	0.0000
3.1: Service incentive mechanism (SIM, combined company)	score	Service incentive mechanism (SIM) score	1	86.4	81.4	No	0	0.0000	-	0.0000
3.2: Customer satisfaction surveys (combined company)	%	% customer satisfaction	0	98	98	Yes		0.0000	-	0.0000
3.3: Community engagement (combined company)	nr	No. of employee days per year	0	749	527	Yes		0.0000	-	0.0000

We discuss outcomes, ODIs, performance commitments and financial incentives in more detail on pages 11 to 26 of the strategic report.

We also summarise our performance in the customer-facing version of this APR.

We have submitted a separate document to Ofwat as part of this APR submission which covers table 3S (shadow performance commitments). We have also submitted a document covering the leakage and water consumption performance commitments for 2020-2025.

3b) Sub-measure performance

PC / sub-measure	Unit	Decimal places	2018-19 performance level - actual	2019-20 performance level - actual	2019-20 PCL met?
2.2: Serviceability infrastructure (combined company)	category	na	Stable	Stable	Yes
Mains bursts	nr	0	1,244	908	Yes
Supply interruptions > 12 hours	nr	0	2,389	139	No
Properties with persistent low pressure	nr	0	1	1	No
Discolouration contacts per 1,000 customers	nr	2	0.82	0.68	Yes
TIM index non-compliance	score	2	0.06	0.06	No
2.3: Serviceability non-infrastructure (combined company)	category	na	Stable	Stable	Yes
WTW coliform non-compliance	%	2	0.02	0.04	Yes
Service reservoir coliform non-compliance	%	2	0.00	0.00	Yes
WTW turbidity non-compliance	nr	0	0	0	Yes
DWI enforcement actions	nr	0	0	0	Yes
Unplanned maintenance work orders	nr	0	2,802	3,706	Yes

Our assessment of stable serviceability for both infrastructure and non-infrastructure has followed the detailed methodology we set out in 'Asset Health ODI Methodology November 2015', which is available on our website[39].

We engaged our technical assurance partner, Jacobs, to assure our asset health indicators.

For infrastructure, our headline indicator is bursts. We have outperformed the reference level in each of the five years of the AMP6 price control period. Our highest level occurred during the 2017/18 freeze/thaw event known colloquially as the 'Beast from the East'.

In 2019/20, 139 properties experienced an unplanned supply interruption of greater than 12 hours duration, which is a significant improvement from last year. We managed this small number of events to ensure that interruptions were as short as possible. Our performance is still in excess of our reference performance level for this measure, but alone does not signify an overall worsening of serviceability in combination with other metrics in the basket.

We have also exceeded our control limit for the turbidity, iron and manganese (TIM) index, which was due to a small number of failed water quality samples. This is also reflected in our Mean Zonal Compliance (MZC) performance commitment.

For non-infrastructure, we met our control limits for water quality compliance and we had no enforcement action due to microbiological parameters. Our final indicator – unplanned maintenance – is also within the reference level of performance.

[39] www.south-staffs-water.co.uk/about-us/our-strategies-and-plans/our-assurance-framework.

3c) Abstraction incentive mechanism (AIM) – for the 12 months ended 31 March 2020

Abstraction site	Decimal places	2019-20 AIM performance [Ml]	2019-20 normalised AIM performance [nr]	Cumulative AIM performance 2016-17 onwards [Ml]	Cumulative normalised AIM performance 2016-17 onwards [nr]	Contextual information relating to AIM performance
Hagley	1	-	-	-	-	-
Linton	1	(2.4)	(0.0)	(57.8)	(1.0)	-
Rivey B	1	58.8	0.2	(2.6)	(0.8)	-

AIM was introduced in April 2016 and encourages water companies to reduce the environmental impact of abstracting water at environmentally sensitive sites during certain periods of low surface water flows.

We have three sites under AIM and during the year one site exceeded the baseline for the periods when flows are below the relevant threshold. Cumulatively since 2016/17, we are still outperforming against the baselines. Hagley has not been in use during the year and so had no performance against the baseline to record.

3d) Service incentive mechanism (SIM) – for the 12 months ended 31 March 2020

	Units	DPs	Score
Qualitative performance			
1st survey score	nr	2	4.35
2nd survey score	nr	2	4.25
3rd survey score	nr	2	4.30
4th survey score	nr	2	4.44
Qualitative SIM score (out of 75)	nr	2	62.51
Quantitative performance			
Total contact score	nr	2	18.45
Quantitative SIM score (out of 25)	nr	2	18.85
SIM score			
Total annual SIM score (out of 100)	nr	2	81.36

SIM measures the levels of service that customers experience, by measuring performance across a number of contact channels, including phone and written contacts, and also through a quarterly customer survey. In 2019/20, SIM was not monitored as it has been replaced with a new measure, C-MeX. A SIM score was created retrospectively using C-MeX survey data. Our C-MeX score for the trial year was 77.47.

Section 4 – additional regulatory information

4a) Non-financial information

	Unmeasured	Measured
Retail household		
Number of void households	14.090	7.895
Per capita consumption (excluding supply pipe leakage) l/h/d	136.38	118.60

	Water
Volume (Ml/d)	
Bulk supply export	40.064
Bulk supply import	0.106
Distribution input	388.010

4b) Wholesale totex analysis

	Current year £m	Cumulative 2015-20 £m
Actual totex		
Actual totex	96.644	454.501
Items excluded from the menu		
Third party costs	2.047	8.907
Pension deficit recovery payments	1.094	7.151
Other 'Rule book' adjustments	0.000	0.000
Total items excluded from the menu	3.141	16.058
Transition expenditure		
Transition expenditure	0.000	0.000
Adjusted Actual totex		
Adjusted Actual totex	93.503	438.443
Adjusted Actual totex base year prices	78.714	390.078
Allowed totex		
Allowed totex based on final menu choice – base year prices	76.897	386.978

The company’s totex of £78.7m (2012/13 prices) was £1.8m (2.4%) higher than allowed in price limits for 2019/20.

Actual wholesale operating costs per the regulatory accounts in 2019/20 are £0.2m lower than the fast money from the final determination.

In the final determination, Ofwat adjusted the split of expenditure between fast money and slow money to smooth bills. In 2019/20, this resulted in the transfer of £2.4m from fast money to slow money. IRE (which is included in both operating expenditure in the regulatory accounts and fast money in the final determination) was £2.9m lower than the final determination in 2019/20 following a decision to move some expenditure from infrastructure renewals to capital expenditure over the AMP while maintaining the total level of expenditure across these two areas. As a result, wholesale capital expenditure was £1.7m over the final determination, reversing the underspend in prior periods of the AMP. The remaining £0.3m overspend in operating costs was as a result of additional material and contractor costs.

The cumulative position for the five years to 2019/20 shows totex £3.1m (0.8%) above the final determination, with operating costs including IRE being £10.7m lower than the final determination.

IRE was £13.7m lower than the final determination, offset by an overspend on capital expenditure of £13.9m. The remaining £2.9m overspend in operating costs was predominantly related to the additional costs of associated with the prolonged hot summer during 2018 and ongoing upward pressure on power costs driven by higher pass-through charge rates partly offset by savings on laboratory analysis costs and rates.

4c) Forecast impact of performance on regulatory capital value

	£m
Cumulative totex over/(underspend) so far in the price control period	3.706
Customer share of cumulative totex (over)/underspend	(3.764)
RCV element of customer share of cumulative totex over/(underspend)	1.026
Adjustment for ODI rewards or penalties	0.000
RCV determined at Final Determination at 31 March	396.017
Projected 'shadow' RCV	397.043

The cumulative totex overspend is as per that set out in table 4b. All the lines are presented in March 2020 prices.

The customer share of cumulative totex overspend has been calculated using the formula (menu baseline totex – actual menu totex) x (1 – cost sharing rate). The RCV element has been calculated in line with the PR14 reconciliation rulebook calculations.

4d) Wholesale totex analysis

	Water Resources		Water Network +				
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£m	£m	£m	£m	£m	£m	£m
Operating expenditure							
Power	-	2.279	0.920	-	1.135	9.724	14.058
Income treated as negative expenditure	-	-	-	-	-	-	-
Abstraction charges/discharge consents	2.841	-	-	-	0.211	-	3.052
Bulk supply	-	0.003	-	-	0.011	-	0.014
Other operating expenditure - renewals expensed in year (Infrastructure)	-	-	-	-	-	11.439	11.439
Other operating expenditure - renewals expensed in year (Non-Infrastructure)	-	-	-	-	-	-	-
Other operating expenditure - excluding renewals	-	1.560	0.310	0.002	6.646	19.631	28.149
Local authority and Cumulo rates	-	0.154	0.190	-	0.372	4.362	5.078
Total operating expenditure excluding third party services	2.841	3.996	1.420	0.002	8.375	45.156	61.790
Third party services	-	0.009	0.002	-	0.669	1.367	2.047
Total operating expenditure	2.841	4.005	1.422	0.002	9.044	46.523	63.837
Capital Expenditure							
Maintaining the long term capability of the assets - infra	-	-	-	-	-	-	-
Maintaining the long term capability of the assets - non- infra	-	1.476	-	-	1.911	19.278	22.665
Other capital expenditure - infra	-	0.436	-	-	-	12.616	13.052
Other capital expenditure - non-infra	-	0.913	-	-	3.350	3.685	7.948

Infrastructure network reinforcement	-	-	-	-	-	0.790	0.790
Total gross capital expenditure excluding third party services	-	2.825	-	-	5.261	36.369	44.455
Third party services	-	-	-	-	-	-	-
Total gross capital expenditure	-	2.825	-	-	5.261	36.369	44.455
Grants and contributions							
Grants and contributions	-	-	-	-	3.015	8.633	11.648
Totex	2.841	6.830	1.422	0.002	11.290	74.259	96.644
Cash Expenditure							
Pension deficit recovery payments	-	-	-	-	-	-	-
Other cash items	-	-	-	-	-	-	-
Totex including cash items	2.841	6.830	1.422	0.002	11.290	74.259	96.644
Unit cost information (operating expenditure)							
Licenced volume available (Ml)	241,622.220						
Volume abstracted (Ml)		170,748.800					
Volume transported (Ml)			82,656.282				
Average volume stored (Ml)				2,808.318			
Distribution input volume (Ml)					142,011.660		
Distribution input volume (Ml)						142,011.660	
Unit cost (£/Ml)	11.758	23.456	17.204	0.712	63.685	327.600	
Population (000s)	1,734.649	1,734.649	1,734.649	1,734.649	1,734.649	1,734.649	
Unit cost (£/pop)	1.638	2.309	0.820	0.001	5.214	26.820	

4f) Operating cost analysis (household retail)

	Household unmeasured £m	Household measured £m	Total £m
Operating expenditure			
Customer services	2.516	3.010	5.526
Debt management	0.631	0.310	0.941
Doubtful debts	6.238	3.913	10.151
Meter reading	-	0.853	0.853
Other operating expenditure	1.242	1.099	2.341
Total operating expenditure excluding third party services	10.627	9.185	19.812
Third party services operating expenditure	-	-	-
Total operating expenditure	10.627	9.185	19.812
Depreciation - tangible fixed assets (on assets existing at 31 March 2015)	0.194	0.168	0.362
Depreciation - tangible fixed assets (on assets acquired since 1 April 2015)	0.250	0.215	0.465
Amortisation - intangible fixed assets (on assets existing at 31 March 2015)	-	-	-
Amortisation - intangible fixed assets (on assets acquired since 1 April 2015)	-	-	-
Total operating costs	11.071	9.568	20.639
Capital expenditure	0.383	0.330	0.713
Demand-side efficiency and customer-side leaks analysis - Household			
Demand-side water efficiency - gross expenditure			0.025
Demand-side water efficiency - expenditure funded by wholesale			0.010
Demand-side water efficiency - net retail expenditure			0.015
Customer-side leak repairs - gross expenditure			0.818
Customer-side leak repairs - expenditure funded by wholesale			0.818
Customer-side leak repairs - net retail expenditure			-

4g) Wholesale current financial performance

	£m
Revenue	106.855
Operating expenditure	(63.837)
Capital maintenance charges	(24.787)
Other operating income	0.063
Current cost operating profit	18.294
Other income	4.987
Interest income	1.865
Interest expense	(14.690)
Other interest expense	(0.176)
Current cost profit before tax and fair value movements	10.280
Fair value gains/(losses) on financial instruments	-
Current cost profit before tax	10.280

4h) Financial metrics

	Units	Metric Using Covenant Net Debt	Metric Using Book Net Debt	AMP to date Book Net Debt
Financial indicators				
Net debt	£m	246.060	265.771	
Regulated equity	£m	149.957	130.246	
Regulated gearing	%	62.13%	67.11%	
Post tax return on regulated equity	%	4.15%	4.83%	
RORE (return on regulated equity)	%	3.37%	4.80%	8.59%
Dividend yield	%	2.94%	3.39%	
Retail profit margin - Household	%		-3.56%	
Retail profit margin - Non household	%		0.00%	
Credit rating	Text		Baa2 (stable)	
Return on RCV	%		4.83%	
Dividend cover	dec		0.174	
Funds from operations (FFO)	£m		30.370	
Interest cover (cash)	dec		4.0982	
Adjusted interest cover (cash)	dec		1.3709	
FFO/Debt	dec		0.114	
Effective tax rate	%		18.24%	
RCF	£m		24.207	
RCF/capex	dec		0.582	
Revenue and earnings				
Revenue (actual)	£m		121.696	
EBITDA (actual)	£m		38.047	
Movement in RORE				
Base return	%	5.96%	5.96%	5.97%
Totex out / (under) performance	%	-0.24%	-0.24%	-0.20%
Retail cost out / (under) performance	%	-2.91%	-2.91%	0.88%
ODI out / (under) performance	%	1.54%	1.54%	0.50%
Financing out / (under) performance	%	-0.85%	0.58%	0.51%
Other factors	%	-0.13%	-0.13%	0.93%
Regulatory return for the year	%	3.37%	4.80%	8.59%
Borrowings				
Proportion of borrowings which are fixed rate	%	11.61%	10.83%	
Proportion of borrowings which are floating rate	%	9.14%	8.53%	
Proportion of borrowings which are index linked	%	79.25%	80.65%	
Proportion of borrowings due within 1 year or less	%	11.00%	0.00%	
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%	0.00%	
Proportion of borrowings due in more than 2 years but no more than 5 years	%	9.18%	9.53%	
Proportion of borrowings due in more than 5 years but no more than 20 years	%	0.00%	0.00%	
Proportion of borrowings due in more than 20 years	%	79.82%	90.47%	

Ofwat's reporting requires the dividend yield and dividend cover metrics to be calculated after deducting £1.75m of dividends paid to our holding company to enable payment of intra-group loan interest to the company. The table also shows the following metrics calculated using covenant debt, which is the key metric for our:

- borrowing;
- regulated gearing;
- post-tax return on regulated equity;
- RORE; and
- dividend yield.

Calculating the five-year average RORE using the more appropriate measure for gearing of covenant debt, excluding interest received on inter-company loans that are not part of net debt and excluding the impact of the sale of the non-household retail business gives a return of 5.76% instead of 8.59%, which is 0.21% below the notional return.

Calculating the RORE on book debt

RORE for 2019/20 was 4.80% and includes the SIM reward from the PR19 final determination of £1.4m (12/13 prices), reflecting the year it was earned. This increases the RORE in the year by 0.93%.

The reported average figure of 8.59% is the simple arithmetic mean of RORE figures for the five years to 2020.

This is higher than that allowed in the final determination of 5.97%. The main driver for this is outperformance is the impact of the sale of the non-household retail business and outperformance on retail costs, ODIs and SIM offset by 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).

As a result of the sale of the non-household retail business on 1 April 2017, net income in the final determination for 2017/18, 2018/19 and 2019/20 would have been £0.183m, £0.177m and £0.171m lower, respectively. This reduces the final determination RORE by 0.15% in each year and the five-year average by 0.09%.

The proceeds from the sale of the non-household retail business has increased RORE in 2017/18 by 5.03% and the five-year average RORE by 1.01%.

	15-16 Final Determination	Totex (Note 1)	Retail (Note 2)	12-13 prices RCV run off (Note 3)	ODI (Note 4)	Interest (Note 5)	NHH exit	Actual
	£m	£m	£m	£m	£m	£m	£m	£m
Out / (under) performance		(0.825)	2.450	0.026	0.541	(2.508)	-	
Less tax (20%)		0.165	(0.490)	(0.005)	(0.108)	0.501	-	
Appointed business: profit	6.923	(0.660)	1.960	0.021	0.433	(2.007)	-	6.671
Appointed business: regulated equity	115.775							115.775
Appointed business: RORE (actual)	5.98%							5.76%

	16-17 Final Determination	Totex (Note 1)	Retail (Note 2)	12-13 prices RCV run off (Note 3)	ODI (Note 4)	Interest (Note 5)	NHH exit	Actual
	£m	£m	£m	£m	£m	£m	£m	£m
Out / (under) performance		(0.141)	2.767	0.005	0.808	(0.491)		
Less tax (20%)		0.028	(0.553)	(0.001)	(0.163)	0.098		
Appointed business: profit	7.065	(0.113)	2.214	0.004	0.647	(0.393)	-	9.423
Appointed business: regulated equity	118.205							118.205
Appointed business: RORE (actual)	5.98%							7.97%

	12-13 prices							
	17-18 Final Determination	**Totex (Note 1)**	**Retail (Note 2)**	**RCV run off (Note 3)**	**ODI (Note 4)**	**Interest (Note 5)**	**NHH exit**	**Actual**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Out / (under) performance		0.419	2.688	(0.016)	(0.241)	3.574	7.250	
Less tax (19%)		(0.080)	(0.511)	0.003	0.046	(0.679)	(1.377)	
Appointed business: profit	7.183	0.339	2.177	(0.013)	(0.195)	2.895	5.873	18.259
Appointed business: regulated equity	120.316							120.316
Appointed business: RORE (actual)	5.97%							15.18%

	12-13 prices							
	18-19 Final Determination	**Totex (Note 1)**	**Retail (Note 2)**	**RCV run off (Note 3)**	**ODI (Note 4)**	**Interest (Note 5)**	**NHH exit**	**Actual**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Out / (under) performance		(0.609)	3.122	0.024	0.231	2.302	(0.219)	
Less tax (19%)		0.116	(0.593)	(0.004)	(0.044)	(0.438)	0.042	
Appointed business: profit	7.287	(0.493)	2.529	0.020	0.187	1.864	(0.177)	11.216
Appointed business: regulated equity	122.200							122.200
Appointed business: RORE (actual)	5.96%							9.17%

				12-13 prices				
	19-20 Final Determination	**Totex (Note 1)**	**Retail (Note 2)**	**RCV run off (Note 3)**	**ODI (Note 4)**	**Interest (Note 5)**	**NHH exit**	**Actual**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Out / (under) performance		(0.373)	(4.441)	0.015	2.356	0.891	(0.211)	
Less tax (19%)		0.071	0.844	(0.003)	(0.448)	(0.170)	0.040	
Appointed business: profit	7.368	(0.302)	(3.598)	0.012	1.908	0.721	(0.171)	5.939
Appointed business: regulated equity	123.688							123.688
Appointed business: RORE (actual)	5.96%							4.80%

Notes to RORE calculations

	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
1. Totex out performance					
Totex out / (under) performance (12/13 price)	(1.671)	(0.287)	0.848	(1.234)	(0.756)
Cost sharing rate	49.35%	49.35%	49.35%	49.35%	49.35%
Out / (under) performance	(0.825)	(0.141)	0.419	(0.609)	(0.373)
As 2019-20 is the last year of AMP6, there are no timing differences with the total five year underperformance consistent with table 4B					
2. Retail outperformance					
Per FD (allowed retail service expenditure including depreciation on assets post April 2015)	15.894	16.123	14.681	15.511	15.835
Actual retail costs (including depreciation on assets post April 2015)	13.444	13.356	11.993	12.389	20.276
Out / (under) performance	2.450	2.767	2.688	3.122	(4.441)
Retail out performance is outlined in table 2C					
3. Impact on RCV run off of totex out performance					
Totex out / (under) performance (12/13 price)	(1.671)	(0.287)	0.848	(1.234)	(0.756)
PAYG rate per FD	73.94%	68.33%	67.80%	65.70%	65.20%
RCV out / (under) performance	(0.436)	(0.091)	0.273	(0.423)	(0.263)
Run off rate (per FD)	6.00%	6.10%	6.00%	5.70%	5.55%
Impact on RCV run off	0.026	0.006	(0.016)	0.024	0.015
4. ODI reward					
Reward as set out in Table 3A	0.541	0.808	(0.241)	0.231	0.954
5. Interest (calculation as set out in Ofwat RD letter 12 April 2017)					
Net nominal interest paid	11.695	12.019	11.531	12.059	12.825
March opening net debt (book value)	233.179	233.708	242.976	260.541	268.350
March closing net debt (book value)	233.708	242.976	260.541	268.350	265.771
Average net debt (book value)	233.444	238.342	251.759	264.446	267.061
Nominal interest rate paid	5.01%	5.04%	4.58%	4.56%	4.80%

Year average RPI	1.08%	2.14%	3.74%	3.06%	2.59%
Deflate to real interest rate	3.89%	2.84%	0.81%	1.46%	2.16%
Cost of debt at PR14	2.59%	2.59%	2.59%	2.59%	2.59%
Difference	(1.30%)	(0.25%)	1.78%	1.13%	0.43%
Notional level of debt	192.959	197.008	200.527	203.667	206.147
Financial out / (under) performance	(2.508)	(0.491)	3.574	2.302	0.891

4i) Financial derivatives

	Nominal value by maturity (net)			Total value					Interest rate (weighted average)	
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market	Total accretion at 31 March 2018	Units	DPs	Payable	Receivable
	£m	£m	£m	£m	£m	£m				
Derivative type										
Interest rate swap (sterling)										
Floating to fixed rate	-	-	30.000	30.000	(2.875)	(2.875)	%	2	2.10%	0.40%
Floating from fixed rate	-	-	-	-	-	-	%	2	0.00%	0.00%
Floating to index linked	-	-	-	-	-	-	%	2	0.00%	0.00%
Floating from index linked	-	-	-	-	-	-	%	2	0.00%	0.00%
Fixed to index-linked	-	-	-	-	-	-	%	2	0.00%	0.00%
Fixed from index-linked	-	-	-	-	-	-	%	2	0.00%	0.00%
Total	-	-	30.000	30.000	(2.875)	(2.875)	0	0		
Foreign Exchange										
Cross currency swap USD	-	-	-	-	-	-	%	2	0.00%	0.00%
Cross currency swap EUR	-	-	-	-	-	-	%	2	0.00%	0.00%
Cross currency swap YEN	-	-	-	-	-	-	%	2	0.00%	0.00%
Cross currency swap Other	-	-	-	-	-	-	%	2	0.00%	0.00%
Total	-	-	-	-	-	-	0	0		

Currency interest rate										
Currency interest rate swaps USD	-	-	-	-	-	-	%	2	0.00%	0.00%
Currency interest rate swaps EUR	-	-	-	-	-	-	%	2	0.00%	0.00%
Currency interest rate swaps YEN	-	-	-	-	-	-	%	2	0.00%	0.00%
Currency interest rate swaps Other	-	-	-	-	-	-	%	2	0.00%	0.00%
Total	-	-	-	-	-	-	0	0		
Forward currency contracts										
Forward currency contracts USD	-	-	-	-	-	-	%	2	0.00%	0.00%
Forward currency contracts EUR	-	-	-	-	-	-	%	2	0.00%	0.00%
Forward currency contracts YEN	-	-	-	-	-	-	%	2	0.00%	0.00%
Forward currency contracts Other	-	-	-	-	-	-	%	2	0.00%	0.00%
Total	-	-	-	-	-	-	%	2		
Other financial derivatives										
Other financial derivatives	-	-	-	-	-	-	0	0	0.00%	0.00%
Total										
Total financial derivatives	-	-	-	-	-	-				

Nominal values (net) above represent the nominal value of the interest rate swap of £30.0m, which hedges the interest rate payments on £30.0m of bank loans. This does not equal the value reflected in total financial instruments in table 1c of £2.153m as the balance sheet value of the swap is recorded at mark to market value as described above.

The fixed payable element of the interest rate swap is 2.135% and the receivable floating rate element is three-month LIBOR, shown above as the average for the 12 months to 31 March 2020 of 0.759%.

The receivable floating rate element of the swap exactly offsets the payable floating rate element (three-month LIBOR interest payment) of the related £30.000m bank loan. The effect of this is that the interest payable on the loan, when combined with the cash flows on the swap, is fixed to 2.135% a year plus the agreed fixed bank margin percentage per annum.

Part 3: Appendices

Appendix 1: References

Information sources – strategic report

Information for the content in the strategic report has come from the following sources. Additional information has also come from the South Staffs Water internal communications portal and internal briefings.

Page no.	Story	Source
10	Covid-19 outbreak	Company-wide internal communications, March 2020 Website updates, March/April 2020 Internal household retail slide pack, April 2020
13	Fowlmere visits for Environment Agency CEO and Ofwat Chair	South Staffs Water internal e-newsletter (Conduit), January 2020 and March 2020
14	Making Christmas happen	National Infrastructure Commission (NIC) Twitter account (@NatInfraCom), retweeted by South Staffs Water Additional content from NIC press release, 18 December 2019 (www.nic.org.uk/news/armitt-lets-shine-a-light-on-infrastructures-christmas-heroes/)
15	Preparing for the next planning period	South Staffs Water press release, 21 August 2019 (www.south-staffs-water.co.uk/news/nmcn-plc-secures-framework-for-water-treatment-upgrade)
15	Alternative water supply exercise	Conduit, April 2019
16	Tipton mains burst	Conduit, October 2019 and February 2020
17	Preventing illegal water use	South Staffs Water press release, 10 January 2020 (www.south-staffs-water.co.uk/news/zero-tolerance-with-organisations-illegally-taking-water) Cambridge Water press release, 9 October 2019 (www.cambridge-water.co.uk/news/successful-prosecution-for-illegally-taking-water)
17	Delivering long-term, resilient water supplies	Conduit, August 2019 South Staffs Water press release, 6 July 2019 (www.south-staffs-water.co.uk/news/water-mains-upgrade-for-aldridge) South Staffs Water press release, 1 August 2019 (www.south-staffs-water.co.uk/news/major-investment-in-new-water-mains-for-west-bromwich-by-south-staffs-water) South Staffs Water press release, 15 October 2019 (www.south-staffs-water.co.uk/news/water-mains-upgrade-for-chase-terrace)
18	Cambridge region Young Innovators' Panel launched	Conduit, July 2019 and October 2019 Cambridge Water press release, 19 September 2019 (www.cambridge-water.co.uk/news/young-innovators-showcase-their-ideas-on-how-to-make-water-count)

Page no.	Story	Source
19	Bespoke service for MPs launched	Conduit, July 2019
19	H2Online – our online community of customers	Conduit, August 2019
20	Being at the heart of the communities we serve	Conduit, May 2019, July 2019, August 2019, November 2019, December 2019 and March 2020 South Staffs Water press release, 1 July 2019 (www.south-staffs-water.co.uk/news/an-award-for-our-community-hub) South Staffs Water press release, 6 August 2019 (www.south-staffs-water.co.uk/news/school-uniform-swap-to-help-parents) South Staffs Water press release, 8 November 2019 (www.south-staffs-water.co.uk/news/community-hub-shortlisted-for-awards) South Staffs Water press release, December 2019 (www.south-staffs-water.co.uk/news/community-hub-wins-award) Cambridge Water press release, 5 July 2019 (www.cambridge-water.co.uk/news/join-us-at-the-big-weekend-2019) Cambridge Water press release, 6 August 2019 (www.cambridge-water.co.uk/news/cambridge-folk-festival-bans-single-use-plastic-bottles-thanks-to-our-support)
22	Water resources in the Cambridge region	Conduit, September 2019, October 2019 and November 2019 Cambridge Water press release, 28 August 2019 (www.cambridge-water.co.uk/news/update-on-water-resources) Cambridge Water press release, 20 September 2019 (www.cambridge-water.co.uk/news/will-you-pledge-to-save-water) Cambridge Water press release, 4 October 2019 (www.cambridge-water.co.uk/news/water-resources-and-our-chalk-streams)
23	Enhancing biodiversity with our PEBBLE fund	Conduit, November 2019 South Staffs Water press release, 28 November 2019 (www.south-staffs-water.co.uk/news/funding-tree-planting-in-wednesbury) South Staffs Water press release, 27 February 2020 (www.south-staffs-water.co.uk/news/more-biodiversity-projects-funded-across-staffordshire-and-the-west-midlands) Cambridge Water PEBBLE case studies (www.cambridge-water.co.uk/environment/biodiversity/pebble-case-studies) Cambridge Water press release, 27 February 2020 (www.cambridge-water.co.uk/news/more-biodiversity-projects-funded-across-cambridgeshire)
24	Re-naturalising Tad Brook	South Staffs Water press release, March 2019 (www.south-staffs-water.co.uk/news/re-naturalising-tad-brook)

Page no.	Story	Source
24	Encouraging sustainable practices	Conduit, June 2019, August 2019 and January 2020 South Staffs Water press release, 31 July 2019 (www.south-staffs-water.co.uk/news/major-campaign-launched-to-encourage-the-nation-to-love-water) Cambridge Water press release, 31 July 2019 (www.cambridge-water.co.uk/news/major-campaign-launched-to-encourage-the-nation-to-love-water)
25	Helping those customers who have the most need	Conduit, November 2019
26	Has your water meter 'bin' read?	Conduit, December 2019 South Staffs Water press release, 16 December 2019 (www.south-staffs-water.co.uk/news/has-your-water-meter-bin-read)
26	PR19 – the steps to our final determination	Conduit, August 2019, December 2019 and January 2019 South Staffs Water press release, 16 December 2019 (www.south-staffs-water.co.uk/news/ofwat-s-determination-on-our-business-plan) 'PR19 final determinations: South Staffs Water final determination', Ofwat, December 2019 (www.ofwat.gov.uk/wp-content/uploads/2019/12/PR19-final-determinations-South-Staffs-Water-final-determination.pdf)
28	Planning ahead of the UK exiting the EU	'Unaudited interim report and accounts for the six months ended 30 September 2019' (www.south-staffs-water.co.uk/media/2880/interim-report-and-accounts-2019.pdf)
28	Gender, equality and diversity	Internal email, May 2020
29	Employee engagement	Conduit, September 2019, October 2019, November 2019, December 2019, January 2020, February 2020 and March 2020
30	Health and wellbeing	Conduit, May 2019, November 2019 and February 2020
31	Developing skills for the future	Conduit, September 2019, October 2019 and December 2019 Internal email, April 2020
32	Giving our people access to their data	Company-wide internal communication, December 2019 and January 2020
32	How our people make a difference	Conduit, April 2019, May 2019, June 2019, July, 2019, August 2019, September 2019, October 2019, December 2019 and January 2020
33	Customer service heroes… assemble!	Conduit, October 2019
33	Welcoming Westminster to Walsall… and Wednesbury	Conduit, August 2019 South Staffs Water press release, 1 August 2019 (www.south-staffs-water.co.uk/news/wendy-morton-mp-visits-south-staffs-water)