Cambridge Water   South Staffs Water

South Staffordshire Water PLC

Annual performance report

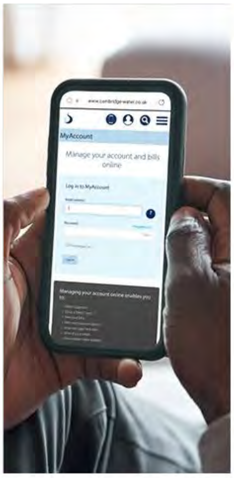
For the year ended 31 March 2023

Contents




The year at a glance

Invested in a **next generation customer billing system**, to further improve our service to customers



Nearly **56,000** customers helped through our financial support packages

Met leakage targets – 16.7% reduction in our Cambridge region and **9.4% reduction** in our South Staffs region

Invested in **upgrading our water treatment plants** and delivered on time

90% of visible network leaks fixed within 4 days

More than 10% of our household customers registered on our **Priority Service Register** to receive additional help

Awarded £270,000 from Ofwat's Innovation Fund for a diversity-led water efficiency project

About South Staffordshire Water

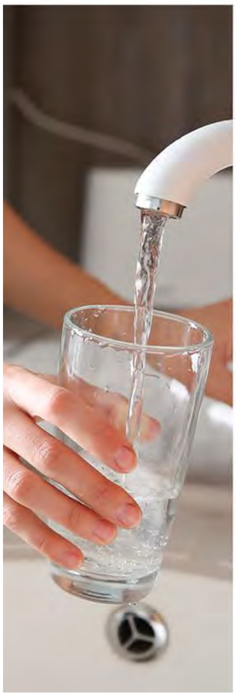
We operate South Staffs Water and Cambridge Water

We are part of the South Staffordshire Plc group of companies

We are a water only company, and do not take away and treat waste water

We are regulated by Ofwat, the Environment Agency and the Drinking Water Inspectorate

We provide clean water to more than 1.7 million people and 42,500 businesses every day

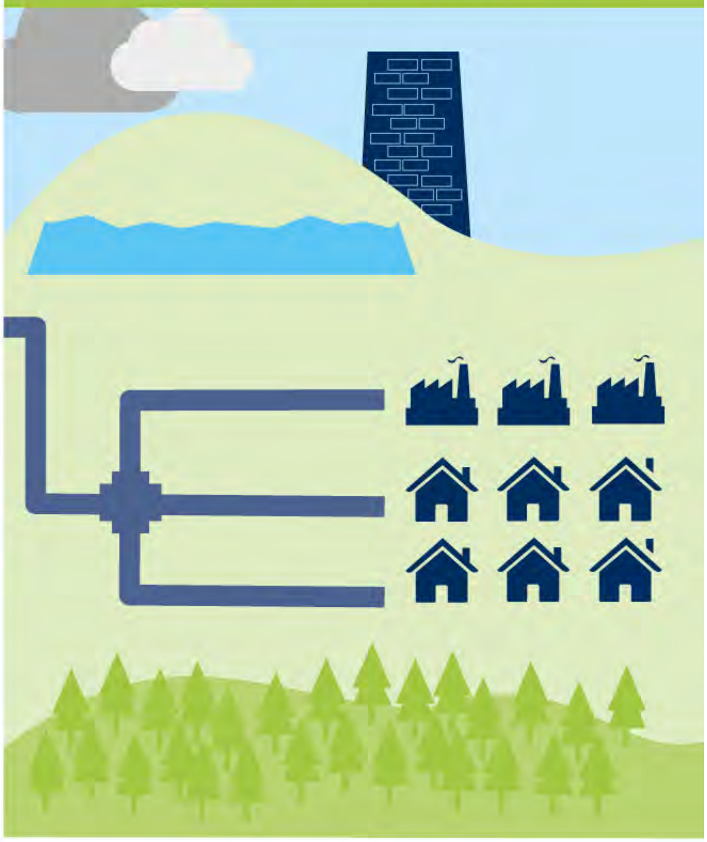


We have been a successful, privately-run business for 170 years. We have never been in public ownership

Our role

What we do

Collect and treat water	Store and distribute water



43 borehole sites 2 surface water reservoirs	41 water treatment works	69 service reservoirs and water towers 113 booster pumping stations 8,702km of pipes	712,710 residential connections 42,331 business connections

Information consistent with 2022/23 APR.

Our vision, purpose and values

Our vision

To deliver clean, affordable water every day

Our mission

To make sure:

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

Our purpose

Over the past 170 years, we have provided high-quality water supplies to customers in our Cambridge and South Staffs regions. So that we can keep providing this essential public service, we:

- put customers' needs at the heart of all our decision making;
- actively work in partnership with local communities;
- act as the guardians of our assets, building resilience with regular investment;
- work hard to protect and enhance the natural environment; and
- run an efficient business, in everyone's interests.

This is how we are **securing the water future – for our customers, our communities, the environment and our people.**

Our values

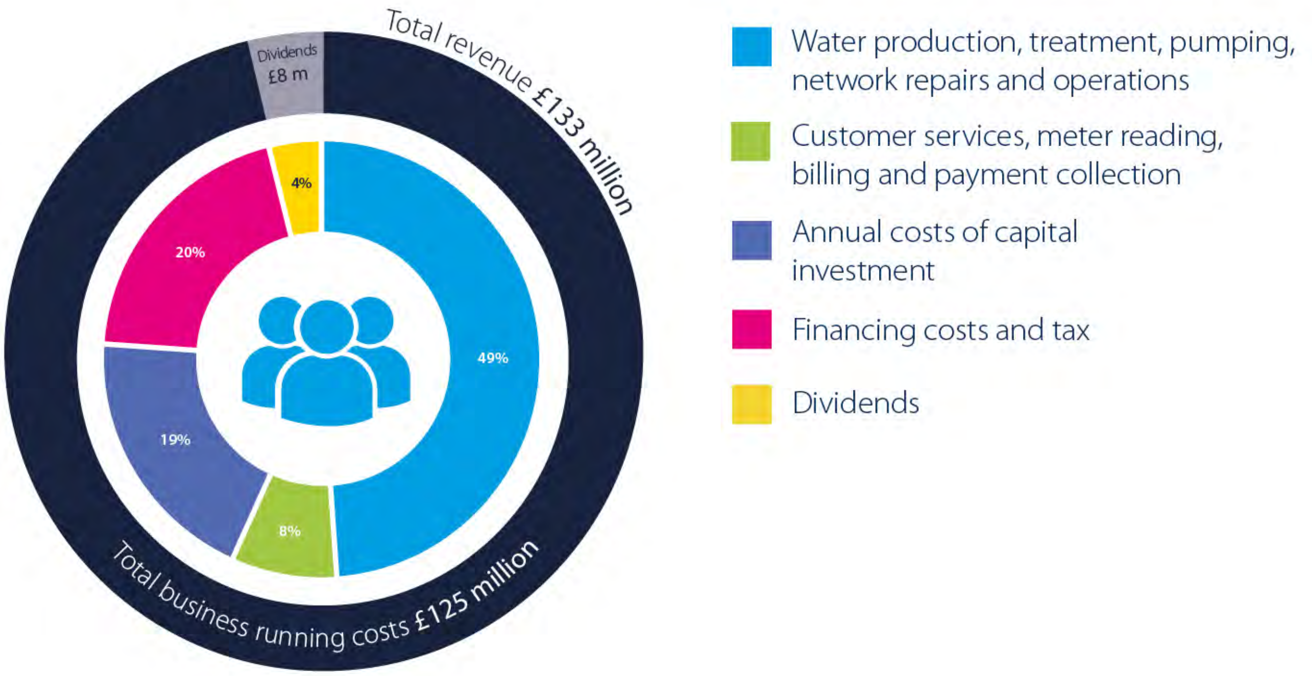
Our mission and purpose are underpinned by our values.

- Equality, diversity and inclusion
- Excellence in service
- Responsibility
- Trust and respect

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

Where your money goes

How we use the money we get from customers' bills



Welcome from our Chair and Managing Director

The end of each financial year always presents us with the perfect opportunity to reflect on our performance as the provider of an essential public service to customers across our Cambridge and South Staffs regions. It enables us to celebrate the areas where we have done well, and to put plans in place to improve those areas where our performance has fallen short of what we – and our customers and other stakeholders – expect.

It's fair to say that it's not been a typical year; in many respects it's been extremely challenging. The uncertainty created by war in Europe, for example, and the surge in energy prices have contributed to a cost of living crisis that has impacted on many people's ability to pay their bills. At the same time, the water sector in England and Wales has been in the public spotlight like never before, with a catalogue of negative media stories about pollution, executive pay and dividends, and growing calls for water companies to be nationalised, while the prolonged spring and summer drought has called into question the security of future water supplies.

This means it's crucial for us to clearly demonstrate that we always act in a way that is responsible and in the best interests of all our customers. In this way, we can continue to build their trust and deliver the high-quality services that are important to them – and that they are willing to pay for.

And yet, despite the external challenges we've faced during the year, we've also experienced several successes and we've continued to perform well against many of our key regulatory targets. The provision of excellent water quality – always a top priority for our customers – is one such example. We've had another outstanding year for water quality contacts – delivering a 15% reduction in the number of contacts about the colour, taste and smell of the water we've supplied to customers, equating to a total reduction of 42% since 2020/21.

We've also performed strongly on supply interruptions during the year. This is all the more impressive given the very cold winter we experienced, combined with a high burst rate, and is testament to the commitment of our people to ensure water is always available every time our customers turn on their taps.

And we've continued to perform very well in terms of the number of customers we help. We've exceeded our targets for the number of customers receiving some form of financial support from us, with nearly 56,000 currently being helped, and also for the number of customers on our Priority Services Register, which now stands at more than 10% of our total household customer base.

We're hopeful that the launch of our new Aptumo billing software in February will help us to proactively identify more customers who may be struggling to pay their water bills. This is so that we can continue to target help in the most efficient and responsive way. Early feedback suggests that the new system is already providing us with the capability to take our customer service to the next level. This includes the addition of more self-service elements, the option to choose when Direct Debit payments are taken and the ability for meter readings to be submitted at a time that is most convenient for customers. This is vital if we're going to deliver a more responsive, 'right first time' experience for all our customers.

We've also continued to deliver against our ambitious investment programme for the current five-year period. Construction work for the new Bourn reservoir in our Cambridge region is now complete and the upgraded treatment processes at the Seedy Mill water treatment works in our South Staffs region have been delivered in line with the target agreed with the Drinking Water Inspectorate.

But there are some areas where we need to go further to improve our performance. We're still seeing high water demand across both our Cambridge and South Staffs regions, which is negatively impacting our target for individual water use – what we call 'per capita consumption'. We're actively looking at ways to encourage customers to use less water and value it as a precious and finite resource, and we're focusing on getting this measure back on track in the remaining two years of the current five-year planning period. But we recognise that we also have an important part to play. The combination of a prolonged drought and a cold winter has led to an increase in the number of bursts on our network.

And yet, despite this, we've met our leakage target for year in both our Cambridge and South Staffs regions. Leakage is another key priority for our customers, so it's essential that we continue to drive improvements and meet our targets. It's encouraging, therefore, that we also achieved our target of repairing 90% of visible leaks within four days. This gives us a strong foundation on which to build for the year ahead.

Underpinning all this is the impact the energy crisis has had on our business. We've had to navigate increases in the cost of fuels and the essential chemicals needed to treat water, which has seen us exceed our budget for the year. This has resulted in us mitigating costs elsewhere across the business, while making sure we continue to deliver for our customers.

However, by far the biggest challenge we've faced during the year has been the impact of a criminal cyber-attack on our parent company, South Staffordshire Plc, in July. As soon as we became aware of the incident, we brought in specialist expertise and took steps to understand what had happened. Our forensic investigation found that some employee and customer data had been impacted, and we put in place a package of support to help those who had been affected. More information on the incident and our response to it can be found in the annual report and financial statements.

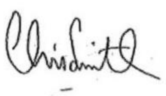
It's important to stress that at no point were the water supplies we provide to customers affected by this incident, and our control room and operational teams carried on working. Since the incident, we've been working with leading IT security experts to reduce the risk of a similar incident occurring. They made some recommendations on additional IT security enhancements, and we've already implemented some of these. But we're continuing to be vigilant as we know attacks like these are becoming ever more sophisticated and commonplace.

Looking ahead, we'll continue to deliver the outcomes our customers have said are important to them and where they want to hold us to account. This includes completing the work to construct one of the world's largest ceramic membrane filtration plants at the Hampton Loade water treatment works in our South Staffs region. This is a critically important project for us, which will deliver enhanced water quality to the 700,000 customers supplied by the works. We're currently on track to deliver this project in line with our target.

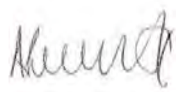
And because we're a business that plans for the long term, we're already looking ahead to the next five-year planning period from 2025 to 2030 – known as AMP8 – and beyond, setting out our delivery strategy to 2050. We're currently developing our plans in consultation with customers and stakeholders, ahead of submission to the regulator Ofwat in October this year. We want to build on the ambition of our current plan to ensure we can secure the water future for our customers, our communities and the environment we all rely on and enjoy.

Of course, none of this would be possible without our people. They have played a critical role in helping us meet the challenges we've faced over the past year. Their resilience and hard work are to be commended, as is their commitment to always striving to deliver their best for all our customers, day in, day out. Thank you all for a job well done!

Finally, just after the end of the reporting year, Phil Newland, CEO of South Staffordshire Plc, decided to resign from the business. Phil served as Managing Director of South Staffordshire Water during his time with the Group. We would like to thank him for his hard work and commitment to the business and wish him well for his future endeavours.



Lord Chris Smith
Chair



Andy Willicott
Managing Director

About the annual performance report

We publish our annual performance report (APR) alongside the annual report and financial statements each year. It provides information about the appointed business in terms of our performance, regulatory accounts and additional regulatory information, and price review and segmental reporting.

Our APR comprises:

- an **analysis of our performance** during the 12 months covered by this report, including information about how we have performed against our key regulatory targets;
- **case studies** that illustrate different aspects of our performance;
- our **regulatory accounts**;
- narrative covering **outcomes, total expenditure (totex) and a reconciliation to price controls**;
- a statement on the **accuracy of data and information**;
- a statement confirming our **compliance with the ring-fencing conditions** of our licence (F6A); and
- a **risk and compliance statement** confirming that we have a full understanding of, and are meeting, all our relevant statutory, licence and regulatory obligations.

Our statutory accounts on their own are considered insufficient to assess the performance of a vertically integrated, price-controlled monopoly such as South Staffordshire Water. This is particularly relevant in a water sector with long-life assets and where there is still an absence of competitive markets for different parts of the value chain. These regulatory accounting statements use audited information and comply with Ofwat's regulatory accounting guidelines (RAGs). To avoid duplication, we have signposted some of the required disclosures in our annual report and financial statements. We present the APR to the Audit and Risk Committee and the Board for approval.

Assuring our APR

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

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

There is also a section on our outcome delivery incentives (ODIs) and the indicators that carry a financial reward or penalty; our technical auditor Jacobs has audited this. A summary report is set out on page 104. The South Staffordshire Plc Group Risk, Control and Assurance function has reviewed the remaining reputational ODIs, and the summary report is set out on page 103. Jacobs has also audited the financial flows submission and our long-term viability statement (see pages 44 to 49 of the annual report and financial statements for the full statement).

Board leadership, transparency and governance

We believe that having strong and effective Board leadership is essential in ensuring we deliver the things our customers have told us are important to them. We are committed to Ofwat's Board leadership, transparency and governance principles, which are reflected in our own corporate governance code. We are also committed to making sure they are embedded in all our strategic thinking and decision-making.

This includes making sure they are aligned with our purpose, which is to **deliver the things that matter most to our customers**, now and in the future, and to:

- actively **work in partnership with local communities** – playing our part to help them thrive;
- act as **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.

We developed our purpose in consultation with our people; it was further shaped by the Executive team and Board as a cornerstone of our business strategy going forward. It is something that all our people live breathe and is reflected in the following, among others.

- Our **award-winning community hub**, where we work with a number of partner organisations to provide help and support to customers in one of our most structurally challenged communities.

- Our **plans to ensure the long-term resilience of our assets**, including the upgrade programme at our Hampton Loade and Seedy Mill water treatment works in our South Staffs region, and the construction of a large storage reservoir at the Bourn site in our Cambridge region to serve an area with a growing population.

- Our **focus on health and safety**, with incidents reported to Board each month and training for our senior managers on human and organisational performance.

- Our **performance as upper quartile for efficiency** at PR19.

It is also reflected in the promises we have made to our customers to 2025 and beyond, which are encapsulated in the following outcomes.

- **Our customers:** we will offer a great customer experience and get feedback to help us keep improving.

- **Our community:** we will offer our customers the right level of support for their individual needs and help everyone learn how to use water wisely.

- **Our service:** we will provide clean, high-quality and reliable water supplies now and in the future.

- **Our environment:** we will protect the environment, reduce leakage and support the building of water efficient homes.

- **Our business:** we will run an efficient business with happy employees, where our suppliers are treated fairly.

To ensure we maintain our customers' trust in us and continue to deliver value for money, it is important for us to deliver these promises. So, within each outcome we have developed a number of performance commitments in the areas where our customers have said they want to hold us to account each year. We report on our performance against our outcomes and commitments on pages 13 to 24 of this document.

Underpinning our purpose and outcomes are our values, which focus on:

- **equality, diversity and inclusion**, which means embracing and valuing all our people, while adopting diverse and inclusive approaches;
- **excellence in service**, which means leading by example to improve ways of working, while going above and beyond for our customers;
- **responsibility**, which means being motivated to deliver high standards, while demonstrating ownership and responsibility for delivering business objectives; and
- **trust**, which means respecting and valuing those we work with, while building trusting relationships and empowering others to make decisions.

We have embedded these values within our annual appraisals process to ensure they are central to all our people's objectives. We believe this will help us to deliver our outcomes and achieve our purpose of always delivering the things that matter most to our customers. Our values are also reflected in our company policies and in our expectation that the values of our supplier and contractor partners align with these.

Below we set out more information about 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	The Board sets standards of conduct to promote our success, provide leadership and review our internal controls and governance structure. This includes using its strategy days each year to shape our vision, mission statement and purpose, which are underpinned by our values (see page 5). We have tested our vision, mission statement and purpose with our people to ensure they are embedded in our business, and with our customers to ensure they remain relevant and fit for purpose. In November we published 'Looking to the future', our **long-term vision to 2050**. This ambitious vision aims to demonstrate our value to our customers and society, and our commitment to protecting and enhancing the environment. It is based on delivering the priorities customers and stakeholders have told us about through our ongoing engagement with them. Our values were also shaped and driven by the Board. As described above, they focus on the areas of equality, excellence, responsibility and trust, and are embedded in our appraisals process and reflected in all our people's objectives. There is a **regular dialogue between the Board and investors** to ensure their objectives and priorities are carefully considered. This dialogue is achieved through Board meetings, with investors having representation on the Board, and through other communication channels. There is also a regular dialogue between the Board and our people, with our regular **Executive roadshows** giving our people the opportunity to learn more about the key areas where the Board is focusing its attention. During the reporting year we reverted to face-to-face sessions with smaller groups across all our key sites to enable more interaction and two-way discussion. Another way that the Board's work is shared and communicated across the business is through **team meetings and de-briefs**. This has allowed teams and departments to share ideas and thinking about our direction of travel going forward. The Board is responsible for **developing and implementing a company direction and performance statement** each year. This sets out the Board's key activities and any action it has taken to ensure our work is always aligned with our strategy and purpose (see page 32 for more information).
Stand-alone regulated company	As a regulated water company, we recognise the importance of having an effective Board that takes full responsibility for the strategic direction of our business. **Independent Non-executive Directors are the largest group on the Board.** The Board's role is to develop and implement our strategy, and to ensure we meet the needs of our customers, our people, our investors and other stakeholders, while also making sure we carry out our commitments to protect and enhance the environment. As well as approving all our major financial and investment decisions, **the Board monitors and evaluates our performance**, providing constructive challenge and continuing to promote our culture and values as the provider of an essential public service. The Board's business is carried out by the following committees. • **Audit and Risk Committee**, which focuses on the company's processes to manage business and financial risk, and for compliance with the applicable legal, ethical and regulatory requirements, and on aspects of financial reporting. • **Environmental, Social and Governance (ESG) Committee**, which advises and assists the Board in managing matters relating to the company's ESG governance policies, initiatives, performance and reporting. • **Nomination and Remuneration Committee**, which focuses on our processes for appointing Board members and Executive team members, and on setting their remuneration packages. • **PR24 Committee**, which focuses on strategic matters relating to the regulator Ofwat's periodic review of price controls (PR24). See pages 74 to 78 of the annual report and financial statements for more information about these committees.

<table>
<tr><th>Ofwat's principle</th><th>How we have complied</th></tr>
<tr><td>Board leadership and transparency</td><td>To demonstrate our transparency and engender trust among our customers and other key stakeholders, we publish the following information in our annual report and financial statements each year.
• Information about our shareholders (see pages 68 to 70).
• The structure of the South Staffordshire plc Group and South Staffordshire Water PLC (see pages 68 to 69).
• An explanation of the dividends paid, and how these take account of our performance in delivering for customers (see page 13).
• An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed (see pages 32 to 43).
• Board and committee membership, including the number of meetings and attendance at each meeting (see pages 74 to 78).
• An explanation of our executive pay policy, including how the criteria for awarding short- and long-term performance elements are linked to delivery for customers (see pages 78 to 79).</td></tr>
<tr><td>Board structure and effectiveness</td><td>The Board comprises:
• the independent Chair;
• the Managing Director;
• the Group Chief Executive; and
• five Non-executive Directors.
During the reporting year, the largest group of Directors on the Board was that of Independent Non-executive Directors, including the Chair.
We set out the relevant experience and skills of each Board member on pages 58 to 59 of the annual report and financial statements. We benefit from the Board's wide range of skills and expertise.
The Senior Independent Director, Catherine May, carried out an assessment of the Independent Chair in June 2022. The Chair was assessed on five key measures and feedback was provided through questionnaires and face-to-face meetings with the Senior Independent Director. The overall rating was overwhelmingly positive, highlighting the Chair's key strengths of encouraging exclusivity, managing complex debates and understanding of the water sector.
The evaluation highlighted some areas of focus for the Board to consider in the coming year. A process to enhance Board effectiveness reviews will be undertaken and improvements will be made in the coming year.
A conflict of interest could arise where a Board member has an association with another company (either a sister company of South Staffordshire Water or one that is separate) and for which a contract is awarded. All Directors must disclose details of all such interests to the Board in line with the provisions of the Companies Act 2006. We have policies in place to deal with such instances. Directors must declare an interest in any Board matter, in which they have an interest.
Other information on the Board structure and effectiveness can be found on pages 57 and 85, respectively, of the annual report and financial statements.</td></tr>
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Performance against our targets

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 target	2022/23 performance	Target met
Core outcomes	Delivering services that are value for money	% of satisfied customers	74	71	81	75	✗
	Making sure customers have a high level of trust in us	Score out of 10	8.16	7.85	8.20	7.68	✗
Our customers	Great customer service to our household customers	C-MeX score	81.89	83.38	Upper quartile	79.87	✗
	Great customer service to our business market suppliers (retailers)	R-MeX score	76	87.3	93.3	82.2	✗
	Great service to developers	D-MeX score	83.59	84.4	Upper quartile	87.57	✗
Our community	Financial support for household customers struggling to pay their bills	No. of customers helped	49,279	58,611	36,000	55,993	✓
	Extra Care support for customers who need assistance	% on PSR receiving extra care support	5.0	5.1	5.0	4.7	✗
	Education programme, working with schools about the need to use water wisely	No. of pupils engaged	297	2,284	6,000	3,672	✗
	Ensuring customers who need assistance are registered with us	% registered on Priority Services Register	5.8	8.7	7.1	10.6	✗*
Our service	Delivering upgraded water treatment works	% completion	8	18	55.1	63.2	✓
	Always meeting water quality standards – drinking water quality	Compliance Risk Index (CRI) score (water quality measure)'	1.09	0.90	0	1.39	✗
	Always meeting water quality standards – taste, smell and colour	Contacts per 1,000 population	0.98	0.76	1.08	0.65	✓
	Maintaining a reliable supply – supply interruptions	Average interruptions in minutes and seconds	04:33	03:15	05:45	04:29	✓
	Maintaining a reliable supply – severe supply restrictions	% of customers at risk	0	0	0	0	✓
	Reducing the number of water production failures	Unplanned outage as a % of total production capacity	0.57	0.90	2.34	1.47	✓
	Finding and fixing visible leaks more quickly	% of visible leaks repaired within set no. of days	90% within six days	90% within five days	90% within four days	90% within four days	✓
	Reducing the number of burst mains	No. of bursts per 1,000 km of mains	130.0	109.6	126.0	150.8	✗

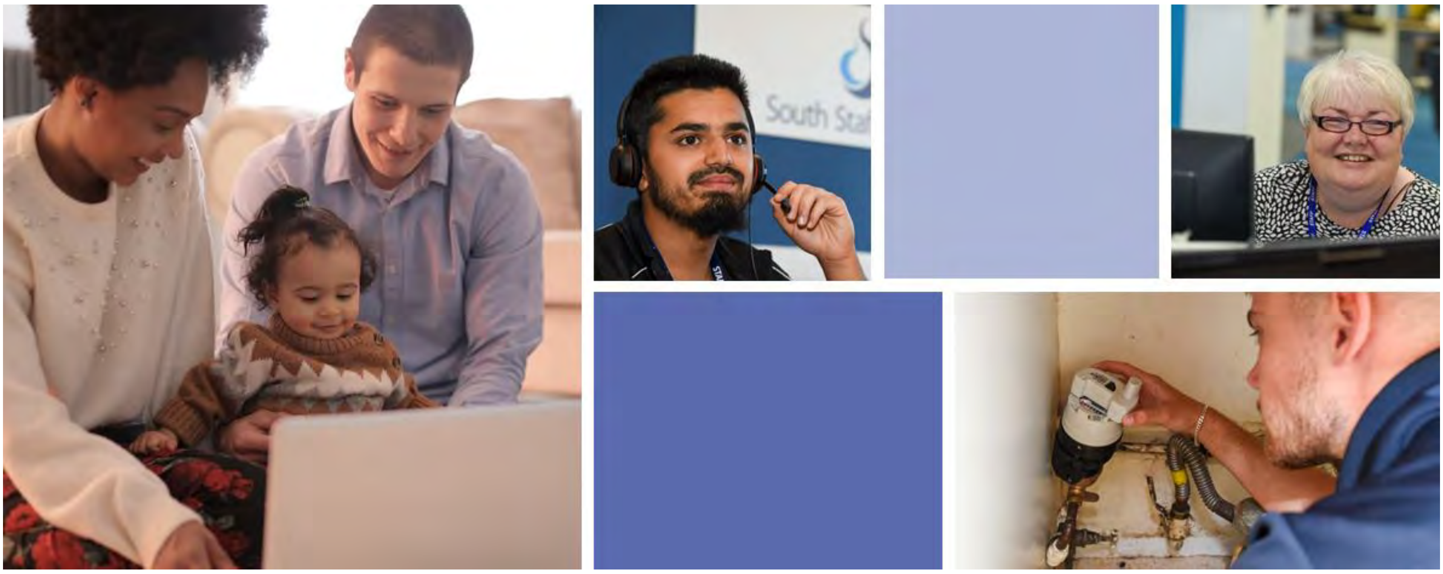
* The Priority Services Register performance commitment is comprised of three components: reach, attempted contact, and actual contact. In 2022/23 we have met the target for reach, shown on this page, but we have not met the targets for actual or attempted contact.

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 target	2022/23 performance	Target met
Our environment	Reducing leakage levels – South Staffs region	% reduction from baseline	3.0	5.8	7.8	9.4	✓
	Reducing leakage levels – Cambridge region	% reduction from baseline	5.1	13.5	8.0	16.7	✓
	Reducing how much water each person uses (per capita consumption) – South Staffs region	% reduction from baseline	-5.9	-10.3	0.7	-14.9	✗
	Reducing how much water each person uses (per capita consumption) – Cambridge region	% reduction from baseline	-3.2	-3.5	3.7	-5.6	✗
	Not taking too much water from environmentally sensitive sites	Abstraction Incentive Mechanism (AIM) score	-0.07	0	0	0.19	✗
	Protecting wildlife, plants, habitats and catchments	Hectares of land managed	245.8	542	451	783	✓
	Supporting water-efficient house building	Volume of water saved (megalitres)	2.2	15.5	7.7	16.6	✓
	Reducing our carbon emissions	Kilograms per connected property	27.0	30.1	66.0	28.5	✓
	Delivering Water Industry National Environment Programme requirements	Milestones	Not met	Not met	Met	Met	✓
Our business	Making sure all our people love their jobs	Net Promoter Score (NPS)/ Achieving Investors in People (IIP)	IIP achieved. NPS not achieved.	IIP achieved. NPS not achieved.	IIP achieved & 10pts increase in NPS from baseline	IIP achieved. NPS not achieved.	✗
	Treating all our suppliers fairly and paying small businesses quickly	% of small businesses paid within 30 days	29	69	100	69	✗
	Reducing our bad debt so customers do not pay more than they need to	Bad debt as a % of revenue	3.23	3.44	2.79	2.52	✓
	Making sure our property records are up to date	% validated	100	100	100	100	✓

Delivering for our customers

Our customer promise

We will offer a great customer experience and get feedback to help us keep improving



> Ensuring excellent customer service, which is certainly lacking in today's society. Personal telephone contact and efficient and effective service – **household customer, South Staffs region**

How we performed during 2022/23

We are committed to delivering a great experience for all our customers, and we use our comprehensive engagement and insight programme to gain feedback that helps us to keep improving.

The main regulatory measure of customer experience and satisfaction that we deliver against is C-MeX, which drives us to always deliver excellent service for all our household customers. C-MeX comprises the results of a survey with customers who recently contacted us about the service they received from us; and one with randomly selected members of the public about their experience of us as their water company. In both cases, customers are asked how satisfied they are with the service we provide and how likely they would be to recommend us to their friends and families.

We are disappointed to have slipped back from our strong position last year, having missed our upper quartile target with an overall C-MeX score of 79.87. Based on the findings of the surveys a key driver of the dip in performance is the impact of the criminal cyber-attack on customers' confidence in us. We are committed to driving improvements in the service we deliver to customers and will strive to get our performance back to a sector-leading position in the year ahead.

The regulatory measure for our developer services customers is D-MeX. Our developer services customers include large and small property developers, self-lay providers, and new appointments and variations (NAVs) – that is, companies appointed to provide water only or water and sewerage services to customers in a specific geographic location within another water company's supply area. D-MeX comprises a survey of developer services customers that have recently completed a transaction with us and a measure of our performance against a set of service metrics developed by Water UK, our representative trade body.

We are continuing to make steady progress against this performance commitment. We have continued to build meaningful relationships with our developer services customers and ended the year in an above average position. We are continuing to see year-on-year improvement in this performance commitment and are striving to achieve upper quartile by the end of the current planning period in 2024/25.

We have a third customer service performance commitment, which measures business retailers' satisfaction in us as a wholesaler operating in the non-household water retail market. This bespoke commitment, which we call R-MeX, uses a combination of operating and market performance standards, and our own retailer satisfaction survey.

We have continued to focus on building close relationships with our business retailer customers and ended the year in 11th place in the sector overall, with an average score of 7.36 out of 10 in the market operator MOSL's output report published at the end of March. This is the highest score we have received since we launched our R-MeX measure in 2020 and it demonstrates our commitment to building effective retailer relationships.

In addition, when assessed against MOSL's service delivery measures, we scored above the market average for the:

- level of communications during incidents;
- quality of data management and improvement;
- level of engagement and support; and
- effectiveness of our financial policies.

We are rightly proud of the efforts of the retail market team to sustainably improve our performance. We also have an action plan in place to ensure improvements in service delivery are made consistently over the remaining two years of the current planning period. We will continue to work closely with retailers and MOSL before the next wave of R-MeX scores are released in August.

Underpinning our customer experience measures are our commitments to ensure we deliver services that are value for money and that our customers have a high level of trust in us as the provider of an essential public service. We use the combined results of two surveys to derive our value for money and trust scores. Half the results come from an independent annual survey of just over 800 household customers; the other half come from the consumer watchdog CCW's Water Matters survey of 300 household customers. Both surveys include a representative sample of customers from across our Cambridge or South Staffs regions.

Unfortunately, we have continued to see a decline in both our value for money and trust scores over the past year. We think this is due, in part, to a combination of external influences – the current cost of living crisis and the negative reporting of the water sector in the media, for example. But it is important that we listen to and address our customers' concerns. We will continue to use our monthly priorities and promises trackers to monitor changes in customer sentiment and act to get these measures back on track by the end of the current planning period in 2024/25.

Case study – delivering a responsive customers experience

We know how important it is to always deliver the best possible experience for our customers – one that is responsive and where we get things right first time, all the time. To help us achieve this, during the year we carried out a project to test and install new customer billing system called Aptumo, an SaaS Cloud-based Salesforce product. We chose Aptumo because it enables us to make the step change from our inflexible legacy billing system and support optimum customer service delivery.

Aptumo is a next-generation, highly configurable billing and customer information system. It is designed specifically for water companies and has been developed to tackle the challenges companies like ours face every day. It is also secure, agile and flexible, and enables us to deliver efficiencies by automating and simplifying manual processes. And it enables multi-channel and self-service options – we know from our research that this is important to some of our customers. Initially, it will deliver functionality around core billing processes and will link to our digital customer applications. But there are options that we could scale up to in the future, including customer segmentation and full customer relationship management (CRM).

Because of the critical nature associated with installing a new billing system, we made use of an established programme environment, with ten individual work streams drawing on resources and expertise from across the business. These work streams covered a range of activities and processes, including governance, design and build, system integration, reporting, testing, data migration and change management. As part of the process of switching over to the new system we had to close our original RapidXtra billing system and move all our customer data to Aptumo. We then had to reconcile the data before making the system available to users across the business. Before the switch-over took place, we provided full training on the software for our people.

Aptumo went live in February. We had planned a four-week period into the programme timetable to enable us to identify any potential defects and resolve any actions. At the end of this four-week period we transitioned to business as usual, which included carrying out any additional stabilising activities. We are now well placed to deliver an even more responsive service for our customers in the months and years ahead and will continue to evolve our customer offerings.

Delivering for our community

Our community promise

We will offer our customers the right level of support for their individual needs and help everyone learn how to use water wisely

*"Supporting customers with their water bills is the most important area to focus on.... Therefore, they should make customers aware of the help that is available – **household customer, Cambridge region**"*

How we performed during 2022/23

As one of the smaller companies in the England and Wales water sector, we are rightly proud of our local knowledge and heritage, the partnerships we have formed and the work we have done to embed ourselves at the heart of the communities we serve. We demonstrate our commitment to our communities in a number of ways, including through the help and support we provide to customers who may be struggling to pay their water bills or who may find themselves in circumstances that could make them vulnerable. In addition, our education outreach programme aims to educate the next generation of water champions, encouraging them – and their families – to be more water efficient.

We offer several financial support packages to help customers who are struggling to pay their water bills. We also offer a range of different options to give customers more control over how and when they pay their bills. The aim is to encourage regular payment habits, which also helps to reduce the risk of customers falling behind with their payments and getting into debt.

- Our **Assure social tariff** is available to customers whose household income is less than £19,050 a year. Eligible customers receive a 60% discount on their bills in the first year and a 40% discount in the second.

- We also offer an **Assure Assist tariff** for customers who have no income coming into the home and who have applied for Universal Credit. In the first year, eligible customers receive a 100% discount for eight weeks, followed by a 60% discount for 44 weeks. The discount in the second year is 40%.

- The **WaterSure tariff** is for customers who are on a water meter and receive income-related benefits, and who need to use a lot of water – for example, because of medical reasons. Customers on WaterSure pay for the water they use, up to a fixed maximum, which will be no higher than the average household water bill.

- **Payment breaks** are available for customers who may need a short break from paying their water bills – for example, because of a significant temporary change in financial circumstances. We currently allow payment breaks of up to three months.

- We launched a **new 'text to pay' service** during the year, whereby we text eligible customers, prompting them to make a payment.

We also offer a wide range of payment options, designed to meet the needs of all our customers. These include using MyAccount, internet or phone banking, Direct Debit or Standing Orders, and debit and credit card payments.

We are still supporting many customers with our financial support schemes. We have exceeded our target for the number of customers helped during the year – with nearly 56,000 receiving some form of financial support from us, compared with our target of 36,000. Unfortunately, the criminal cyber-attack meant we were unable to contact and check in with as many customers as we would have liked, which meant we failed that part of our performance commitment. We will continue to raise the profile of our support schemes and target our affordability messages at traditionally hard-to-reach customers and communities.

Another way we help customers is with our Priority Services Register (PSR). This is a free service for customers who may need extra help because of, for example, age, medical reasons, or because they have learning or physical disabilities. This is another area where we have performed well during the reporting year. We now have 10.6% of our household customer base registered on our PSR, again exceeding our target for the year of 7.1%. In addition, we have continued to offer our Extra Care package, and now have 4.7% of customers on our PSR benefiting from this additional support. This is a slight dip against our target of 5%.

Key to our community engagement is our education outreach programme. We have an ambitious target to engage with 6,000 young people a year with our workshops for schools across our Cambridge and South Staffs regions. We also offer a range of learning and teaching resources, and online activity packs and quizzes.

Having previously confined our programme to primary age children, during the reporting year we expanded into secondary schools. We now offer a range of activities for children aged between 4 and 14, and we are currently developing a programme for older students. This means students in Key Stages 4 and 5 will soon also benefit from our programme, which will complement their GCSE and A level studies.

Over the six months to March 2023, we engaged with 3,672 young people. This means we missed our target for the year, but resource issues during the first six months of the 2022/23 financial year meant we were unable to run our full programme of workshops and activities, and we had to rely on our online offering instead. We are confident that we will meet our target in the year ahead, and we will continue to inspire young people about saving water, while also delivering high-quality learning to support teachers.

Case study – making a positive impact in our communities

We continue to operate our successful and award-winning community hub in Wednesbury in our South Staffs region. As well as providing face-to-face advice to customers on the financial and other support we offer or on the benefits of having a water meter, the hub is a recognised Place of Welcome, providing a warm, safe space for local people in the community.

It is also home to a local Arts and Crafts Group, which meets every Monday, and which welcomes anyone who wishes to learn a new skill. The Group contributes to other activities at the hub – for example, members have knitted blankets for baby boxes and for local animal rescue centres and made hats and scarves for the Turkey and Syria Earthquake appeal following the devastating earthquake in February this year.

Our community engagement is very much characterised by a 'one stop shop' approach to networking. This means that as well as helping customers with their billing queries or providing extra care for those who need it, we can also use our extensive partnerships to seek out other forms of support and assistance. For example, we have partnered with The Fuel Bank Foundation to offer customers with prepayment energy meters a Fuel Bank voucher up to the value of £49, which can be redeemed at PayPoint or Payzone outlets. This partnership has enabled us to find those harder to reach customers who may not have come forward for help with their water bills, but who desperately need the additional support that the voucher provides.

During the year, our community team was also involved in the engagement that followed the cyber-attack. With the support of colleagues from across the business, the team held several 'cyber clinics' across our Cambridge and South Staffs regions, giving customers advice and reassurance about the incident. It also provided specific one-to-one support to local visual impaired groups, including recording some content for their 'talking news', and providing clear information and advice about the cyber-attack and how to access the support we made available to customers whose data had been impacted.

This engagement provided us with valuable insight about how customers might react in the event of a major non-operational incident. It also helped us to simplify our customer communications. We have offered to share our learnings with other companies in the water sector, should they also be subject to a cyber-attack that impacts customers' data.

Another benefit of our community engagement work is that it gives us clarity on how our stakeholders want to receive information. With that in mind, we have created a new suite of literature, which has been designed in-house. This includes a factsheet to help customers understand their water bill and information for customers who are moving into a property. At the time of writing, we were in the process of sharing this with social housing providers, estate agents and letting agents across our Cambridge and South Staffs regions.

We will continue to build on our successful community engagement programme in the year ahead, establishing more meaningful and long-lasting partnerships and relationships with other organisations.

Delivering a reliable service

Our service promise

We will provide clean, high quality and reliable water supplies now and in the future

"Water is instrumental to a family's state of mind and everyday lives. It's taken for granted, but that's because it's a great service – **household customer, South Staffs region**"

How we performed during 2022/23

Delivering a reliable service is something our customers always expect us to do. Each year, we carry out a rolling programme of maintenance and investment to ensure the long-term health and resilience of our network of pipes, pumping stations and treatment works across our Cambridge and South Staffs regions. This report covers the third year of our ambitious £600 million investment programme, which will see us deliver a number of significant improvements across our network by the end of the current planning period.

One area where we have tended to perform well is water quality. The main regulatory measure for this is the Compliance Risk Index (CRI) score. This is a performance measure that assesses our compliance with the very stringent water quality standards set by the Drinking Water Inspectorate. The CRI is designed to illustrate the risk from treated water compliance failures; it includes elements relating to the:

- significance of the parameter failing the standards in the water quality regulations;
- cause of the failure, the manner of investigation of the failure, and any mitigation put in place; and
- location of the failure within the supply system, considering the proportion of customers affected.

We are disappointed to have missed our CRI target for the year, with a score of 1.39 (against a target of zero). This is because of compliance failures at our some of our water treatment works. We are confident that the investment we are making in our water treatment processes over the five years from 2020 to 2025 will enable us to get this target back on track.

We know from our research that the quality of the water we supply to our customers in terms of taste, smell and colour is consistently a top priority for them and an area where they think it is important to hold us to account. So, we were pleased to have performed very well in this area, receiving only 0.65 contacts per thousand of population about the acceptability of the water we supply, compared with our target for the year of 1.08 – a 15% reduction. This equates to a 42% reduction since 2020/21 and reflects the levels of investment we have made in this area and the commitment of our people to ensure we always supply water of the highest quality to our customers.

It has been something of a mixed year for asset health. We again performed strongly on unplanned supply interruptions, outperforming our target for average interruptions of 5 minutes and 45 seconds by more than a minute. This is even more impressive when set in the context of the cold winter we experienced, which impacted our mains burst rate and resulted in us failing our target for the year with 150.8 bursts per thousand kilometres of main.

Still, our performance overall demonstrates that we are continuing to manage the resilience of our network well. This is helped by our ongoing mains renewal programme, which saw us carry out 20.7 km of mains repairs and renewals during the year. In addition, we achieved our target of finding and fixing 90% of visible leaks within four days. This is another key priority for our customers, so it is important for us to continue driving improvements in this area in the year ahead.

Case study – future proofing our assets

We completed two major construction projects during the year that will help to ensure we continue to provide high-quality and resilient water supplies to our customers now and over the long term.

In December, and after 15 months of construction, we completed the work to build two new storage reservoirs at the existing site at Bourn in our Cambridge region and brought them into supply. The reservoirs have a combined capacity of 8 million litres and bring the total capacity of the site to more than 12 million litres. This is enough water to supply the 14,000 properties that currently receive water from Bourn, and to accommodate planned development in the area, which is likely to result in another 8,000 new connections to our network by the end of the current planning period in 2024/25.

Key to the success of this project was the extensive engagement we held with stakeholders. This was because we knew getting planning consent on such a constricted site was not going to be without its challenges. So, we liaised with stakeholders at all levels – from strategic planning teams to the parish council – taking part in numerous meetings and site visits throughout the design and construction phases. This included liaising with neighbouring landowners to secure a temporary land lease to enable us to manage the flow of construction materials and people to and from the site more effectively.

The new reservoirs have a design life of 80 years and have been constructed with resilience to a growing population and climate change in mind.

In March this year, we completed the work to introduce a second filtration stage at Seedy Mill, the second largest water treatment works in our South Staffs region. This will ensure our customers continue to receive the high-quality and reliable water supplies they expect and pay for. The works have a capacity to treat 125 million litres of water a day – enough to fill 40 Olympic-sized swimming pools – and supply clean water to around 200,000 people. This makes it one of the most critically important assets on our network. It is also one of the two flagship projects of the current five-year planning period, with the £23 million investment secured through a special claim – known as a cost adjustment claim – to the regulator Ofwat that recognised the critical nature of the work to our customers and our business.

Work began at the site in July 2020, with a target date for completion of 31 March this year. This date had been agreed with the Drinking Water Inspectorate, the water quality regulator, so it was important for us to ensure the project was delivered on schedule. The work was nearly derailed by the impact of the COVID-19 pandemic and the loss of our initial construction partner, which went into administration in October 2021. A new construction partner was appointed, and work started again at the site in December 2021. The new filtration plant was brought into commission in line with the agreed schedule and customers should now be seeing the benefits of enhanced water quality.

One of the things that both projects demonstrate is that we are well-equipped and able to implement these ambitious, large-scale infrastructure projects without impacting the quality of the services we provide to our customers.

Delivering for the environment

Our environment promise

We will protect the environment, reduce leakage and support the building of water efficient homes

> "Water is such a precious commodity and so it's important to maximise it, rather to waste it through leaks – **household customer, South Staffs region**"

How we performed during 2022/23

The first half of the reporting year was characterised by a prolonged period of hot, dry weather, with drought being declared across large parts of the country. Against this backdrop, we continued to engage with our customers about the need to use water wisely. We also provided regular updates about our water resources position, particularly in our Cambridge region, which is in one of the driest parts of the country.

One of the direct consequences of the prolonged dry spell and the cold winter that followed it was an increase in the number of bursts on our network of mains, as outlined in 'Delivering a reliable service' above. This is because very dry and very cold weather leads to ground movement, which in turn can cause pipes to crack and fracture. And yet, despite this, we met our leakage targets for the year in both our Cambridge and South Staffs regions, with reductions from our baseline of 16.7% and 9.4%, respectively.

Because we know that tackling leakage is as much of a priority for our customers as it is for us, we want to make sure that our data is as robust as possible. So, for our South Staffs region we have created a new household water night use model and monitor, which gives us a more accurate picture of water use. One of the reasons for this is that the new model uses 15 assurance metrics instead of 8. We have also added an improved seasonality factor, which enables us to take daily weather changes into account. This means we can target leakage more effectively as it is easier for us to see spikes in water use in different areas. It also enables us to review all our leakage data back to 2017/18, making it more robust overall. Our technical auditors, Jacobs, have assured our new approach and consider it to be a better model for assessing and reporting our leakage levels.

But a new leakage model is only part of the solution. We have also invested heavily in resources, taking the leakage team in our South Staffs region, for example, from 26 field- and 4 office-based people to 39 field- and 5 office-based people, with another leakage analyst due to join the business in the 2023/24 financial year. We have also increased the number of people who are responsible for fixing leaks, which is reflected in our success in meeting our target of finding and fixing 90% of leaks in four days. This puts us in a very good position for the remaining two years of the current five-year planning period and we will continue to drive improvements in this area.

Another consequence of the hot weather during the reporting year is that we failed our target for the volume of water we take ('abstract') from the environment, breaching two abstraction licences in our Cambridge region. We have carried out a full review to identify and implement lessons learned and corrective actions to ensure there is no future recurrence of this issue. In addition, demand for water across our Cambridge and South Staffs regions has remained very high – at 136 litres per person per day (l/p/d) and 143 l/p/d, respectively. Like other water companies in the sector, high levels of individual water use – what we call 'per capita consumption', or PCC – is something that has changed very little since the start of the COVID-19 pandemic in 2020. So, it is important for us to understand this shift between our customers and the water they use.

To that end, we appointed demand management specialist Skewb to carry out a review of our PCC performance and evaluate the impact of the COVID-19 pandemic on household water use in our Cambridge and South Staffs regions. We have worked with Skewb to develop a delivery plan for 2023/25, with a focus on metering, water efficiency measures and working with developers to build more water efficient homes. In this last area, we remain ahead of the cumulative targets we committed to in our business plan for 2025 to 2030 – that is, by offering discounted developer bills for homes with fittings that limit consumption to 100 l/p/d. We are continuing to discuss with our developer customers how we can continue to drive greater efficiency with this scheme. Underpinning this will be a programme of customer communications and campaigns and community outreach work to help customers use water wisely and value it as a precious and finite resource.

Key to making sure we always deliver for customers and the environment is the need to plan for the long term. At least every five years, we produce water resources management plans for our Cambridge and South Staffs regions, which we consult on and are required to submit to the Secretary of State for Environment, Food and Rural Affairs for approval. Our water resources management plans set out how we intend achieve secure water supplies for our customers and enhance and protect the environment over a 25-year time frame.

We published our latest water resources management plans for consultation in November (South Staffs region) and February (Cambridge region). Our focus for both plans is on making sure there is enough water in the environment to meet the demand for that water, with a focus on reducing leakage and demand, and on installing smart meters for all customers, wherever possible. Key to our plans is our commitment to:

- deliver a 50% reduction in leakage by 2050;
- reduce individual water use to 110 l/p/d by 2050;
- roll out universal smart metering between 2025 and 2035; and
- deliver a 9% reduction in non-household water use.

For our Cambridge region, where the water resources challenges are greater, we are also exploring a number of supply-side options. This includes the work we are doing in partnership with Anglian Water to build a new reservoir in the Cambridgeshire Fens that, once constructed and brought into commission, will deliver a reliable water supply of 43.5 million litres a day (Ml/d) into our Cambridge region. During the year, we launched an extensive programme of engagement with customers and other stakeholders about the site for the reservoir and initial design ideas. This engagement will continue in the year ahead – we will report on our progress in next year's annual performance report.

Given that we are already seeing the likely impacts of global warming and a changing climate, it is critical for us to reduce our operational carbon emissions. We have a target to reduce our target emissions to 61 kg per connected property by 2024/25. One of ways we have contributed to meeting this target during the year was with the arrival of our first electric vehicles (EVs). During the reporting year, we received delivery of our first electric vans, with more to be delivered during this summer. Once these electric vans have been received, around 38% of our light vehicle fleet will be electric (11% of our total fleet).

Case study – SPRING-ing forward with biodiversity benefits

One of the ways we engage with farmers and landowners is through our successful catchment management programme. A catchment is an area where water is collected by the natural landscape. Agriculture, forestry, industry, waste management and water abstraction can all have an impact on the catchment – and on the quality of the water within it.

In a catchment, rainfall not used by crops, trees or plants either finds its way into underground aquifers (groundwater) or eventually flows as run-off into streams, rivers or lakes (surface water). We are active participants in local catchment partnerships and work with several farmers and landowners to deliver environmental improvements.

We have a dedicated catchment management programme that covers our Cambridge and South Staffs regions. SPRING is an environmental protection scheme that supports farmers and landowners in high-priority catchment areas who are willing to explore catchment-friendly land management approaches. As part of the scheme, we make grants of up to £15,000 a year available to eligible farms to carry out work designed to reduce the volume of agricultural run-off and diffuse pollution entering the water courses from where we abstract our water supplies.

One such farm is in the Blithe catchment in our South Staffs region. It is a 100-hectare farm with both dairy and beef herds. The farmer has been a recipient of our SPRING scheme since 2017. The first projects carried out included creating a covered silage pit to help reduce effluent run-off, which can be very damaging if it gets into water courses. Since then, a covered yard area has been installed to reduce the risk of pollution caused by rainwater mixing with animal faeces in the yard.

More recently, we helped the farm to become more water efficient. This included funding the installation of a 30,000-litre rainwater harvesting system with associated guttering and an ultraviolet (UV) filter to allow the farmer to remain compliant with his assurance schemes and use the water for drinking troughs and washing out. During the reporting year, we helped the farmer to double the capacity of his rainwater harvesting system. He is now seeing several benefits because of his partnership with us. These include:

- benefits for the environment, with a reduced risk of diffuse and point source agricultural pollution entering the water courses;
- benefits for the farmer in the form of lower water bills and a cleaner yard, with less water going into a slurry lagoon, enabling the farmer to remain compliant with slurry regulations; and

- benefits for the livestock – 30,000 litres of water are enough to keep 70 cows going for 10 days. Cows prefer drinking rainwater to tap water; capturing this water for them to drink is also helping the farmer to deliver higher milk yields.

We will continue to work with farmers and landowners across our Cambridge and South Staffs regions, encouraging more sustainable farming practices and best practice catchment management approaches.

Delivering for our business

Our business promise

We will run an efficient business with happy employees, where our suppliers are treated fairly

"Sustainable infrastructure is important: ie, zero carbon operations, the most efficient water use possible, investment in regenerative water provision and water treatment processes – **household customer, Cambridge region**"

How we performed during 2023/23

We are committed to running an efficient business where people who are happy in their jobs, where our customers pay their fair share, and where we treat our suppliers fairly and in line with the Prompt Payment Code.

To ensure we always deliver for our people, we have a specific performance commitment for employee engagement. During the reporting year, we continued to use different channels and activities to communicate with and engage our people, including volunteering days, Yammer, WhatsApp and our News Splash e-newsletter.

We also participated in a Group-wide employee engagement survey, using the Gallup methodology. This focuses on 12 questions that measure employee needs in the areas of growth, teamwork, individual contribution and basic needs. Assessment of these needs gives us a Net Promoter Score (NPS), highlighting the likelihood of our people recommending us to others as a good place to work. Any NPS score above zero is good and we have committed to achieve an NPS of +10 by the end of the current planning period.

We are disappointed that we have not yet reached our target, and that we still have quite a bit of work to do to ensure our people feel fully engaged. But there is much for us to be proud of. Our most recent Investors in People (IIP) review, for example, highlighted several areas where we are performing well, including:

- having a shared pride in delivering excellent service;
- providing good access to learning development to build capacity and resilience;
- providing flexibility and support for people's wellbeing; and
- keeping people informed.

Of course, there are also some areas where we want to improve, including:

- developing our approach to reward and recognition to ensure our people are motivated to achieve high performance;
- providing our people with a more structured approach to talent management;
- improving communication between departments and teams across the business; and
- adopting a more structured approach to talent management.

We will focus more of our engagement on these areas in the year ahead and will report on our progress in next year's annual report and financial statements.

There are some other business-related performance commitments where we still have some work to do if we are to meet our targets in the remaining two years of the current planning period. These include:

- making sure we pay all businesses with turnover less than £6 million within 30 days, in line with the Prompt Payment Code; and
- reducing our levels of bad debt as a percentage of revenue.

Case study – optimising our investment needs

As a long-term business, we understand the importance of planning any investment carefully to ensure we manage our risks effectively and deliver infrastructure projects efficiently and in a way that represents best value for our customers. To help us make informed decisions about the investments we need to make – and when we need to make them – we have implemented a new optimisation tool called Copperleaf. This enables us to:

- model risk associated with the availability of information about our assets, and how this can change over time;
- identify which investments to defer in the event of funding or resource constraints; and
- make informed decisions that maximise value while proactively managing risk.

As well as providing a comprehensive assessment of all our asset risks, Copperleaf makes it easier for us to understand the long-term exposure of those risks on our critical assets. It also considers wider business inputs, to ensure our asset management plan helps to deliver our wider strategic goals. And it enables us to make informed trade-offs between capital and maintenance costs, and to create a plan that balances total expenditure and minimises overall cost. This is essential if we are to plan effectively for the long term – a key component of Ofwat's PR24 price review process.

Copperleaf employs a valuation framework to define the benefits of investments. This framework uses the 'six capitals' model (social, human, manufactured, financial, natural and intellectual capital) to support decision-making. It can be developed over time to become more bespoke to our specific requirements, providing us with more flexibility and adaptability.

In implementing this optimisation tool, we have several key business objectives that we want to deliver against, including:

- enabling us to achieve best performance in the water sector over the next planning period (2025 to 2030);
- enabling us to create consistent valuations and centralised management of the capital allocation and asset management functions of our business;
- enabling improved communication between our operations and asset management teams to help the business understand which investments have been taken forward and approved for implementation;
- eliminating the gap between our regulatory performance commitment targets and our everyday portfolio management; and
- enabling investment decisions to be tracked and updated, meaning our decision-making is more agile.

Performance against our resilience action plan

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

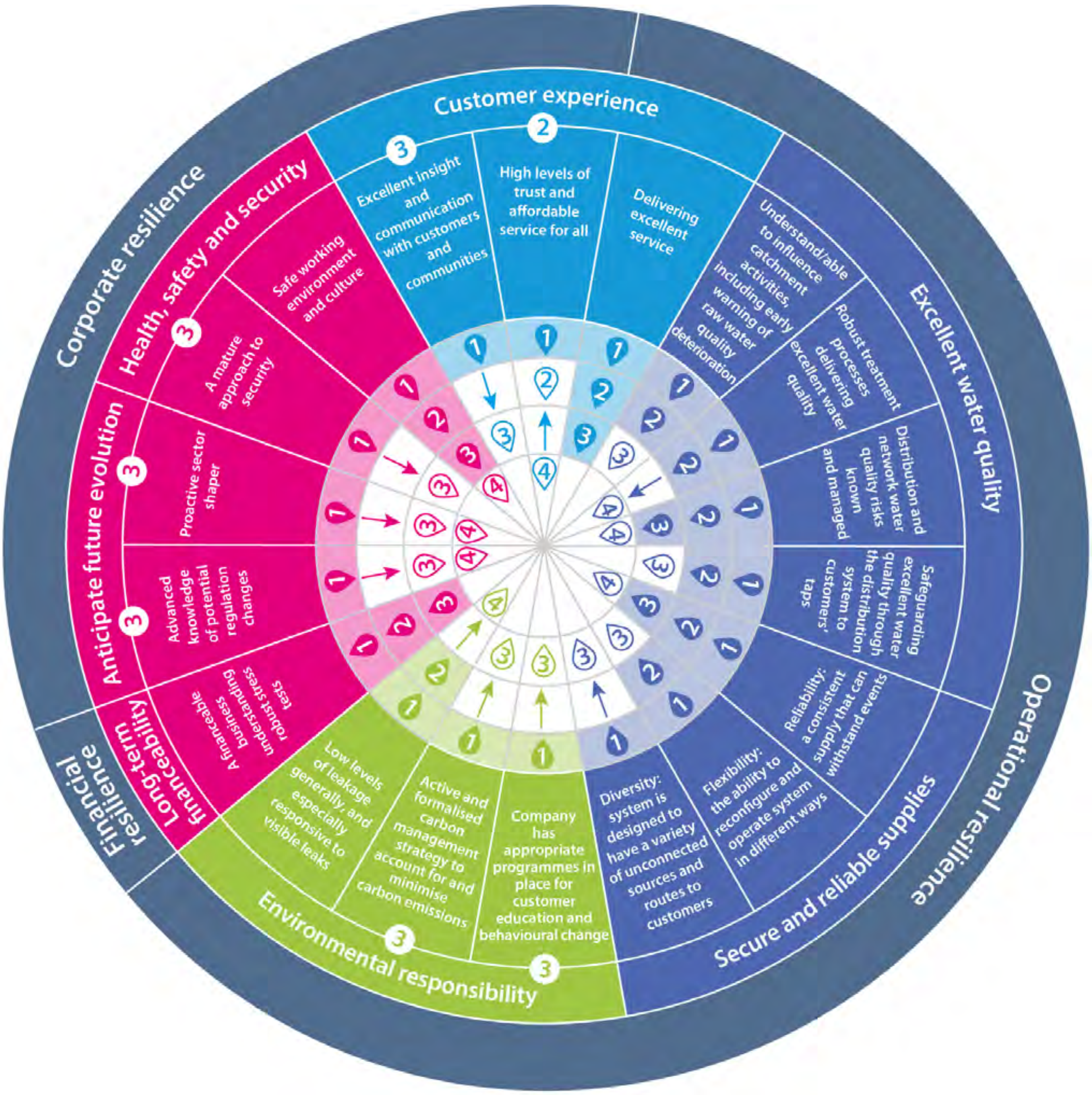
We committed to being resilient 'in the round', meaning we had:

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

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

Our resilience lens and progress against our plan

We created our resilience lens as a structured and robust way to assess our overall resilience, scoring ourselves on our resilience security against each of our desired states that are important to us, our customers and the environment.



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

Linked to the resilience lens, we outline below the actions we have completed and the progress we have made in delivering against our resilience action plan since 2020. In addition to this, for the first time we have seen a step back in one of our segments: high levels of trust and affordable service for all – we think it is appropriate to reflect the level of challenge the sector is currently seeing, which has been compounded by the criminal cyber-attack on our parent company, South Staffordshire Plc, in July 2022.

Financial resilience

See our annual reports and financial statements for the steps we have taken to ensure our financial resilience during the reporting year.

Corporate resilience

Business outcome	Desired state	Action	Update
Customer experience	High levels of trust and affordable service	It is important that our customers have a high level of trust in us as the provider of an essential public service, and that our bills remain affordable. So, we are committed to using different ways to share information with them, including through our UK-based contact centre, our website and our social media channels.	It has been a challenging year for us – and for the water sector in England and Wales more generally. For us, our insight suggests that the cyber-attack in July has impacted some customers' perceptions of us. The uncertainty created by the war in Ukraine and the surge in energy prices have also contributed to a cost of living crisis that has impacted on many people's ability to pay their bills. In addition, the water sector has been in the public spotlight like never before, with negative stories in the media and elsewhere about pollution, executive pay and dividends, and growing calls for companies to be put back into public ownership. There has also been an unprecedented level of scrutiny of the water companies from elected officials – at both a local and a national level. This combination of factors has negatively impacted our trust and value for money performance commitments. It is important that we listen to and address customers' concerns. So, we are continuing to use our monthly priorities and promises trackers to monitor changes in customer sentiment and help us to get these measures back on track by the end of the current planning period in 2024/25. We are also continuing to offer financial support to those customers who need it, including through our new 'text to pay' service that we launched during the reporting year (see page 18). And we have continued to raise the profile of our Priority Services Register (PSR), which is for customers who may need extra help because of, for example, age, medical reasons, or because they have learning or physical disabilities. We now have more than 10% of our household customer base registered on our PSR.

Business outcome	Desired state	Action	Update
Customer experience	Excellent insight and communication with customers and communities	Helping customers to use water wisely is crucial if we are going to reduce levels of demand and keep more water in the environment. We also have an important part to play and are committed to delivering our ambitious leakage targets by the end of the current planning period. And, following the cyber-attack, we are committed to tailoring our customer communications and messages more effectively – using our new Aptumo billing system to target different customer segments.	The first half of the reporting year was characterised by a prolonged period of hot, dry weather, with drought being declared across much of the country. Against this backdrop, we continued to engage with our customers about the need to use water wisely and provided regular updates about our water resources position, particularly in our Cambridge region. In addition, we created a new household water night use model and monitor for our South Staffs region, which gives us a more accurate picture of water use and improves the accuracy of our leakage reporting. Because the new model uses more assurance metrics and enables us to take daily weather changes into account, it enables us to see spikes in water use in different areas and target our response accordingly. And because demand for water has remained stubbornly high throughout the reporting year, we worked with demand management specialist Skewb to review our per capita consumption performance and help us to develop a delivery plan for the remainder of the current planning period. This includes targeting communication campaigns for customers with high water use and encouraging more people to use watering cans to water their gardens (see 'Environmental responsibility' below). The aim is to build long-lasting and sustainable water saving behaviours. A key feature of our community engagement is our education outreach work. Having previously focused our attention on primary school age children, we expanded our offering during the year to cover secondary school children up to the age of 14 and are developing a programme for older pupils. Following the cyber-attack, our community team, supported by colleagues from across the business and Executive team members, held several cyber clinics in our Cambridge and South Staffs regions. A number of these were held in MPs' constituency offices and enabled us to provide customers with face-to-face advice and reassurance. This engagement provided us with valuable insight about how customers might react in the event of a major non-operational incident. It also helped us to simplify our customer communications to ensure our messages could be clearly understood.
Anticipate future evolution	Proactive sector shaper	We recognise the role that innovation plays in driving our business and the water sector forward. We are committed to delivering innovative solutions that benefit our customers, the environment and our business.	Although it falls just outside the reporting year, in May we were announced as one of the winners of the Water Breakthrough Challenge (Catalyst Stream) – the latest competition for funding from Ofwat's £200 million Innovation Fund. We were awarded £270,000 for a diversity-led water efficiency project. Working with a range of partners, including Waterwise, Hindu Climate Action, Cambridge Central Mosque, Cambridge University's Divinity Department and other water companies, our project focuses on establishing a deeper understanding of how water is used and valued in different faiths and cultures. This will enable us to develop a more inclusive and comprehensive water efficiency framework combined with the potential for water saving interventions that support different faith communities and traditionally hard-to-reach customers. The project aims to address a gap in the water efficiency support measures offered to different faiths and cultures. It will address the need to reduce PCC and protect the environment to meet the future challenges of climate change and population growth. It will also help to build trust and social cohesion by enhancing how we engage and support customers in those communities that may not be aware of the support we have available to help them or that may not be confident to come forward because of language or cultural barriers. We will report our progress with this project in next year's annual performance report.

Operational resilience

Business outcome	Desired state	Action	Update
Environmental responsibility	Company has appropriate programmes in place for customer education and behavioural change.	We are committed to delivering sustainable behavioural change in terms of household water use. This includes developing communication campaigns that are based on customer insight. We will also continue to work with our Young Innovators' Panel to develop water efficiency ideas that the business can take forward in the future.	Although it falls outside the reporting year, in July we launched a targeted awareness-raising campaign in our Cambridge region that focuses on changing customers' water use behaviour. 'Can for the Cam' is encouraging customers to ditch their hosepipes in favour of a watering can in their gardens. The campaign featured widely on TV, local radio and media, and our social media accounts, with communications collateral including adverts and digital displays. At the heart of the campaign is a simple call to action to get customers to switch from a hose to a watering can, which we consider will build long-lasting water saving habits. We also reconvened our South Staffs Young Innovators' Panel in June, which is for students aged between 16 and 18. Having the Panel enables us to bring creative thinking and fresh ideas from our future customers into the business. It also provides the students who take part with valuable life experience and the opportunity to present to senior leaders. We will reconvene our Cambridge Young Innovators' Panel in 2024. We tasked our Panel with developing an interactive workshop for 11 to 14-year-olds that our Education Co-ordinator can then use as a teaching resource in schools. The teams will present their ideas to a panel of judges, including senior executives, later in the summer. They will also take part in discussions about our PR24 business plan and what great service looks like for their generation. We will report on our progress with both initiatives in next year's annual performance report.
Environmental responsibility	Active and formalised carbon management strategy to account for and minimise carbon emissions	We are committed to playing our part to help deliver the England and Wales water sector's ambition to achieve net zero operational carbon emissions by 2030. This means having a strategy in place to account for and minimise those emissions, and to test our plans with customers.	We used carbon accounting methods when developing our draft water resources management plans for our Cambridge and South Staffs regions during the year. For example, for all feasible supply options we used net present value (NPV) to calculate their whole life carbon impact on the wider environment, customer affordability and mitigation requirements to ensure we meet the UK Government's net zero commitments. For our demand management options, we calculated the impact each activity will have on our overall greenhouse gas contributions as a result of reducing demand for water. Through our internal Energy team, we determined the amount of CO_2 released (in kilograms) for every million litres of water produced. This means that for every million litres of water saved through our demand management activity each year, we can calculate the reduction to our overall carbon impact. Although it falls just outside the reporting year, in June we commissioned one of the market research agencies on our supplier framework to run a Citizens' Jury in our Cambridge and South Staffs regions. The aim is to understand customer preferences relating to our plans to reduce carbon emissions. Discussions with the Jury focused on our net zero strategy, how we should approach off-setting any remaining carbon emissions and how best to engage customers to reduce their own carbon footprint – thereby helping us to reduce the emissions associated with supplying their water from source to tap. There was a strong appetite from participants for us to continue running a Citizens' Jury to carry out deep dives into different aspects of our operations. We are currently evaluating the learnings to decide how best to do this moving forward.

Business outcome	Desired state	Action	Update
Environmental responsibility	Low levels of leakage generally. And especially responsive to visible leaks	We are committed to achieving our ambitious target to reduce leakage by 15% in our Cambridge and South Staffs regions by the end of the current planning period in 2024/25.	Tackling leakage is a key priority for us – and our customers. So, making sure we have robust water use data is critical. As mentioned in 'Customer experience' above, we developed a new household water night use model and monitoring process for our South Staffs region during the year to give us a more accurate picture of water use. The new model uses 15 assurance metrics and includes an improved seasonality factor, which enables us to take daily weather changes into account. This means we can target leakage more effectively as it is easier for us to see spikes in water use in different areas. It also enables us to review our leakage data back to 207/18, making it more robust overall. We also increased the size of the leakage team in our South Staffs region during the reporting year and increased the number of people who are responsible for finding and fixing leaks. This is reflected in the success in meeting our target of fixing 90% of leaks in four days – and in meeting our leakage targets for the year in our Cambridge and South Staffs regions, with reductions from our baseline of 16.7% and 9.4%, respectively. This performance is impressive, especially given the challenging backdrop during the year of a prolonged period of hot, dry weather in the summer and the cold winter that followed it – and an increase in the number of bursts on our network. As outlined in 'Environmental responsibility' above, we remain committed to our demand management activities and to securing the water future for all our customers and the environment that we all rely on and enjoy.

Next steps

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

Long-term viability statement

The Directors' full assessment of financial viability can be found on pages 44 to 49 of the South Staffordshire Water PLC annual report and financial statements. The Directors have assessed the company's viability over a ten-year period to 2033, considering the company's current position and principal risks. Based on that assessment, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2033.

Company direction and performance statement

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

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

As a business that has provided an essential public service in our Cambridge and South Staffs regions for 170 years, we recognise the importance of delivering the things that matter most to our customers, now and in the future. To achieve this, we actively work in partnership with local communities and play our part to help them thrive. We also act as the guardians of our assets and work hard to protect the local environment. And 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 values of:

- **equality, diversity and inclusion** – embracing and valuing all our people, while adopting diverse and inclusive approaches;
- **excellence in service** – leading by example to improve ways of working, while going above and beyond for our customers;
- **responsibility** – being motivated to deliver high standards, while demonstrating ownership and responsibility for delivering business objectives; and
- **trust** – respecting and valuing those we work with, while building trusting relationships, and empowering others to make decisions.

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

Our **main operational targets are broadly those we put forward to Ofwat in our business plan for 2020 to 2025**, and approved as part of our final determination, which we received in December 2019. Our customers have shaped these targets and we have grouped them into five outcomes – these are the promises we have made on the services they want us to deliver. To ensure we maintain our customers' trust in us, it is vital that we deliver these promises. So, we have developed 30 performance commitments, which are the areas where our customers have said they want to hold us to account. We have set stretching targets, known as 'outcome delivery incentives' (ODIs), for each of these commitments so that customers can measure our performance and see how we are doing. We publish our progress on meeting these targets in an open and transparent way each year; we also publish key performance data each month on our dashboard. In addition, in this APR and in our annual report and financial statements we make further disclosures around:

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

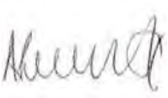
Our ODI targets feed into our financial and operating budget setting process each year and ensure we maintain our ability to meet our customers' needs now and over the long term. We are required to outperform these targets while also delivering sustainable returns for our shareholders and making sure 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, and which has a majority of members who are independent, 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 continued to be on delivering for customers and the environment**. We continued to perform well against many of our key regulatory targets, including around the quality of the water we supply to customers, supply interruptions and leakage reductions in our South Staffs and Cambridge regions. In addition, we continued to perform well in terms of the number of customers we help – with nearly 56,000 currently receiving financial or other support from us and more than 10% of our household customer base registered on our Priority Services Register. We also continued to deliver against our ambitious investment programme for the five years from 2020 to 2025. This included completing the construction of two new storage reservoirs at the Bourn site in our Cambridge region and delivering the upgrade at the Seedy Mill water treatment works in our South Staffs region in line with the target agreed with the Drinking Water Inspectorate.

We also continued to engage actively with our people and participated in a Group-wide engagement survey during the year. The survey measured employee needs in the areas of growth, teamwork and individual contribution. Overall, the survey responses outlined the need to focus on the following three priorities.

- Communication.
- Career conversations.
- Organisational values.

We made some progress on each of these during the year. Going forward, we will continue to assess our progress as a business that actively engages its people.



Andy Willicott
Managing Director
24 July 2023

Statement of Directors' responsibilities for regulatory information

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

The Directors are also required 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 of the company's Instrument of Appointment.

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 30 June 2023 and duly signed on its behalf.

Andy Willicott
Managing Director
24 July 2023

Ring-fencing certificate

The company is required under Condition P of its licence 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 and management resources, 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 must also 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.

Ernst & Young has performed assurance procedures on certain items of the certificate and its report has been submitted to Ofwat along with an independent auditor's report as set out on page 105.

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	The balance sheet date as at 31 March 2023 shows net cash of £23 million and short-term deposits amounting to £20 million. This gives us total liquidity headroom of £43 million, which provides sufficient headroom for at least the next 12 months.
Credit ratings and compliance	The latest published credit ratings as at December 2022 (Moody's) and March 2023 (S&P) remain well within investment grade. The actual and forecast borrowing covenants all maintain significant headroom to allow us to operate.
Performance against our PR19 final determination	We have underperformed our totex allowance (excluding rates, abstraction licence fees and costs not subject to cost sharing) by £5.2 million, once timing differences are taken into account. This has been predominantly driven by increased energy and chemical costs. For the first three years of the period, we have underperformed our totex allowance by 1%. Excluding per capita consumption (PCC), which will be assessed at PR24 because of the impact of the COVID-19 pandemic, our performance commitments (PCs) are in reward by £0.5 million.
Budgets and plans	Our budget for 2023/24 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 2023 to 2033. This is set out on pages 44 to 49 of our annual report and financial statements, along with the stress tests applied, the results of those tests and the mitigations considered. The Audit and Risk 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 we have to offer. All employees have two formal appraisals a year. This enables managers to review performance, progress against objectives set for the year and behaviour against company values. Appraisals also consider future aspirations and training needs.
Succession planning	Succession planning in recent years has focused on recruiting apprentices and training them in key roles, such as leakage detection and repair.
Training and development	All new starters attend a formal induction, and a health and safety presentation. Where identified, a formal training and development plan is agreed to ensure employees become fully competent in their roles. These plans are reviewed on a regular basis, against specific milestones. We achieved Investors in People (IIP) Standard accreditation in 2020/21, in line with our PC target. This is a measure of people investment that offers accreditation to organisations that adhere to specific standards and that recognise the importance of employee engagement. We continue to report our progress against our IIP action plan during annual reviews with our IIP practitioner.
Board culture and independence	The Chair has carried out a review of Board effectiveness and compliance with Ofwat's principles. More details are set out on page 85 of our annual report and financial statements. The largest single group of Directors on the Board during the year was that of Independent Non-executive Directors, including the independent Chair.

System of planning and internal control

Factor considered	Sufficiency of evidence
Risk management	The Audit and Risk 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 32 to 43 of the annual report and financial statements.
Internal/external audit	The Audit and Risk Committee reviews and challenges papers and feedback from senior management, external auditors' reports and reports from the independent Group Risk, Control and Assurance function. During the year the Committee reviewed our assurance plan before we published it for consultation.
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 incident. They cover the ability to work remotely, disaster recovery and how we ensure a continued service to customers.
Fraud prevention, unethical behaviour and whistleblowing	The Board, supported by the Audit and Risk 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, considering the nature of our operations.
Risk and compliance statement	The Board reviews and approves the risk and compliance statement as set out on page 40. 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 and assess values and culture to satisfy itself that behaviour throughout the business aligns with the company's purpose. The Board's statement is set out on page 10.
Technology, systems and security	• The Group has a cyber strategy that drives investment and operational planning. • There is oversight of critical systems and suppliers to ensure the Group understands the data it holds and is secure and regulations are adhered to. • Threat intelligence is used to analyse cyber risks to the group. • A cyber risk management framework that reviews the risk across the business is in place. We are rolling out increased cyber-awareness training across the business, overseen by the Audit and Risk Committee, which gives assurance to the Board. • We apply robust change control processes to ensure changes to live systems are rejected until the risk to confidentiality, availability and integrity of data is reduced to an acceptable level. • We regularly monitor and update our plan to replace and upgrade our operating systems and databases as required.
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 our operations. This is published as part of our resilience action plan, which is available on our website.
Planning systems	As part of our published resilience action plan, we have set out seven principles of systems planning that are linked to our 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 our 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 52. We ensure the Board has visibility of our trading arrangements with associated companies and present a paper that sets out the current arrangements in place and any risks of non-compliance. This paper also sets out the total value of transactions in the year compares with the previous year and shows them in the context of total category spend.
Details of transactions between the appointed company and associates	These are set out on page 52 and show the: • service supplied; • value of transactions in the year; and • terms by which the contract operates.
Loans, guarantees and transfers of assets by the appointed company	No new loans, guarantees or transfers were issued during the reporting year.

Material issues or circumstances

Factor considered	Sufficiency of evidence
Criminal cyber-attack	In July our parent company, South Staffordshire Plc, experienced a criminal cyber-attack. The incident did not affect our ability to supply safe drinking water. This is because of the robust systems, processes and controls we have in place to maintain the supply and quality of water, as well as the quick work of our teams to respond to this incident. As soon as we became aware of the issue, we engaged our established Incident Response processes. Our urgent priority was to ensure the supply and quality of water, which was quickly confirmed and monitored throughout our response. We immediately engaged leading forensic experts to investigate the issues, with a particular focus on any impact on our customer and HR data. We notified the Department for Environment, Food and Rural Affairs (Defra), the Drinking Water Inspectorate (DWI), the economic regulator Ofwat and the National Crime Agency. We also informed the Information Commissioner's Office (ICO) in line with our regulatory obligations. We are subject to ongoing investigations by the ICO and the DWI. Our investigation confirmed the theft by criminals of data relating to current employees, some former employees and some customers who pay by Direct Debit. We notified impacted data subjects in accordance with the UK General Data Protection Regulation (UK GDPR) and as soon as we became aware that these groups were impacted, we ran a full programme of support for customers. This included. • initiating a dedicated helpline: • creating a dedicated page on our website, including a detailed FAQ; • using our social media channels to share information and answer queries; • paying for access to 12 months of credit and fraud protection monitoring for our people and customers who had been affected; and • holding several cyber-clinics in MPs' constituencies across our Cambridge and South Staffs regions so customer could speak to us face to face.

Procedures followed to satisfy the Board that the evidence is sufficient

The Board must 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 discussed a wide range of agenda items. Examples of these are set out on page 51. A number of these items cover the factors considered above and allow the Directors to gain an overall picture in respect of the sufficiency of resources.

For example, the Board has been fully engaged in the formulation of the company's budget and longer-term plans. As part of the process, several key meetings were held with Board members to allow early discussion and challenge. The process culminated in the approval of the final budget at a Board meeting in March 2023.

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

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

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

Board declaration

The Directors declare that in their opinion:

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

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

c) the company has available to it sufficient rights and resources other than financial resources, as required by paragraph 14 of its licence; and

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

This Directors' responsibilities statement was approved at a meeting of Directors held on 30 June 2023 and duly signed on its behalf.

This ring-fencing certificate was approved at a meeting of Directors held on 30 June 2023 and duly signed on its behalf.

Andy Willicott
Managing Director, South Staffordshire Water PLC

Lord Chris Smith
Chair, South Staffordshire Water PLC

Catherine May
Senior Independent Non-executive Director

Alice Cummings
Independent Non-executive Director

Professor Ian Barker
Independent Non-Executive Director

Keith Harris
Non-Executive Director

Peter Antolik
Non-Executive Director

Risk and compliance statement

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

Ofwat's guidance requires the company to confirm that it has:

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

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

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

Each year the company considers its obligations as a water undertaker and that it understands and complies with them. This is done in several 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 for all significant obligations – for example, customers' charges and the APR; and
- the Audit and Risk Committee carrying out an annual review of compliance.

At a meeting of Directors held on 30 June 2023 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 credit rating from both Moody's and S&P;
- can confirm 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. And also, that 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. And also, that the Board can 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 customers' expectations

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

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

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

- Carried out a **major willingness to pay study among household and non-household customers** across 12 service areas to ensure customer preferences are accurately reflected in its capital and asset management delivery plans for 2025 to 2030. This study was peer reviewed. The company also formed a Delphi panel where expert stakeholders challenged the valuations research carried out as part of the PR24 process. The aim was to challenge how the company has compared and contrasted (triangulated) the different insights and sources to inform its plans.

- Continued its **research programme to gain a robust understanding of customers' preferences** for the investments required to ensure a reliable, long-term supply of high-quality water to 2050 and beyond. This has involved running a series of robust quantitative research studies with household and non-household customers in both the Cambridge and South Staffs regions, covering a range of topics from smart metering, reducing leakage, and how far the company should go to protect and improve the water environment.

- Continued to **work collaboratively with other water companies to engage with customers** across the Water Resources East and Water Resources West regional planning areas to ensure consistency in the engagement approach and to share expertise and costs to the benefit of customers. This included a behavioural study with household customers around water use habits in the garden to help identify ways to help people reduce their water consumption and communicate key messages. It also included in-depth interviews with non-household customers to develop propositions to help them save water. The insight programme has continued into 2023 and will help ensure customers' voices have influenced the decisions made in the final water resources management plans, which are due to be submitted to Defra during the year.

- Continued to **track household and non-household customers' perceptions of the company's service delivery and brand experience** to ensure action plans are focused on the areas most in need of improvement. More than 800 customers took part during the reporting year to help the company understand how effective their plans have been at improving the experiences and services delivered to customers.

- Continued to **engage with household and non-household customers to understand the priority they place on different aspects of their water service**. This is the third year of tracking customer priorities to ensure the company quickly identifies any changes in these priorities and what has driven the changes. This insight will help ensure the company can better adapt its plans to meet customers' needs.

- Continued to **engage on a weekly basis with customers who are members of its H2Online community in the company's Cambridge and South Staffs regions**. During the year members have engaged on more than 40 topics related to their water service. This has driven a wide range of tactical improvements in website content and design, communications campaigns and in informing strategic decisions around metering and billing. Members have also input into the content and format of the company's reports, such as its long-term vision to 2050 and its customer-facing water resources management plans. In the 12 months to November 2023, when the community celebrated its third anniversary, 509 members from across both regions, took part in activities.

- Continued to **develop a customer survey platform**, providing customers with the opportunity to feed back on their experience following a contact more quickly (often the same day). This included introducing an updated reporting dashboard to help the company's people to track and respond to customers during any ongoing incidents.

- Continued to **regularly benchmark the company's performance against best practice engagement** within and outside the water sector to ensure new ideas are built into actions plans to improve the service for customers.

- Continued to **run interactive customer insight sessions** with the company's agency suppliers to help ensure customer preferences are used to inform action plans. The company has also continued its 'you said, we did' approach where its commits to updating customers who take part in the surveys and on all H2Online community activities on the actions it has taken because of them providing feedback.

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

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

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

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

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

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

The company benefits from independent reviews of performance by an internal risk, control and assurance 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 acceptable and that does not impact on its long-term viability.

Risk management is embedded in the company's day-to-day business activities. To facilitate the risk management process, every six months the Executive team reviews the principal business risks as identified and documented by senior managers. They consider the risks on the whole business, as well as the proposed mitigating controls and procedures that are designed to reduce risks to an acceptable level. These risks are then presented to the Audit and Risk 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:

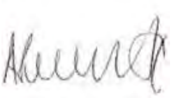
- ensure the Executive team can identify and prioritise all key business risks;
- implement appropriate procedures and controls to mitigate risks to an acceptable level; and
- enable senior managers to highlight, document, prioritise and execute any identified actions.

The key risks, as identified using the process described, 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 32 to 43 of the annual report and financial statements.

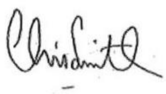
The company stress tests its financial projections against several plausible scenarios, considering these key risks and the impact they could have on customers and other stakeholders. This is set out in the long-term viability statement on pages 44 to 49 of the annual report and financial statements.

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

This risk and compliance statement was approved at a meeting of Directors held on 30 June 2023 and duly signed on their behalf.



Andy Willicott
Managing Director
South Staffordshire Water PLC



Lord Chris Smith
Independent Chair
South Staffordshire Water PLC

Board statement on the accuracy and completeness of data and information

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

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

Main factors the Board has considered

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

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

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

This plan sets out in detail the process the company has been through to understand the regulatory reporting risks and the plan it proposes to put in place to ensure those risks are controlled. This review results in several 'targeted areas' and are intended to ensure that areas of higher risk or significant change are given appropriate focus during assurance activity. The Board agreed the following targeted areas for the 2022/23 reporting year.

- Impacts of the COVID-19 pandemic.
- Developer charges.
- Annual customer charges.
- Annual performance report.
- Performance commitments between 2020 and 2025.
- Delivery of water treatment works investment.
- Preparations for PR24.
- Open data.

The company consulted with stakeholders on its 2023/24 draft plans in November 2022 and incorporated feedback into the final assurance plan, which was published March 2023.

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

Jacobs carried out a detailed and extensive review for the reporting year. The company engaged closely with this review and built on its successes from the previous year to significantly reduce its assurance risk. The was demonstrated in the high-quality scores the company received against most of its performance commitments and other data items.

In its feedback to the company, Jacobs identified some process and ownership issues when carrying out the assurance of distribution input (DI). These were rectified in a follow-up re-audit.

The Audit and Risk Committee challenged the company's management to provide an action plan to ensure the process to report DI was robust for the reporting year.

During the year the company has agreed ownership for the:

- data process;
- internal report;
- water balance; and
- technical support for DI.

To ensure the new process is robust, Jacobs was engaged to carry out a half-year audit.

The audits were successful, and Jacobs commented on the company's significant process improvements from the previous year.

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

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

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

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

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

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

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

4. How the Board utilised individual Directors and Committees in carrying out its activities in this area

The Board utilises the Audit and Risk Committee to undertake the above activities. This is set out in the key terms of reference of the Audit and Risk Committee on page 74 of the annual report and financial statements. Specific areas of review during the year included the following.

- Review of the APR data tables.
- Review of progress towards full compliance of performance commitment reporting.
- Intercompany transactions.

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

- the **assumptions used for the annual customer charges** – in particular, how this took account of the uncertainty on consumption with specific reference to the likely impact of a projected economic recession; and
- the approach to the company's **long-term viability statement outputs**, including the use of Monte Carlo analysis.

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

This statement was approved at a meeting of Directors held on 30 June 2023 and duly signed on their behalf.

Andy Willicott
Managing Director
24 July 2023

Dividends

The Board has carried out an 'in the round' assessment of performance considering all aspects of delivery against performance commitments, investment plans, environment, cost efficiency and other areas of operation. Each area is set out below.

Assessment area	Board consideration
Performance commitments	Ofwat published its water company performance report for 2021/22 in December 2022 and we were ranked as a leading company in the England and Wales water sector. We have eight common performance commitments (PCs), including C-MeX and D-MeX. Two of these PCs relate to per capita consumption (PCC), which is being assessed as part of the PR24 price review process. Since the COVID-19 pandemic, we have seen very high levels of demand for water across our Cambridge and South Staffs regions. These impacts have not subsided to pre-COVID levels, which indicates that a material behavioural step change has occurred. We have commissioned research with the help of an innovative third-party demand management consultancy called Skewb to examine how our regions were impacted by the pandemic and the ongoing effects of factors such as working from home. We have also re-evaluated our PCC programme and are currently implementing a materially increased programme over that envisaged at PR19. We intend to make a claim in our business plan for 2025 to 2030 to remove the PCC penalty on the basis that it was completely outside of any management control, and that the risk could not have been reasonably foreseen at PR19 when the mechanism was set. On the basis that Ofwat will take a sensible and proportionate approach to assessment, **the Board does not consider that the final dividend paid should be adjusted for a PCC penalty**. Of the remaining six common PCs, we have met or exceeded our targets for four of them. We are also forecasting a reward on both C-Mex and D-Mex for the year. This is despite the particular challenge of communicating the impact of the cyber-attack to customers and the steps we were taking to support them. For the nine bespoke PCs with a financial incentive, we have met or exceeded target for six of them. Overall, **the Board considers the company has delivered against many of its performance commitments**.
Investment plan	Our investment in the first two years of the current price control period was impacted by delays in our major treatment works upgrade at Hampton Loade as we explored an alternative solution, which was approved for funding under Ofwat's green recovery proposals in July 2021. We also faced subsequent challenges when our primary construction partner, NMCN, went into administration in October 2021, which led to the work being halted. We then started work to recruit another construction partner with the necessary experience and expertise to take over from NMCN. In May 2022 we announced Ross-Shire Engineering and Barhale as our new construction partners, and work got under way again at the site. Our new construction partners have made significant progress during the reporting year and have brought the project back on track for delivery by March 2025. We have also made early investment in other areas. An important focus of our work during the year has been on delivering our long-term ambitions, including how we will secure resilient and sustainable water supplies for our customers now and in the future. Central to this is the work we have been carrying out in partnership with Anglian Water to build a new reservoir in the Cambridgeshire Fens, which will need to be operational by the late 2030s. We are following a regulatory gated process under the Regulators' Alliance for Progressing Infrastructure Development (RAPID) programme and have been allowed to progress to a review point in early 2024. We also put forward proposals under Defra's accelerated investment process and Ofwat's draft decision in April this year gives us the approval to accelerate our metering programme from the next price control period into the next two years. This will allow us to achieve water savings through lower demand. Overall, **the Board considers the company's investment plans are on track for the period to 2025**.
Cost efficiency	We have underperformed our totex allowance (excluding rates, abstraction licence fees and costs not subject to cost sharing) by £5.2 million, once timing differences are taken into account. This has been predominantly driven by increased energy and chemical costs. Despite this, our approved budgets are targeting efficiencies for the final two years of the control period. **The Board has concluded that there is a good expectation that these efficiencies will be achieved**.

Assessment area	Board consideration
Environment	We have successfully delivered all elements of our WINEP programme this year, meeting all the relevant timescales for achieving this. We are continuing to deliver biodiversity improvements at Blithfield reservoir and are looking to expand this across our land holdings. In addition, we have developed our WINEP programme for the five years from 2025 to 2030 (AMP8), and following review by the Environment Agency, this will now be included in our PR24 business plan submission. Our discharge compliance has remained strong, and we had a successful MCERTs audit this year. Because of the extensive works as part of the long-term plan at Hampton Loade, there have been some changes to flow conditions, and we are working with the Environment Agency to determine new discharge consents that will reflect the new processes on site once they have been commissioned. Abstraction licence compliance in our South Staffs region remains consistently at 100%. But in our Cambridge region we have seen outage levels because of water quality constraints. We have also over-abstracted at two sites, in breach of our licence conditions. We over-abstracted at our Abington source by 31% and at Great Wilbraham by 24%. Both affected groundwater bodies are significantly over the 'No deterioration' baseline, which suggests that some environmental deterioration may have occurred. The Abington source impacts the Rivers Cam and Granta; Great Wilbraham mainly impacts Bottisham Lode. Local groups at both sites have reported low flows, although this is not yet verified by our own flow data. We have not yet carried out any monitoring to record evidence of ecological impacts. Overall, **the Board considers that the majority of environmental obligations have been met for the year**.
Customers	We recognise that the current cost of living crisis has resulted in some of our customers experiencing financial difficulty. In response, we deferred £2.3m of revenue when we set our charges for 2022/23, **which reduced customers' bills by 2%.** We also took action during the year to widen our support. This includes increasing the income threshold for our Assure social tariff, which provides discounted bills, so that more customers can benefit from financial support. The Assure tariff was available for households with an income of less than £17,005 a year, but this has now been increased to £19,050. By **increasing the income threshold, more customers are eligible for a 60% discount on their water charge in the first year and 40% in the second year**.
Financial resilience	**The Board has considered if paying the dividend will materially impact the company's resilience over the short and longer term** or impair its ability to finance its future investment needs. The key areas on which the Board determined that the dividend would not impact on financial resilience are as follows. • Our approved budget for 2023/24 and 2024/25 shows that all key financial metrics used by both the credit rating agencies and debt lenders will still meet the required target levels. The budget has also been stress-tested as part of the overall long-term viability statement (see pages 44 to 49 of the annual report and financial statements). • A £25million intercompany loan, which was repaid early by Hydriades Limited in 2022, helping to strengthen our financial position. • Our current performance on totex and an expectation that further efficiencies will be achieved in the next two years. • Many performance commitments being met in the year and the expectation that further rewards can be achieved. • That the Board has confidence that the regulatory system, under which are licensed, will ensure we will remain financeable post-2025 provided we operate efficiently and Ofwat continues to make proportionate decisions regarding the weighted average cost of capital (WACC), the cost of embedded debt for small companies, per capita consumption (PCC) and other key factors at PR24. We have also considered if there has been any atypical benefit from the current high level of inflation. The asset base of the business is indexed by CPIH. If companies hold a significant level of fixed-rate debt, this would result in a beneficial increase in regulated equity and hence a higher dividend based on the same % dividend yield. Around 75% of our debt is index-linked and increases with inflation. This is exacerbated by the fact that this debt is linked to RPI rather than CPIH. RPI is currently more than 4% higher than CPIH and modelling suggests that overall, there is no benefit from inflation on our gearing levels. Therefore, **we have not benefited from the impact of inflation, and this has not impacted on the level of dividend distribution**.

In terms of the dividend the Board has also considered the specific areas of our dividend policy, when determining the level to be paid. We have included the dividend payments for 2020/21 and 2021/22 to aid comparison.

Policy consideration	Adjustment	2022/23	2021/22	2020/21
Base allowance dividend as per our PR19 final determination	The allowed base dividend yield at PR19 was 2.16%.	£4.5m	£4.5m	£3.1m
Performance for customers – projected rewards from performance commitments, understanding rewards earned and timing of cash collected	We delivered strong performance for customers during the year, achieving an overall in-period reward of £0.5m in outturn prices (including C-MeX and D-MeX). It should be noted that this excludes the forecast penalty associated with PCC. Ofwat has agreed to review the position as part of the PR24 process to allow it to fully reflect the impact of the COVID-19 pandemic.	£0.5m	£2.5m	£1.1m
Gearing capacity and credit quality	Net debt has fallen significantly compared with the previous year because of the repayment of a £25m intercompany loan. Net debt for covenant reporting purposes at 31 March 2023 is £305.9m (2022: £231.3m). This provides a low level of leverage of around 59% (March 2022: 51%) of the year end RCV of £516m (2022: £450m). The book debt ratio is also below the Gearing Outperformance Sharing Mechanism threshold for 2022/23 of 72%. There has been no change in the ratings with S&P and Moody's maintaining their ratings. S&P rating is BBB+; however, the outlook has now been downgraded to negative. Moody's has a Baa2 rating. Both ratings are within the required investment grade.	No adjustment required under the policy	No adjustment required under the policy	No adjustment required under the policy
Covenants compliance – under all significant debt, including the index-linked Artesian loan and bond, there are various conditions that need to be met before a dividend can be paid	Significant headroom exists within the company compared with the lowest covenant on borrowings at 75% net debt to RCV. Under all debt facilities there are various conditions that need to be met before a dividend can be paid. We can confirm that no event has occurred or is likely to occur following payment of the proposed returns in March 2023 that would lead to a breach in any of these conditions.	No adjustment required under the policy	No adjustment required under the policy	No adjustment required under the policy
Intercompany loans – a proportion of the dividend is to enable intercompany interest to be paid to the business, and Ofwat notes that this should be disclosed	An intercompany loan with South Staffs Water's holding company, Hydriades, was repaid in January 2022. Therefore, there was no interest received in 2022/23.	No adjustment required under the policy	£1.5m	£1.8m

Policy consideration	Adjustment	2022/23	2021/22	2020/21
Totex outperformance (including pension deficit repair costs) – adjusted to reflect acceleration of delay because of timing differences	Our actual totex subject to cost sharing and adjusting for timing differences underperformed our PR19 final determination allowances in the year by £5.2m; 45% of this will be funded by customers with the remaining 55% funded by the company. So, the level of divided paid is reduced to reflect this (£2.8m). There have been no pension deficit repair costs over the period as the latest actuarial valuation shows a small surplus. We have carefully considered pension deficit repair costs in the context of our current scheme surplus and if there was any likely deterioration in the position over future years. Based on the mix of assets invested, it was deemed a low risk that the fund would move into deficit. It was also recognised that if the pension position changed in the future, then the level of dividends would be adjusted accordingly. We have outperformed the price review assumption on pension deficit repair costs by £2.3m.	(£0.5m)	£2.7m	£2.1m
Liquidity – available working capital, liquidity and undrawn committed facilities to meet forward-looking business plan requirements for the next 12 to 18 months	Significant and sufficient headroom exists in existing borrowing facilities. This is partly due to the re-profiling of expenditure compared with our PR19 final determination, the phasing of new debt issued in the year and the repayment of the £25m intercompany loan with Hydriades.	No adjustment required under the policy	No adjustment required under the policy	No adjustment required under the policy
Company law – statutory accounting distributable reserves	The approved and audited statutory accounts at 31 March 2023 include distributable reserves of £39.7m, which are sufficient to enable to pay the dividend.	No adjustment required under the policy	No adjustment required under the policy	No adjustment required under the policy
Reputational factors – customer service standards in period, any significant health and safety incidents, pension obligations and employee considerations	We have maintained customer service standards and there have been no significant health and safety incidents, new pension obligations or other employee considerations.	No adjustment required under the policy	No adjustment required under the policy	No adjustment required under the policy
Total dividend per dividend policy		**£4.5m**	**£11.2m**	**£8.1m**
Actual appointed dividend paid		**£7.7m**	**£9.0m**	**£4.6m**

For the previous two years, dividends paid were £5.7m below the level as set out in our dividend policy, recognising that there was a level of uncertainty in performance for the five years from 2020 to 2025 because of the impact of the COVID-19 pandemic. We have now completed the third year of the period and the Board considers there is now a reasonable level of confidence that we will outperform for the remainder of the period. On this basis, the dividend paid in the year was £3.2m higher compared with our dividend policy. For the past three years, we have paid £2.5m less than our dividend policy allows.

Accounting policies

Accounting policy for price control segments

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

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

For general and support expenditure, several 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 accordance with the statutory accounting policy.

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, because of hospitalisation, probate or incarceration. Where a property is believed to be occupied, but the occupier details are not known, the income is not recognised until the occupant details are obtained. We use internal mailing campaigns, third party credit rating agency information and void inspector visits to ascertain the identity of any occupier. We do not bill unmetered void properties speculatively to 'the occupier'.

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

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

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

Income recognised during the year is based on the value of bills raised. For metered consumption not yet billed, an accrual is estimated based on historical average daily consumption for each customer. The measured income accrual at March 2023 was £13.6m compared with £12.7m 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.

Below we summarise the range of circumstances when it will be necessary to write off irrecoverable debts.

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.

Accounting disclosures

Board agendas for the year ended 31 March 2023

There were 10 planned Board meetings during the year, 1 additional Board meeting and 13 meetings of the Board via teleconferencing facilities to discuss cyber-related matters. Among other things, the Board considered the following key items.

- Regulatory submissions for the Fens reservoir project with Anglian Water.
- Approval for abstraction licence caps in our Cambridge and South Staffs regions.
- The purchase of 30 electric vehicles for our light vehicle fleet.
- The impact of last summer's drought on water supplies.
- Approval of the Defra accelerated spend process.
- Pay negotiations.
- The PR24 price review process.
- The outcomes of the employee engagement survey.
- Levels of financial support for customers in response to the cost of living crisis.
- Customer charges for 2023/24.
- Approval for the 2023/24 budget.
- The AMP8 WINEP assurance statement.

Following the **cyber-attack on our parent company** in July, the Board devoted a considerable amount of time and attention to support the business. This included holding many additional meetings over a period of several months and working closely with the Executive team on the development of an appropriate support package for our customers and our people who had been impacted by the incident.

Relationship between Directors' remuneration and standards of performance

We have an obligation under Section 35A of the Water Industry Act 1991 to make a statement in relation to remuneration that is linked to standards of performance. Please refer to pages 80 to 82 of the annual report and financial statements for full details of the relationship between Directors' remuneration and standards of performance.

Disclosure of information to auditors

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

Approach to taxation

Please refer to pages 13 to 14 of the annual report and financial statements for full details of our approach to taxation.

Condition P

In the opinion of the Directors, the company is in compliance with paragraph 14 of Condition P (formerly paragraph 3.1 of Condition K) of its Instrument of Appointment as at 31 March 2023.

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 3.13, no single transaction exceeding £100,000 has been aggregated.

Loans by or to the appointed company

As at 31 March 2023, there are no loans by or to the appointed company.

Dividends paid to associated companies

As a wholly owned subsidiary, South Staffordshire Water paid dividends of £9.2m in the year to our holding company, South Staffordshire Plc; £7.5m 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 reporting 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

South Staffordshire Water has surrendered losses of £4,860,303 (2022: £1,147,641) to another group company, for which it will receive full compensation for the tax value of £923,458 (4,860,303 x 19%).

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

- On all key supplier relationships where we use the parties in the appointed business, we require that there is at least one other framework supplier to ensure ongoing competitive procurement.

‘At cost’ transactions

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

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

- All transactions under the ‘at cost’ contract must be signed off by the appropriate project manager.

- The cost allocation of the associated company must be fully auditable to show that it is ‘at cost’. Sample audits are carried out by the Group Risk, Control and Assurance Audit function.

Benchmarking

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

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

The outcome of the benchmarking showed that we were paying comparable prices to other companies in 2022/23.

Transactions between price controls

Since 2020 we have been required to report our costs split between three separate price controls: water resources; network plus; and residential retail. These are set out in tables 2b and 2c. We have followed the RAGs to ensure that costs are correctly allocated between price controls. The tables and our accompanying cost allocation methodology statement have been externally reviewed by Ernst & Young. The following transactions occurred during the 12 months to 31 March 2023.

Services supplied to the appointee by associated companies

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Onsite	106.085	Mainlaying and repair of water mains	26.322	Competitive tendering
		Mains Rehabilitation	4.006	Competitive tendering
		Minor Civils	2.348	Competitive tendering
		Metering	1.267	Competitive tendering
		Reservoir Refurbishment	0.034	Competitive tendering
Integrated Water Services Limited	37.236	Water Treatment	0.023	Cost
		Mechanical and Electrical Services	0.391	Cost
		Capital Works	5.612	Competitive tendering
		PAT Testing	0.021	Cost
		Capital Works	0.016	Cost
SSI Services UK Limited	0.016	Motor vehicle repair and maintenance	0.433	Cost
Hydrosave (UK) Limited	23.696	Leakage detection	0.340	Competitive tendering
		Clean Valve Release / Staff Charges	0.001	Cost
Echo Managed Services Limited	20.625	Customer Services	6.837	Cost
		Billing Software	1.718	Benchmarking
South Staffordshire Plc	-	Management services	1.083	Cost
		Legal Services	0.176	Cost
		Payroll Services	0.069	Cost
		IT Networks, Operations, Development and Telephony	4.655	Cost
		Finance, Treasury, Internal Audit and Accounts Payable	0.578	Cost
Office Water Coolers	5.713	Water Coolers	0.003	Benchmarking
		Water Cooler rentals	0.004	Benchmarking

Omega Red	19.906	Lightning Protection	0.041	Benchmarking
G Stow	6.118	Pump Installation	0.005	Cost
South Staffs Water Non appointed	7.366	Emergency water Supply tankers	0.031	Cost
		Total services supplied to the appointee by associated companies	**56.016**	

Services supplied by the appointee to associated companies

Associate	**Turnover of Associate £m**	**Service**	**Value £m**	**Terms of Supply**
Echo Managed Services Limited	20.625	Sewerage collections support	0.219	Cost
Echo Managed Services Limited		Site Services	0.110	Cost
		Recharges for the use of appointed assets	0.084	Cost
South Staffordshire Plc	-	Communications and media support	0.041	Cost
Hydrosave (UK) Limited	23.696	Operational training	0.005	Cost
Integrated Water Services Limited	37.236	Operational training	0.001	Cost
Onsite	106.085	Standpipe Hire	0.006	Cost
		Operational training	0.010	Cost
		Total services supplied by the appointee to associated companies	**0.477**	

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
Echo Managed Services Limited	27.200	Sewerage collections support	0.235	Cost
		Site Services	0.169	Cost
		Recharges for the use of appointed assets	0.076	Cost
South Staffordshire Plc	-	Communications and media support	0.041	Cost
Echo Managed Services Limited	27.200	Operational training	0.000	Cost
Hydrosave (UK) Limited	22.228	Operational training	0.002	Cost
Integrated Water Services Limited	36.995	Operational training	0.000	Cost
Onsite	79.179	Operational training	0.001	Cost
	-	Standpipe Hire	0.004	Cost
		Total services supplied by the appointee to associated companies	**0.529**	

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	7.366	Recharges for the use of appointed assets	0.005	Cost
		Management fees	0.134	Cost
		Total services supplied by the appointee to non appointee	**0.140**	

Associate	Turnover of Associate £m	Service	Value £m	Terms of Supply
South Staffs Water Non appointed	6.184	Recharges for the use of appointed assets	0.003	Cost
		Management fees	0.192	Cost
		Operational training	0.002	Cost
		Total services supplied by the appointee to non appointee	**0.196**	

Section 1 – regulatory accounts primary statements

1a) Income statement for the 12 months ended 31 March 2023

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Revenue	146.402	(3.919)	9.014	(12.933)	133.469
Operating costs	(134.448)	1.405	(7.195)	8.600	(125.848)
Other operating income	11.693	(11.410)	0.005	(11.415)	0.278
Operating profit	23.647	(13.924)	1.824	(15.748)	7.899
Other income	-	11.409	0.091	11.318	11.318
Interest income	1.158	(1.158)	-	(1.158)	-
Interest expense	(38.720)	1.158	(0.017)	1.175	(37.545)
Other interest expense	(0.171)	-	-	-	(0.171)
Profit before tax and fair value movements	(14.086)	(2.515)	1.898	(4.413)	(18.499)
Fair value gains/(losses) on financial instruments	-	-	-	-	-
Profit before tax	(14.086)	(2.515)	1.898	(4.413)	(18.499)
UK Corporation tax	1.037	0.652	(0.361)	1.013	2.050
Deferred tax	4.233	0.554	-	0.554	4.787
Profit for the year	(8.816)	(1.309)	1.537	(2.846)	(11.662)
Dividends	(9.200)	-	(1.537)	1.537	(7.663)
Tax analysis					
Current year	(0.193)	(0.652)	0.361	(1.013)	(1.206)
Adjustments in respect of prior years	(0.844)	-	-	-	(0.844)
UK Corporation tax	(1.037)	(0.652)	0.361	(1.013)	(2.050)

Analysis of non-appointed revenue	
Imported sludge	-
Tankered waste	-
Other non-appointed revenue	9.014
Revenue	9.014

1a) Income statement (continued)

Activities outside the appointed business include:

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

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

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

	Revenue £m	Operating costs £m	Other operating income £m	Other income £m	Profit for the year £m	Tax £m
Revenue Restatement	(3.949)	-	-	-	(3.949)	-
Provision Restatement	-	1.030	-	-	1.030	-
Intra Group Turnoverand Costs Elimination	0.030	(0.030)	-	-	-	-
Rental income	-	-	(0.121)	0.121	-	-
Amortisation of capital contributions	-	-	(3.432)	3.432	-	-
Infrastructure renewals contributions	-	-	(7.857)	7.857	-	-
Remove Innovation Funding in year	-	0.404	-	-	0.404	-
Remove Innovation Tax in year	-	(0.077)	-	-	-	(0.077)
Net adjustments	(3.919)	1.327	(11.410)	11.410	(2.515)	(0.077)

Analysis of interest charges

	2023 £m
Interest charged on external borrowings	30.763
Bond discount / premium on issue	6.740
Bond costs	0.042
Amortisation of debt issuance costs	0.000
Total interest charge per table 1A line 7	37.545
Amounts recycled through hedging reserve	(0.171)
Total interest charge per table 1A line 8	(0.171)

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.

	2023 £m		Current Tax £m
PBT			
Appointed	(18.499)		2.051
Non appointed	1.898		(0.361)
Total	**(16.601)**		**1.690**
Appointed Profit on ordinary activities	**(18.499)**		
Appointed profit before tax at standard UK corporation tax rate of 19%	(3.515)		
Expenses not deductible for tax purposes		0.414	
Capital allowances super deduction 30% element		(1.683)	
Transfer pricing adjustments		(0.191)	
Capital allowances less than depreciation		(7.736)	
Tax losses carried forward		11.715	
Other timing differences		(0.212)	
Adjustments in respect of prior years		(0.844)	
	1.464		
Appointed current tax charge	**(2.051)**		
Appointed total current tax charge allowed in price limits	0.098		
Impact of difference between tax rate used in price limits (17%) and actual tax rate (19%)		0.011	
Differences in profit before tax		(4.276)	
Taxable interest income for which no tax allowance given in price limit		-	
Expenses not deductible for tax purposes		0.217	
Transfer pricing adjustment		(0.191)	
Capital allowances in advance of depreciation		(9.014)	
Pension contributions		0.130	
Tax losses carried forward		11.715	
Other timing differences		0.103	
	(1.304)		
Current year	**(1.207)**		
Adjustments in respect of prior years	(0.844)		
Appointed current tax charge	**(2.051)**		

The current tax credit in respect of the year at £2.1m was lower than that allowed in price limits by £2.2m and included adjustments from prior years of £0.8m. This has been driven by both a loss before tax in the year and significantly higher capital allowances than the PR19 final determination due to the introduction of the super deduction and enhanced special rate allowances that will be claimed for 2022/23.

1b) Statement of comprehensive income – for the 12 months ended 31 March 2023

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit for the year	(8.816)	(1.309)	1.537	(2.846)	(11.662)
Actuarial gains/(losses) on post-employment plans	-	-	-	-	-
Other comprehensive income	1.376	-	-	-	1.376
Total Comprehensive income for the year	(7.440)	(1.309)	1.537	(2.846)	(10.286)

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

1c) Statement of financial position – as at 31 March 2023

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Non-current assets					
Fixed assets	655.010	-	1.232	(1.232)	653.778
Intangible assets	4.838	-	-	-	4.838
Investments - loans to group companies	-	-	-	-	-
Investments - other	-	-	-	-	-
Financial instruments	-	-	-	-	-
Retirement benefit assets	-	-	-	-	-
Total	659.848	-	1.232	(1.232)	658.616
Current assets					
Inventories	3.870	-	0.040	(0.040)	3.830
Trade & other receivables	70.161	(11.881)	14.213	(26.094)	44.067
Financial instruments	-	-	-	-	-
Cash & cash equivalents	23.571	20.000	0.402	19.598	43.169
Total	97.602	8.119	14.655	(6.536)	91.066
Current liabilities					
Trade & other payables	(70.973)	(6.842)	(8.143)	1.301	(69.672)
Capex creditor	(17.818)	-	-	-	(17.818)
Borrowings	-	-	-	-	-
Financial instruments	-	-	-	-	-
Current tax liabilities	(0.743)	(0.242)	-	(0.242)	(0.985)
Provisions	-	-	-	-	-
Total	(89.534)	(7.084)	(8.143)	1.059	(88.475)
Net Current assets/(liabilities)	8.068	1.035	6.512	(5.477)	2.591
Non-current liabilities					
Trade & other payables	(10.054)	-	-	-	(10.054)
Borrowings	(361.063)	-	-	-	(361.063)
Financial instruments	-	-	-	-	-
Retirement benefit obligations	-	-	-	-	-
Provisions	-	-	-	-	-
Deferred income - G&C's	(180.153)	-	(0.006)	0.006	(180.147)
Deferred income - adopted assets	-	-	-	-	-
Preference share capital	-	-	-	-	-
Deferred tax	(61.203)	-	-	-	(61.203)
Total	(612.473)	-	(0.006)	0.006	(612.467)
Net assets	55.443	1.035	7.738	(6.703)	48.740
Equity					
Called up share capital	2.123	-	-	-	2.123
Retained earnings & other reserves	53.320	1.035	7.738	(6.703)	46.617
Total Equity	55.443	1.035	7.738	(6.703)	48.740

1c) Statement of financial position (continued)

See table 1a for a list of activities outside of the appointed business. The statement of financial position reflects the balance sheet as at 31 March 2023. Both statutory financial statements and regulatory reporting are based on FRS 102, with the following adjustments to reflect the RAGs.

	Investments - loans to group companies £m	Trade & other receivables £m	Cash & cash equivalents £m	Trade & other payables £m	Current tax liabilities £m	Retained earnings & other reserves £m
Inter company alignments	-	8.120	-	(8.120)	-	-
Remove Innovation Funding accrual year to date	-	-	-	1.276	-	(1.276)
Remove Innovation Funding year to date tax effect	-	-	-	-	(0.242)	0.242
Other short term investments	-	(20.000)	20.000	-	-	-
Roundings	-	(0.001)	-	0.002	-	(0.001)
Net adjustments	-	(11.881)	20.000	(6.842)	(0.242)	(1.035)

1d) Statement of cash flows – for the 12 months ended 31 March 2023

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Operating activities					
Operating profit	23.647	(13.924)	1.824	(15.748)	7.899
Other income	-	11.409	0.091	11.318	11.318
Depreciation	26.781	-	0.202	(0.202)	26.579
Amortisation - G&C's	(3.432)	-	-	-	(3.432)
Changes in working capital	(20.065)	22.515	(0.339)	22.854	2.789
Pension contributions	-	-	-	-	-
Movement in provisions	-	-	-	-	-
Profit on sale of fixed assets	(0.283)	-	(0.005)	0.005	(0.278)
Cash generated from operations	26.648	20.000	1.773	18.227	44.875
Net interest paid	(9.369)	-	(0.017)	0.017	(9.352)
Tax paid	-	-	(0.361)	0.361	0.361
Net cash generated from operating activities	17.279	20.000	1.395	18.605	35.884
Investing activities					
Capital expenditure	(89.959)	-	(0.009)	0.009	(89.950)
Grants & Contributions	14.882	-	-	-	14.882
Disposal of fixed assets	0.469	-	0.027	(0.027)	0.442
Other	-	-	-	-	-
Net cash used in investing activities	(74.608)	-	0.018	(0.018)	(74.626)
Net cash generated before financing activities	(57.329)	20.000	1.413	18.587	(38.742)
Cashflows from financing activities					
Equity dividends paid	(9.200)	-	(1.537)	1.537	(7.663)
Net loans received	39.965	-	-	-	39.965
Cash inflow from equity financing	-	-	-	-	-
Net cash generated from financing activities	30.765	-	(1.537)	1.537	32.302
Increase (decrease) in net cash	(26.564)	20.000	(0.124)	20.124	(6.440)

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 (£89.949m) and additions reported in the fixed assets in note 2d (£88.193m) is due to an increase in year of creditors relating to capital purchases of £1.756m.

1d) Statement of cash flows (continued)

	Operating profit £m	Other income £m	Changes in working capital £m	Increase / (decrease) in net cash £m
Revenue Restatement	3.949	-	(3.949)	-
Provision Restatement	(1.030)	-	1.030	-
Rental income	(0.121)	0.121	-	-
Amortisation of capital contributions	(3.432)	3.432	-	-
Remove Innovation Funding in year	0.405	-	(0.405)	-
Other short term investments	-	-	(20.000)	(20.000)
Net adjustments	(0.229)	3.553	(23.324)	(20.000)

A breakdown of net interest shown in table 1d is set out below.

	2023
	£m
Interest paid	10.510
Bank interest received	(1.158)
Net interest per table 1D	9.352

1e) Net debt analysis – as at 31 March 2023

	Interest rate risk profile				
	Fixed rate	Floating rate	Index linked		Total
			RPI	CPI/CPIH	
	£m	£m	£m	£m	£m
Borrowings (excluding preference shares)	91.652	-	258.972	-	350.624
Preference share capital					-
Total borrowings					350.624
Cash					(23.170)
Short term deposits					(20.000)
Net Debt					**307.454**
Gearing					59.60%
Adjusted Gearing					59.36%
Full year equivalent nominal interest cost	2.712	-	37.355	-	40.067
Full year equivalent cash interest payment	2.710	-	8.264	-	10.974
Indicative interest rates					
Indicative weighted average nominal interest rate	2.96%	0.00%	14.42%	0.00%	11.43%
Indicative weighted average cash interest rate	2.96%	0.00%	3.19%	0.00%	3.13%
Weighted average years to maturity	10.536	-	23.816	-	20.345

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 59.4% is based on the company's covenant net debt of £305.9m, which differs to the book net debt by £1.2m. 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.

	31 Mar 23	
	£'000	**Gearing %**
Book net debt - statutory accounts	(337.491)	65.42%
Non-appointed cash	(0.406)	0.08%
Short term deposits	20.000	(3.88%)
Exclude unamortised issue costs	(1.617)	0.31%
Exclude book premium on issue of index linked debt	12.060	(2.34%)
Book net debt (as reported above)	(307.454)	59.60%
Exclude accrued interest	1.230	(0.24%)
Net debt reported for borrowing covenants	(306.224)	59.36%

1f) Financial flows – for the 12 months ended 31 March 2023

			12 months ended 31 March 2023 %			£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**
Regulatory equity								
Regulatory equity	£m	2	166.438	166.438	181.029			
Return on regulatory equity								
Return on regulatory equity	%	2	4.21%	4.58%	4.21%	7.005	7.620	7.620
Financing								
Impact of movement from notional gearing	%	2	0.00%	-0.37%	-0.14%	0.000	(0.614)	(0.255)
Gearing benefits sharing	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Variance in corporation tax	%	2	0.00%	6.37%	5.86%	0.000	10.605	10.605
Group relief	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Cost of debt	%	2	0.00%	-6.21%	-5.37%	0.000	(10.333)	(9.719)
Hedging instruments	%	2	0.00%	0.02%	0.02%	0.000	0.039	0.039
Return on regulatory equity including Financing adjustments	%	2	4.21%	4.40%	4.58%	7.005	7.317	8.289
Operational Performance								
Totex out / (under) performance	%	2	0.00%	-4.76%	-4.38%	0.000	(7.921)	(7.921)
ODI out / (under) performance	%	2	0.00%	-2.13%	-1.95%	0.000	(3.538)	(3.538)
C-Mex out / (under) performance	%	2	0.00%	0.32%	0.29%	0.000	0.527	0.527
D-Mex out / (under) performance	%	2	0.00%	-0.02%	-0.02%	0.000	(0.028)	(0.028)
Retail out / (under) performance	%	2	0.00%	-0.70%	-0.64%	0.000	(1.163)	(1.163)
Other exceptional items	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Operational performance total	%	2	0.00%	-7.28%	-6.70%	0.000	(12.123)	(12.123)
RoRE (return on regulatory equity)	%	2	4.21%	-2.89%	-2.12%	7.005	(4.806)	(3.834)

RCV growth	%	2	10.48%	10.48%	10.48%	17.443	17.443	18.972
Voluntary sharing arrangements	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Total shareholder return	%	2	14.69%	7.59%	8.36%	24.448	12.636	15.138
Dividends								
Gross Dividend	%	2	2.16%	3.90%	3.59%	3.590	6.491	6.491
Interest Receivable on Intercompany loans	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Retained Value	%	2	12.53%	3.69%	4.78%	20.859	6.146	8.648
Cash impact of 2015-20 performance adjustments								
Totex out / under performance	%	2	0.00%	0.01%	0.01%	0.000	0.013	0.013
ODI out / under performance	%	2	0.00%	0.33%	0.30%	0.000	0.547	0.547
Total out / under performance	%	2	0.00%	0.34%	0.31%	0.000	0.559	0.559

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

	Units	DP	Average 2020-25 % Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	£m Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity								
Regulatory equity	£m	2	158.40	158.40	158.27			
Return on regulatory equity								
Return on regulatory equity	%	2	4.17%	4.16%	4.17%	6.600	6.595	6.595
Financing								
Impact of movement from notional gearing	%	2	0.00%	0.00%	-0.01%	0.000	0.005	(0.018)
Gearing benefits sharing	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Variance in corporation tax	%	2	0.00%	2.39%	2.40%	0.000	3.791	3.791
Group relief	%	2	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of debt	%	2	0.00%	-3.39%	-3.30%	0.000	(5.375)	(5.225)
Hedging instruments	%	2	0.00%	-0.22%	-0.23%	0.000	(0.356)	(0.356)
Return on regulatory equity including Financing adjustments	%	2	4.17%	2.94%	3.02%	6.600	4.659	4.787
Operational Performance								
Totex out / (under) performance	%	2	0.00%	-1.90%	-1.90%	0.000	(3.006)	(3.006)
ODI out / (under) performance	%	2	0.00%	-0.99%	-0.99%	0.000	(1.567)	(1.567)
C-Mex out / (under) performance	%	2	0.00%	0.09%	0.09%	0.000	0.149	0.149
D-Mex out / (under) performance	%	2	0.00%	-0.02%	-0.02%	0.000	(0.034)	(0.034)
Retail out / (under) performance	%	2	0.00%	-0.99%	-0.99%	0.000	(1.563)	(1.563)
Other exceptional items	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Operational performance total	%	2	0.00%	-3.80%	-3.80%	0.000	(6.021)	(6.021)
RoRE (return on regulatory equity)	%	2	4.17%	-0.86%	-0.78%	6.600	(1.362)	(1.234)
RCV growth	%	2	5.90%	5.90%	5.90%	9.341	9.341	9.334

Voluntary sharing arrangements	%	2	0.00%	0.00%	0.00%	0.000	0.000	0.000
Total shareholder return	%	2	10.06%	5.04%	5.12%	15.941	7.979	8.099
Dividends								
Gross Dividend	%	2	2.16%	4.05%	4.05%	3.416	6.415	6.415
Interest Receivable on Intercompany loans	%	2	0.00%	-0.64%	-0.64%	0.000	(1.016)	(1.016)
Retained Value	%	2	7.91%	1.63%	1.71%	12.525	2.581	2.701

Commentary to the financial flows

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

As per RAG 4.11, totex performance has been adjusted for timing differences and the company cost sharing ratio with customers.

The actual shareholder return based on actual regulatory equity is 8.36%, 6.33% below the notional return of 14.69% in our PR19 final determination. The main variances are as follows.

- Lower returns from lower gearing (-0.14%) using the average book debt of 56.4% compared with the notional gearing of 60.0%.
- Higher returns from a lower tax charge (+5.86%). This has been driven by both a loss before tax in the year and significantly higher capital allowances than our PR19 final determination because of the introduction of the super deduction and enhanced special rate allowances, which will be claimed for the reporting year.
- Lower returns from a higher actual cost of debt (-5.37%). The main driver for this is the difference between the interest rate assumed by Ofwat and the actual higher interest rate on our borrowings, which is predominantly made up of long-term RPI index-linked debt. The difference between RPI and CPIH in the year was 4.1%, which is significantly higher than the historic wedge of nearer 1%.
- Underperformance on totex (-4.38%). Ignoring timing differences, totex subject to cost sharing was £5.2m overspent. This was predominantly driven by increased energy and chemical costs during the year. Net totex not subject to cost sharing was £6.6m higher than allowed. In our PR19 final determination, £3.5m of costs for HS2 were incorrectly omitted. Ofwat has confirmed that this will be corrected at PR24. In addition, we have incurred £3.5m of expenditure on the Fens reservoir strategic water resources scheme, which will also be reconciled at PR24. We also incurred cyber-related costs of £2.2m.
- Retail costs (-0.64%), predominantly in relation to cyber-related costs of £1.3m.
- ODIs (-1.95%), which includes an underperformance on PCC of £3.6m as a result of the impact of the COVID-19 pandemic on household consumption.
- Based on book debt, the actual dividend yield is 3.59%, which is 1.43% above our PR19 final determination of 2.16%.

Our PR19 final determination dividend yield of 2.16% is below the notional dividend yield for the sector. This is the result of the high level of RCV growth over the five-year period from 2020 to 2025.

Section 2 – price review and segmental reporting

2a) Segmental income statement – for the 12 months ended 31 March 2023

	Residential retail	Business retail	Wholesale Water resources	Water Network+	Total
	£m	£m	£m	£m	£m
Revenue - price control	14.554	-	10.316	106.435	131.305
Revenue - non price control	-	-	0.053	2.110	2.163
Operating expenditure - excluding PU recharge impact	(13.118)		(9.743)	(76.411)	(99.272)
PU opex recharge	(0.271)			0.271	0.000
Operating expenditure - including PU recharge impact	(13.389)	-	(9.743)	(76.140)	(99.272)
Depreciation - tangible fixed assets	(0.351)	-	(0.715)	(25.075)	(26.141)
Amortisation - intangible fixed assets	(0.094)	-	-	(0.349)	(0.443)
Other operating income	-	-	-	0.283	0.283
Operating profit	0.720	-	(0.089)	7.264	7.895
Surface water drainage rebates	0	0	0	0	0

2b) Totex analysis for the 12 months ended 31 March 2023 – wholesale

	Water resources £m	Water Network+ £m	Total £m
Base operating expenditure			
Power	2.789	12.738	15.527
Income treated as negative expenditure	-	-	-
Service charges/ discharge consents	3.592	0.322	3.914
Bulk Supply/Bulk discharge	0.029	-	0.029
Renewals expensed in year (Infrastructure)	-	17.624	17.624
Renewals expensed in year (Non-Infrastructure)	-	-	-
Other operating expenditure (including Location specific costs & obligations)	3.071	37.244	40.315
Local authority and Cumulo rates	0.208	4.931	5.139
Total base operating expenditure	9.689	72.859	82.548
Other operating expenditure			
Enhancement operating expenditure	-	-	-
Developer services operating expenditure	-	1.239	1.239
Total operating expenditure excluding third party services	9.689	74.098	83.787
Third party services	0.054	2.042	2.096
Total operating expenditure	9.743	76.140	85.883
Grants and contributions			
Grants and contributions - operating expenditure	-	7.857	7.857
Capital expenditure			
Base capital expenditure	0.648	21.210	21.858
Enhancement capital expenditure	5.422	49.605	55.027
Developer services capital expenditure	-	11.228	11.228
Total gross capital expenditure excluding third party services	6.070	82.043	88.113
Third party services	-	-	-
Total gross capital expenditure	6.070	82.043	88.113
Grants and contributions			
Grants and contributions - capital expenditure	-	14.869	14.869
Net totex	15.813	135.457	151.270
Cash expenditure			
Pension deficit recovery payments	-	-	-
Other cash items	-	-	-
Totex including cash items	15.813	135.457	151.270

2c) Cost analysis for the 12 months ended 31 March 2023 – retail

	Residential	Business	Total
	£m	£m	£m
Operating expenditure			
Customer services	5.275	-	5.275
Debt management	0.569	-	0.569
Doubtful debts	2.625	-	2.625
Meter reading	0.919	-	0.919
Services to developers	-	-	-
Other operating expenditure	3.697	-	3.697
Local authority and Cumulo rates	0.033	-	0.033
Total operating expenditure excluding third party services	13.118	-	13.118
Depreciation			
Depreciation (tangible fixed assets) on assets existing at 31 March 2015	0.056	-	0.056
Depreciation (tangible fixed assets) on assets acquired after 1 April 2015	0.297	-	0.297
Amortisation (intangible fixed assets) on assets existing at 31 March 2015	-	-	-
Amortisation (intangible fixed assets) on assets acquired after 1 April 2015	0.091	-	0.091
Recharges			
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	-	-	-
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	-	-	-
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	0.284	-	0.284
Income from wholesale assets acquired after 1 April 2015 principally used by retail	0.013	-	0.013
Net recharges costs	0.271	-	0.271
Total retail costs excluding third party and pension deficit repair costs	13.833	-	13.833
Third party services operating expenditure	-	-	-
Pension deficit repair costs	-	-	-
Total retail costs including third party and pension deficit repair costs	13.833	-	13.833
Debt written off			
Debt written off	0.129	-	0.129
Capital expenditure			
Capital expenditure	0.001	-	0.001

Other operating expenditure includes the net retail expenditure for the following household retail activities which are part funded by wholesale	
Demand-side water efficiency - gross expenditure	0.076
Demand-side water efficiency - expenditure funded by wholesale	0.063
Demand-side water efficiency - net retail expenditure	0.013
Customer-side leak repairs - gross expenditure	0.486
Customer-side leak repairs - expenditure funded by wholesale	0.486
Customer-side leak repairs - net retail expenditure	-

Comparison of actual and allowed expenditure	
Cumulative actual retail expenditure to reporting year end	42.219
Cumulative allowed expenditure to reporting year end	35.807
Total allowed expenditure 2020-25	62.815

Total retail operating costs (before depreciation charges) of £13.1m compared with £1m allowed in price limits for the year. The overspend is predominantly in relation to customer-related cyber costs of £1.3m.

2d) Historic costs analysis of tangible fixed assets at 31 March 2023

			Wholesale		
	Residential Retail	Business Retail	Water resources	Water Network+	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2021	8.643	-	27.372	1,053.756	1,089.771
Disposals	-	-	-	(2.474)	(2.474)
Additions	0.085	-	7.379	80.729	88.193
Adjustments	(2.421)	-	-	(8.531)	(10.952)
Assets adopted at nil cost	-	-	-	-	-
At 31 March 2022	6.307	-	34.751	1,123.480	1,164.538
Depreciation					
At 1 April 2021	(6.395)	-	(4.811)	(482.283)	(493.489)
Disposals	-	-	-	2.285	2.285
Adjustments	2.050	-	-	4.533	6.583
Charge for year	(0.351)	-	(0.715)	(25.075)	(26.141)
At 31 March 2022	(4.696)	-	(5.526)	(500.540)	(510.762)
Net book amount at 31 March 2022	1.611	-	29.225	622.940	653.776
Net book amount at 1 April 2021	2.248	-	22.561	571.473	596.282
Depreciation charge for year					
Principal services	(0.351)	-	(0.715)	(25.075)	(26.141)
Third party services	-	-	-	-	-
Total	(0.351)	-	(0.715)	(25.075)	(26.141)

The net book value includes £107.064m in respect of assets in the course of construction.

The adjustments shown above are in relation to intangible fixed assets which are now shown in table 2o. In addition, an adjustment has been made between wholesale and retail following a review of asset categorisation.

2e) Analysis of grants and contributions for 12 months ended 31 March 2023

	Fully recognised in income statement	Capitalised and amortised (in income statement)	Fully netted off capex	Total
	£m	£m	£m	£m
Grants and contributions - water resources				
Diversions - s185	-	-	-	-
Other contributions (price control)	-	-	-	-
Price control grants and contributions	-	-	-	-
Diversions - NRSWA	-	-	-	-
Diversions - other non-price control	-	-	-	-
Other contributions (non-price control)	-	-	-	-
Total grants and contributions	-	-	-	-
Value of adopted assets	-	-	-	-
Grants and contributions - water network+				
Connection charges	-	2.529	-	2.529
Infrastructure charge receipts – new connections	-	3.712	-	3.712
Requisitioned mains	-	2.181	-	2.181
Diversions - s185	1.016	-	-	1.016
Other contributions (price control)	-	5.783	-	5.783
Price control grants and contributions before deduction of income offset	1.016	14.205	-	15.221
Income offset	-	4.578	-	4.578
Price control grants and contributions after deduction of income offset	1.016	9.627	-	10.643
Diversions - NRSWA	0.616	-	-	0.616
Diversions - other non-price control	6.224	-	-	6.224
Other contributions (non-price control)	-	5.256	-	5.256
Total grants and contributions	7.856	14.883	-	22.739
Value of adopted assets	-	-	-	-

	Water resources	Water network+	Total
	£m	£m	£m
Movements in capitalised grants and contributions			
b/f	-	168.698	168.698
Capitalised in year	-	14.883	14.883
Amortisation (in income statement)	-	(3.432)	(3.432)
c/f	-	180.149	180.149

Contributions in relation to Severn Trent Water's share of the treatment works upgrade at Hampton Loade are split in the table above between other contributions (price control) and other contributions (non-price control) in the agreed percentages as set out in the final decision on our green recovery plan. Price control contributions are 57% (£5.783m) and non-price control contributions are 43% (£4.362m).

2f) Residential retail for the 12 months ended 31 March 2023

	Revenue £m	Number of customers 000s	Average residential revenues £
Residential revenue			
Wholesale revenue	89.528	-	-
Retail revenue	14.554	-	-
Total residential revenue	104.082	-	-
Retail revenue			
Revenue Recovered ("RR")	14.554	-	-
Revenue sacrifice	-	-	-
Actual revenue (net)	14.554	-	-
Customer information			
Actual customers ("AC")	-	675.668	-
Reforecast customers	-	672.772	-
Adjustment			
Allowed revenue ("R")	13.270	-	-
Net adjustment	(1.284)	-	-
Other residential information			
Average household retail revenue per customer	-	-	21.540

Household retail revenues are £1.3m higher than that assumed in our PR19 final determination.

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

This table is not applicable as we exited the non-household retail market in April 2017. Our wholesale revenue relating to non-household was £27.223m for the year, including rechargeable works.

2i) Revenue analysis for the 12 months ended 31 March 2023

	Household	Non-household	Total	Water resources	Water network+	Total
	£m	£m	£m	£m	£m	£m
Wholesale charge - water						
Unmeasured	45.720	1.041	46.761	4.535	42.226	46.761
Measured	43.808	24.942	68.750	5.781	62.969	68.750
Third party revenue	-	1.240	1.240	-	1.240	1.240
Total wholesale water revenue	89.528	27.223	116.751	10.316	106.435	116.751
Retail revenue						
Unmeasured	7.321	-	7.321			
Measured	7.233	-	7.233			
Other third party revenue	-	-	-			
Retail Total	14.554	-	14.554			
Third party revenue - non-price control						
Bulk supplies - water			0.530			
Other third party revenue			1.161			
Principal services - non-price control						
Other appointed revenue			0.472			
Total appointed revenue			133.468			

2j) Infrastructure network reinforcement costs for the 12 months ended 31 March 2023

	Network reinforcement capex	On site / site specific capex (memo only)
	£m	£m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	1.318	-
Pumping and storage facilities	1.239	-
Other	-	-
Total	2.557	-

2k) Infrastructure charges reconciliation for the 12 months ended 31 March 2023

	Water
	£m
Impact of infrastructure charge discounts	
Infrastructure charges	3.712
Discounts applied to infrastructure charges	-
Gross Infrastructure charges	3.712
Comparison of revenue and costs	
Variance brought forward	0.538
Revenue	3.712
Costs	(2.557)
Variance carried forward	1.693

The variance carried forward on infrastructure charge revenues compared with costs as at March 2023 is £1.7m, compared with £0.5m in the previous year.

The infrastructure charge is based on a five-year average forecast of network reinforcement expenditure. This expenditure varies each year.

2l) Analysis of land sales for the 12 months ended 31 March 2023

There were no land sales for the 12 months ended 31 March 2023.

2m) Revenue reconciliation for the 12 months ended 31 March 2023 – wholesale

	Water resources £m	Water network+ £m	Total £m
Revenue recognised	-	-	-
Wholesale revenue governed by price control	10.316	106.435	116.751
Grants & contributions (price control)	-	10.643	10.643
Total revenue governed by wholesale price control	10.316	117.078	127.394
Calculation of the revenue cap			
Allowed wholesale revenue before adjustments (or modified by CMA)	10.841	107.098	117.939
Allowed grants & contributions before adjustments (or modified by CMA)	-	10.779	10.779
Revenue adjustment	0.214	6.271	6.485
Other adjustments	-	-	-
Revenue cap	11.055	124.148	135.204
Calculation of the revenue imbalance			
Revenue cap	11.055	124.148	135.204
Revenue Recovered	10.316	117.078	127.394
Revenue imbalance	0.739	7.070	7.810

Total wholesale revenues were £7.8m higher than that assumed in the wholesale price control.

The revenue cap includes the under-recovery of revenues from 2020/21 of £6.5m. Of this, £3.0m was in relation to contributions from Severn Trent Water in relation to our treatment works upgrade at Hampton Loade, which had been delayed as an alternative solution was considered under the UK Government's green recovery initiative. The remaining £3.5m was in relation to lower wholesale revenues from the impact on businesses of the COVID-19 pandemic.

Wholesale revenue, including associated revenue adjustment, was £5.1m lower than allowed. When we set charges for the year, we deferred £2.3m of revenue to keep bills lower for customers as we recognised the challenges around the cost of living.

The total shortfall in revenue will be recovered from customers in future years.

Price control contributions including associated revenue adjustments were £3.1m lower than allowed. Contributions from Severn Trent Water for the joint investment at Hampton Loade was £3.4m lower because of a delay in the project following the main contractor entering administration in October 2021. We are on track to recover this position by March 2025.

Developer contributions were £0.2m higher than allowed.

The above table includes rechargeable works, which were not included within price control revenue in our PR19 final determination.

Ofwat has requested that companies include this income and associated allowed revenues within price control income, and it will be reconciled at PR24. Actual rechargeable income was £1.2m compared with £0.8m in our PR19 final determination. The variance was driven by additional costs of fluoridation for the UK Health and Security Agency (formerly Public Health England). For the first three years of the current price control period, rechargeable income is £0.9m above our PR19 final determination.

2n) Residential retail – social tariffs

	Revenue	Number of customers	Average amount per customer
	£m	000s	£
Number of residential customers on social tariffs	-	-	-
Residential water only social tariffs customers	-	53.907	-
Residential wastewater only social tariffs customers	-	-	-
Residential dual service social tariffs customers	-	-	-
Number of residential customers not on social tariffs			
Residential water only no social tariffs customers	-	621.761	-
Residential wastewater only no social tariffs customers	-	-	-
Residential dual service no social tariffs customers	-	-	-
Social tariff discount			
Average discount per water only social tariffs customer	-	-	52.872
Average discount per wastewater only social tariffs customer	-	-	-
Average discount per dual service social tariffs customer	-	-	-
Social tariff cross-subsidy - residential customers			
Total customer funded cross-subsidies for water only social tariffs customers	2.850	-	-
Total customer funded cross-subsidies for wastewater only social tariffs customers	-	-	-
Total customer funded cross-subsidies for dual service social tariffs customers	-	-	-
Average customer funded cross-subsidy per water only social tariffs customer	-	-	4.218
Average customer funded cross-subsidy per wastewater only social tariffs customer	-	-	-
Average customer funded cross-subsidy per dual service social tariffs customer	-	-	-
Social tariff cross-subsidy - company			
Total revenue forgone by company to fund cross-subsidies for water only social tariffs customers	-	-	-
Total revenue forgone by company to fund cross-subsidies for wastewater only social tariffs customers	-	-	-
Total revenue forgone by company to fund cross-subsidies for dual service social tariffs customers	-	-	-
Average revenue forgone by company to fund cross-subsidy per water only social tariffs customer	-	-	-
Average revenue forgone by company to fund cross-subsidy per wastewater only social tariffs customer	-	-	-
Average revenue forgone by company to fund cross-subsidy per dual service social tariffs customer	-	-	-
Social tariff support - willingness to pay			
Level of support for social tariff customers reflected in business plan	-	-	3.000
Maximum contribution to social tariffs supported by customer engagement	-	-	3.000

2o) Historic cost analysis of intangible fixed assets

	Residential Retail	Business Retail	Water Resources	Water Network+	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2021	-	-	-	-	-
Disposals	(0.010)	-	-	-	(0.010)
Additions	0.916	-	-	0.005	0.921
Adjustments	2.798	-	-	8.153	10.951
Assets adopted at nil cost	-	-	-	-	-
At 31 March 2022	3.704	-	-	8.158	11.862
Amortisation					
At 1 April 2021	-	-	-	-	-
Disposals	0.005	-	-	-	0.005
Adjustments	(1.408)	-	-	(5.175)	(6.583)
Charge for year	(0.094)	-	-	(0.349)	(0.443)
At 31 March 2022	(1.497)	-	-	(5.524)	(7.021)
Net book amount at 31 March 2022	2.207	-	-	2.634	4.841
Net book amount at 1 April 2021	-	-	-	-	-
Amortisation for year					
Principal services	(0.094)	-	-	(0.349)	(0.443)
Third party services	-	-	-	-	-
Total	(0.094)	-	-	(0.349)	(0.443)

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

Section 3 – performance summary

3a) Outcome performance

		Unit	Performance Level (actual)- Current reporting year	PCL met?	Outperformance or underperformance payment	Forecast of total 2020-25 outperformance or underperformance payment
					£m	£m
Common PCs - Water (Financial)						
Water quality compliance (CRI)	PR19SSC_D1	number	1.39	No	-	(0.40)
Water supply interruptions	PR19SSC_D2	hh:mm:ss	0.00	Yes	0.25	1.50
Leakage South Staffs region	PR19SSC_C1	%	9.35	Yes	0.22	0.67
Leakage Cambridge region	PR19SSC_C2	%	16.67	Yes	0.19	0.42
Per capita consumption South Staffs region	PR19SSC_C3	%	(14.86)	No	-	(11.19)
Per capita consumption Cambridge region	PR19SSC_C4	%	(5.64)	No	-	(1.03)
Mains repairs	PR19SSC_D4	number	150.77	No	(1.12)	(0.80)
Unplanned outage	PR19SSC_D5	%	1.47	Yes	0.25	1.01
Bespoke PCs - Water and Retail (Financial)						
Financial support	PR19SSC_B1	nr	55,993	Yes	-	-
Extra Care assistance	PR19SSC_B2	%	4.7	No	(0.0)	(0.0)
Education activity	PR19SSC_B3	nr	3,672	No	(0.035)	(0.177)
Environmentally sensitive water abstraction	PR19SSC_C5	number	0.19	No	(0.02)	-
Protecting wildlife, plants, habitats and catchments	PR19SSC_C7	nr	783.3	Yes	0.0	0.2
Customer contact about water quality	PR19SSC_D6	nr	0.65	Yes	0.39	0.97
Visible leak repair time	PR19SSC_D7	text	4.000	Yes	-	-
Water treatment works delivery programme	PR19SSC_D8	%	63.200	Yes	-	-
Residential void properties and gap sites	PR19SSC_E2	%	100.000	Yes	-	-
Financial water performance commitments achieved		%		59		
Overall performance commitments achieved (excluding C-MEX and D-MEX)		%		53		

We discuss outcomes, ODIs, performance commitments and financial incentives in more detail on pages 13 to 24. We also summarise our performance in the customer summary that is published alongside this APR. In addition, please refer to our supplementary appendix for further information on leakage, PCC and other metrics.

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

	Unit	Value
Annual customer satisfaction score for the customer service survey	Number	75.11
Annual customer satisfaction score for the customer experience survey	Number	84.63
Annual C-MeX score	Number	79.87
Annual net promoter score	Number	32.50
Total household complaints	Number	2,143
Total connected household properties	Number	712,710
Total household complaints per 10,000 connections	Number	30.068
Confirmation of communication channels offered	TRUE or FALSE	TRUE

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

	Unit	Value
Qualitative component annual results	Number	77.05
Quantitative component annual results	Number	98.09
D-MeX score	Number	87.57
Developer services revenue (water)	£m	15.202

Calculating the D-MeX quantitative component

Water UK performance metric		**Reporting period (1 April to 31 March)**	**Quantitative score (annual)**
		%	**%**
W1.1 Pre-development enquiry – reports issued within target		95.00%	
W3.1 s45 quotations - within target		99.50%	
W4.1 s45 service pipe connections - within target		95.38%	
W6.1 Mains design <500 plots - quotations within target		100.00%	
W8.1 Mains construction within target		100%	
W17.1 Mains diversions (without constraints) - quotations within target		100.00%	
W18.1 Mains diversions - construction/commissioning within target		100.00%	
W26.1 Self-lay water for pressure/bacteriological testing - provided within target		100%	
W27.1 Self-lay permanent water supply - provided within target		100.00%	
WN1.1 % of confirmations issued to the applicant within target period		94.29%	
WN2.2 % Bulk supply offer letters issued to the applicant within target period		97%	
WN4.1 % of main laying schemes constructed and commissioned within the target period		100.00%	
WN4.2 % of testing supplies provided within target period		100%	
WN4.3 % of permanent supplies made available within the target period		100.00%	
SLPM - S1/2 Review PoC proposal		95.65%	
SLPM - S2/2a Provide design		100.00%	
SLPM - S2/2b Water Company to Provide design acceptance		91%	
SLPM - S3 Review / revise Water Adoption Agreement		92%	
SLPM - S4/1 Source of Water Delivery Date		100%	
SLPM - S5/1a Review request and carry out Final Connection		100%	
SLPM - S7/1 Validate notification and provide consent to progress with connection		100%	
D-MeX quantitative score (for the reporting period)	%	98.09%	
D-MeX quantitative score (annual)	Number		0.981

3e) Outcome performance – non-financial performance commitments

	Unit	Performance Level (actual)- Current reporting year	PCL met?
Common			
Risk of severe restrictions in a drought	%	0.00	Yes
Priority services for customers in vulnerable circumstances - PSR reach	%	10.63	Yes
Priority services for customers in vulnerable circumstances - Attempted contacts	%	45.33	No
Priority services for customers in vulnerable circumstances - Actual contacts	%	27.06	No
Bespoke PCs			
Retailer measure of experience	%	82.20	No
Supporting water efficient housebuilding	nr	18.80	Yes
Carbon emissions	nr	28.50	Yes
Bad debt level	%	2.52	Yes
Employee engagement	score	Not met	No
Treating our suppliers fairly	%	69.00	No
Trust	nr	7.68	No
Value for money	%	75.00	No
WINEP Delivery	text	Met	Yes
Non-financial performance commitments achieved	%		46

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

The Cambridge Water data can be found here.

The South Staffs Water data can be found here.

3h) Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding CMEX and DMEX) £m (2017-18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	0.026
Water network plus	0.141
Residential retail	(0.010)
Business retail	-
Dummy control	-
Initial calculation of end of period revenue adjustment by price control	
Water resources	-
Water network plus	(3.695)
Residential retail	-
Business retail	-
Dummy control	-
Initial calculation of end of period RCV adjustment by price control	
Water resources	-
Water network plus	-
Residential retail	-
Business retail	-
Dummy control	-

3i) Supplementary outcomes information

The Cambridge Water data can be found here.

The South Staffs Water data can be found here.

Section 4 – additional regulatory information

4a) Water bulk supply information for the 12 months ended 31 March 2023

	Volume Ml	Operating costs £m	Revenue £m
Bulk supply exports			
Bulk supply 1	557.362	0.439	0.530
Total bulk supply exports	557.362	0.439	0.530
Bulk supply imports			
Bulk supply 1	23.554	0.026	
Total bulk supply imports	23.554	0.026	

4b) Analysis of debt

The Cambridge Water data can be found here.

The South Staffs Water data can be found here.

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

	12 months ended 31 March 2023		Price control period to date	
	Water resources £m	**Water network plus £m**	**Water resources £m**	**Water network plus £m**
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	7.938	109.680	25.046	303.136
Actual totex (excluding business rates, abstraction licence fees, grants and contributions and other items not subject to cost sharing)	8.489	122.630	23.958	292.898
Transition expenditure	-	-	-	-
Disallowable costs	-	2.200	-	2.200
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	8.489	120.430	23.958	290.698
Variance	0.551	10.750	(1.087)	(12.437)
Variance due to timing of expenditure	0.551	5.586	(1.088)	(15.728)
Variance due to efficiency	-	5.164	0.000	3.290
Customer cost sharing rate - outperformance	54.9%	54.9%	54.9%	54.9%
Customer cost sharing rate - underperformance	0.451	0.451	0.451	0.451
Customer share of totex overspend	-	2.327	0.000	1.483
Customer share of totex underspend	-	-	-	-
Company share of totex overspend	-	2.837	0.000	1.808
Company share of totex underspend	-	-	-	-
Totex - business rates and abstraction licence fees				
Final determination allowed totex - business rates and abstraction licence fees	3.768	5.797	10.573	16.268
Actual totex - business rates and abstraction licence fees	3.800	5.253	10.309	15.383
Variance - business rates and abstraction licence fees	0.032	(0.544)	(0.264)	(0.885)
Customer cost sharing rate - business rates	0.750	0.750	0.750	0.750
Customer cost sharing rate - abstraction licence fees	0.750	0.750	0.750	0.750
Customer share of totex over/underspend - business rates and abstraction licence fees	0.024	(0.408)	(0.198)	(0.663)
Company share of totex over/underspend - business rates and abstraction licence fees	0.008	(0.136)	(0.066)	(0.221)
Totex not subject to cost sharing				
Final determination allowed totex - not subject to cost sharing	0.007	1.608	0.020	3.893
Actual totex - not subject to cost sharing	3.524	4.734	3.758	8.941
Variance - 100% company allocation	3.517	3.126	3.738	5.048
Total customer share of totex over/under spend	0.024	1.919	(0.198)	0.819
RCV				
Total customer share of totex over/under spend	0.024	1.919	(0.198)	0.819
PAYG rate	69.3%	58.7%	57.3%	62.9%
RCV element of cumulative totex over/underspend	0.007	0.793	(0.084)	0.304
Adjustment for ODI outperformance payment or underperformance payment	-	-	-	-
Green recovery	-	-	-	5.610
RCV determined at FD at 31 March	-	-	24.991	490.862
Projected 'shadow' RCV	-	-	24.907	496.777

In the reporting year, net totex subject to cost sharing was £10.8m higher than that allowed in our PR19 final determination. A significant proportion of the overspend is in relation to enhancement expenditure and is because of the upgrade of our Hampton Loade water treatment works. This was delayed as we explored an alternative solution, which was approved for funding under green recovery proposals. This was followed by the appointed contractor going into administration in October 2021. Significant progress has been made during the year and we are on track to complete the upgrade by March 2025.

Ignoring timing issues, there was an overspend of £5.2m in relation to base totex. This was predominantly driven by increased energy and chemical costs during the year.

Net totex not subject to cost sharing was £6.6m higher than allowed. In our PR19 final determination, £3.5m of costs for HS2 were incorrectly omitted. Ofwat has confirmed that this will be corrected at PR24. In addition, we have incurred £3.5m of expenditure on the Fens reservoir strategic water resources scheme, which will also be reconciled at PR24. We also incurred cyber-related costs of £2.2m, none of which will be recovered from customers.

4d) Totex analysis for the 12 months ending 31 March 2023 – water resources and water network plus

	Water resources	Network+				Total
		Raw water transport	Raw water storage	Water treatment	Treated water distribution	
	£m	£m	£m	£m	£m	£m
Operating expenditure						
Base operating expenditure	9.689	2.484	0.113	10.213	60.049	82.548
Enhancement operating expenditure	-	-	-	-	-	-
Developer services operating expenditure	-	-	-	-	1.239	1.239
Total operating expenditure excluding third party services	9.689	2.484	0.113	10.213	61.288	83.787
Third party services	0.054	0.014	0.001	1.036	0.991	2.096
Total operating expenditure	9.743	2.498	0.114	11.249	62.279	85.883
Grants and contributions						
Grants and contributions - operating expenditure	-	-	-	-	7.857	7.857
Capital expenditure						
Base capital expenditure	0.648	0.037	-	9.826	11.347	21.858
Enhancement capital expenditure	5.422	-	-	45.255	4.350	55.027
Developer services capital expenditure	-	-	-	-	11.228	11.228
Total gross capital expenditure excluding third party services	6.070	0.037	-	55.081	26.925	88.113
Third party services	-	-	-	-	-	-
Total gross capital expenditure	6.070	0.037	-	55.081	26.925	88.113
Grants and contributions						
Grants and contributions - capital expenditure	-	-	-	10.990	3.879	14.869
Net totex	15.813	2.535	0.114	55.340	77.468	151.270
Cash expenditure						
Pension deficit recovery payments	-	-	-	-	-	-
Other cash items	-	-	-	-	-	-
Totex including cash items	**15.813**	**2.535**	**0.114**	**55.340**	**77.468**	**151.270**
Atypical expenditure						
Base operating expenditure	0.148	0.034	-	0.142	1.077	1.401
Base operating expenditure	0.200	0.100	0.100	0.200	0.200	0.800
Total atypical expenditure	0.348	0.134	0.100	0.342	1.277	2.201

4f) Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2023

We did not have any major projects in the year as defined within RAG 4.11.

4h) Financial metrics for the 12 months ended 31 March 2023

	Units	Current year	AMP to date
Financial indicators			
Net debt	£m	307.454	
Regulatory equity	£m	208.400	
Regulatory gearing	%	59.60%	
Post tax return on regulatory equity	%	-7.93%	
RORE (return on regulatory equity)	%	-2.89%	-0.86%
Dividend yield	%	3.68%	
Retail profit margin - Household	%	0.70%	
Retail profit margin - Non household	%	0.00%	
Credit rating - Fitch	Text	N/A	
Credit rating - Moody's	Text	Baa2 (stable)	
Credit rating - Standard and Poor's	Text	BBB+ (Negative)	
Return on RCV	%	4.33%	
Dividend cover	dec	-1.522	
Funds from operations (FFO)	£m	33.095	
Interest cover (cash)	dec	4.15	
Adjusted interest cover (cash)	dec	0.88	
FFO/Net debt	dec	0.1076	
Effective tax rate	%	6.52%	
Retained cash flow (RCF)	£m	25.432	
RCF/Net debt	dec	0.083	
Borrowings			
Proportion of borrowings which are fixed rate	%	26.14%	
Proportion of borrowings which are floating rate	%	0.00%	
Proportion of borrowings which are index linked	%	73.86%	
Proportion of borrowings due within 1 year or less	%	0.00%	
Proportion of borrowings due in more than 1 year but no more than 2 years	%	0.00%	
Proportion of borrowings due in more than 2 years but no more than 5 years	%	8.30%	
Proportion of borrowings due in more than 5 years but no more than 20 years	%	16.60%	
Proportion of borrowings due in more than 20 years	%	75.10%	

RORE for the reporting year under actual returns and notional equity was -2.89%. This is 7.10% lower than that allowed in our PR19 final determination of 4.21%. The key drivers of this underperformance are as follows.

- Higher returns from a lower tax charge (+6.37%). This has been driven by both a loss before tax in the year and significantly higher capital allowances than our PR19 final determination following the introduction of the super deduction and enhanced special rate allowances, which will be claimed for the reporting year.
- Lower returns from a higher actual cost of debt (-6.21%). The main driver for this is the difference between the interest rate assumed by Ofwat and the actual higher interest rate on our borrowings, which is predominantly made up of long-term RPI index-linked debt. The difference between RPI and CPIH in the year was 4.1%. This is significantly higher than the historic wedge of nearer 1%.
- Underperformance on totex (-4.76%). Ignoring timing differences, totex subject to cost sharing were £5.2m overspent. This was predominantly driven by increased energy and chemical costs during the year. Net totex not subject to cost sharing was £6.6m higher than allowed. In our final determination, £3.5m of costs for HS2 were incorrectly omitted. Ofwat has confirmed that this will be corrected at PR24. In addition, we have incurred £3.5m of expenditure on the Fens reservoir strategic water resources scheme, which will also be reconciled at PR24. We also incurred cyber-related costs of £2.2m.
- ODIs (-2.13%), which includes an underperformance on PCC of £3.6m as a result of the impact of the COVID-19 pandemic on household consumption.

4i) Financial derivatives

	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March 2023)	
	0 to 1 years	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market		Payable	Receivable
Interest rate swap (sterling)									
Floating to fixed rate	-	-	-	-	-	-	-	0.00%	0.00%
Floating from fixed rate	-	-	30.000	-	30.000	1.608	1.608	2.14%	2.75%
Floating to index linked	-	-	-	-	-	-	-	0.00%	0.00%
Floating from index linked	-	-	-	-	-	-	-	0.00%	0.00%
Fixed to index-linked	-	-	-	-	-	-	-	0.00%	0.00%
Fixed from index-linked	-	-	-	-	-	-	-	0.00%	0.00%
Index-linked to index-linked	-	-	-	-	-	-	-	0.00%	0.00%
Total	-	-	-	-	-	-	-	0.00%	0.00%
Foreign Exchange									
Cross currency swap USD	-	-	-	-	-	-	-	0.00%	0.00%
Cross currency swap EUR	-	-	-	-	-	-	-	0.00%	0.00%
Cross currency swap YEN	-	-	-	-	-	-	-	0.00%	0.00%
Cross currency swap Other	-	-	-	-	-	-	-	0.00%	0.00%
Total	-	-	-	-	-	-	-	0.00%	0.00%
Currency interest rate									
Currency interest rate swaps USD	-	-	-	-	-	-	-	0.00%	0.00%
Currency interest rate swaps EUR	-	-	-	-	-	-	-	0.00%	0.00%
Currency interest rate swaps YEN	-	-	-	-	-	-	-	0.00%	0.00%
Currency interest rate swaps Other	-	-	-	-	-	-	-	0.00%	0.00%
Total	-	-	-	-	-	-	-	0.00%	0.00%
Forward currency contracts									
Forward currency contracts USD	-	-	-	-	-	-	-	0.00%	0.00%
Forward currency contracts EUR	-	-	-	-	-	-	-	0.00%	0.00%
Forward currency contracts YEN	-	-	-	-	-	-	-	0.00%	0.00%
Forward currency contracts CAD	-	-	-	-	-	-	-	0.00%	0.00%
Forward currency contracts AUD	-	-	-	-	-	-	-	0.00%	0.00%
Forward currency contracts HKD	-	-	-	-	-	-	-	0.00%	0.00%
Forward currency contracts Other	-	-	-	-	-	-	-	0.00%	0.00%
Total	-	-	-	-	-	-	-	0.00%	0.00%
Other financial derivatives									
Other financial derivatives	-	-	-	-	-	-	-	0.00%	0.00%
	-	-	-	-	-	-	-	0.00%	0.00%
Total financial derivatives	-	-	-	-	-	-	-	0.00%	0.00%

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 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 2.14% and the receivable floating rate element is three-month LIBOR, shown above as the average for the 12 months to 31 March 2023 of 2.75%. The receivable floating rate element of the swap exactly offsets the payable floating rate element (three-month LIBOR interest payment) of the related £30.0m 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 2.10% a year plus the agreed fixed bank margin percentage per annum.

4j) Base expenditure analysis for the 12 months ended 31 March 2023 – water resources and water network+

	Water resources	Water network+				Total
		Raw water distribution	Raw water storage	Water treatment	Treated water distribution	
	£m	£m	£m	£m	£m	£m
Operating expenditure						
Power	2.789	1.213	0.004	1.042	10.479	15.527
Income treated as negative expenditure	-	-	-	-	-	-
Bulk Supply/Bulk discharge	0.029	-	-	-	-	0.029
Renewals expensed in year (infrastructure)	-	-	-	-	17.624	17.624
Renewals expensed in year (non-infrastructure)	-	-	-	-	-	-
Other operating expenditure	3.071	1.015	0.109	8.771	26.607	39.573
Local authority and Cumulo rates	0.208	0.256	-	0.400	4.275	5.139
Service Charges						
Canal & River Trust abstraction charges/ discharge consents	-	-	-	-	0.034	0.034
Environment Agency / NRW abstraction charges/ discharge consents	3.592	-	-	-	0.101	3.693
Other abstraction charges/ discharge consents	-	-	-	-	0.187	0.187
Location specific costs & obligations						
Costs associated with Traffic Management Act	-	-	-	-	0.489	0.489
Costs associated with lane rental schemes	-	-	-	-	0.253	0.253
Statutory water softening	-	-	-	-	-	-
Total base operating expenditure	9.689	2.484	0.113	10.213	60.049	82.548
Capital expenditure	-	-	-	-	-	-
Maintaining the long term capability of the assets - infra	-	-	-	-	-	-
Maintaining the long term capability of the assets - non-infra	0.648	0.037	-	9.826	11.347	21.858
Total base capital expenditure	0.648	0.037	-	9.826	11.347	21.858
Traffic Management Act						
Projects incurring costs associated with Traffic Management Act	-	-	-	-	9,974	9,974

4l) Enhancement expenditure for the 12 months ended 31 March 2023 – water resources and water network+

The Cambridge Water data can be found here.

The South Staffs Water data can be found here.

4n) Developer services expenditure for the 12 months ended 31 March 2023– water resources and water network+

	Water network+ Treated water distribution		
	Capex	Opex	Totex
	£m	£m	£m
New connections	5.864	-	5.864
Requisition mains	1.843	-	1.843
Infrastructure network reinforcement	2.557	-	2.557
s185 diversions	-	1.239	1.239
Other price controlled activities	0.964	-	0.964
Total developer services expenditure	11.228	1.239	12.467

Other price controlled activities of £0.964m relate to self-lay asset payments.

4p) Expenditure on non-price control diversions for 12 months ended 31 March 2023

	Water resources	Water network+	Total
Capex	£m	£m	£m
Capex associated with NSWRA diversions	-	0.751	0.751
Capex associated with other non-price control diversions	-	7.259	7.259
Other developer services non-price control capex	-	-	-
Developer services non-price control capex	-	8.010	8.010
Opex			
Opex associated with NSWRA diversions	-	-	-
Opex associated with other non-price control diversions	-	-	-
Other developer services non-price control opex	-	-	-
Developer services non-price control opex	-	-	-
Totex			
Costs associated with NSWRA diversions	-	0.751	0.751
Costs associated with other non-price control diversions	-	7.259	7.259
Other developer services non-price control totex	-	-	-
Developer services non-price control totex	-	8.010	8.010

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

	Water nr
Connections volume data	
New connections (residential – excluding NAVs)	5540
New connections (business – excluding NAVs)	76
Total new connections served by incumbent	5616
New connections – SLPs	3386
Properties volume data	
New properties (residential - excluding NAVs)	5625
New properties (business - excluding NAVs)	76
Total new properties served by incumbent	5701
New residential properties served by NAVs	346
New business properties served by NAVs	0
Total new properties served by NAVs	346
Total new properties	6047
New properties – SLP connections	3386
New water mains data	
Length of new mains (km) - requisitions	9989
Length of new mains (km) - SLPs	11189

4r) Connected properties, customers and population

	Unmeasured 000s	Measured 000s	Total 000s	Voids 000s
Customer numbers - average during the year				
Residential water only customers	335.595	340.073	675.668	34.786
Residential wastewater only customers	0.000	0.000	0.000	0.000
Residential water and wastewater customers	0.000	0.000	0.000	0.000
Total residential customers	335.595	340.073	675.668	34.786
Business water only customers	3.321	35.238	38.558	3.868
Business wastewater only customers	0.000	0.000	0.000	0.000
Business water & wastewater customers	0.000	0.000	0.000	0.000
Total business customers	3.321	35.238	38.558	3.868
Total customers	338.916	375.310	714.226	38.654

	Unmeasured 000s	Measured 000s	Total 000s
Property numbers - average during the year			
Residential properties billed	335.595	340.073	675.668
Residential void properties			34.786
Total connected residential properties			710.454
Business properties billed	3.321	35.238	38.558
Business void properties			3.868
Total connected business properties			42.426
Total connected properties			752.880

	Unmeasured						Measured						Unbilled			Total
	No meter	Basic meter	AMR meter	AMI meter (capable)	AMI meter (active)	Total	No meter	Basic meter	AMR meter	AMI meter (capable)	AMI meter (active)	Total	Uneconomic to bill	Other	Total	
Property and meter numbers - at end of year (31 March)																
Total new residential properties connected in year	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	5.540	0.000	5.540	0.000	0.000	0.000	5.540
Total number of new business properties connections	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.076	0.000	0.076	0.000	0.000	0.000	0.076
Residential properties billed at year end	329.044	0.825	2.039	0.073	0.000	331.981	4.243	106.566	205.809	27.462	0.000	344.079	0.000	0.000	0.000	676.060
Residential properties unbilled at year end	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Residential void properties at year end	0.000	0.000	0.000	0.000	0.000	23.186	0.000	0.000	0.000	0.000	0.000	13.464	0.000	0.000	0.000	36.650
Total connected residential properties at year end	0.000	0.000	0.000	0.000	0.000	355.167	0.000	0.000	0.000	0.000	0.000	357.543	0.000	0.000	0.000	712.710
Business properties billed at year end	3.318	0.000	0.000	0.000	0.000	3.318	0.000	22.168	11.344	1.754	0.000	35.266	0.000	0.000	0.000	38.584
Business properties unbilled at year end	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Business void properties at year end	0.000	0.000	0.000	0.000	0.000	1.129	0.000	0.000	0.000	0.000	0.000	2.618	0.000	0.000	0.000	3.747
Total connected business properties at year end	0.000	0.000	0.000	0.000	0.000	4.447	0.000	0.000	0.000	0.000	0.000	37.884	0.000	0.000	0.000	42.331
Total connected properties at year end	0.000	0.000	0.000	0.000	0.000	359.614	0.000	0.000	0.000	0.000	0.000	395.427	0.000	0.000	0.000	755.041

	Water
	000s
Population data	
Resident population	1732.833
Non-resident population (wastewater)	1732.833

	Water		
Household population data	Resident population	Non-resident population	Total
Household population	1732.833	50.604	1783.437
Household measured population (water only)	821.655	43.801	865.456
Household unmeasured population (water only)	911.178	6.803	917.982

4s) Green recovery expenditure for the 12 months ended 31 March 2023

		Expenditure in report year						Cumulative expenditure on schemes completed in the report year					
		Water resources	Water network+				Total	Water resources	Water network+				Total
			Raw water transport	Raw water storage	Water treatment	Treated water distribution			Raw water transport	Raw water storage	Water treatment	Treated water distribution	
Green recovery programme													
Using ceramic membrane at Hampton Loade (South Staffs share only)	Capex	0.000	0.000	0.000	5.038	0.000	5.038	0.000	0.000	0.000	0.000	0.000	0.000
Green recovery line 1	Opex	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Green recovery line 1	Totex	0.000	0.000	0.000	5.038	0.000	5.038	0.000	0.000	0.000	0.000	0.000	0.000
Total green recovery programme capex	Capex	0.000	0.000	0.000	5.038	0.000	5.038	0.000	0.000	0.000	0.000	0.000	0.000
Total green recovery programme opex	Opex	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total green recovery programme expenditure	Totex	0.000	0.000	0.000	5.038	0.000	5.038	0.000	0.000	0.000	0.000	0.000	0.000

The table shows the net totex after deducting Severn Trent Water's share of funding. The totex is included in table 4l under improvements to taste, odour and colour.

4u) Impact of green recovery on RCV

	12 months ended 31 March 2023		Price control period to date	
	Water resources	Water network plus	Water resources	Water network plus
Totex - Green recovery				
Approved bid	0	5.336	0.000	7.965
Actual totex	0.000	5.038	0.000	6.189
Variance	0.000	-0.297	0.000	-1.776
Variance due to timing of expenditure	0.000	-0.297	0.000	-1.776
Variance due to efficiency	0.000	0.000	0.000	0.000
Customer cost sharing rate - outperformance	90.0%	90.0%	90.0%	90.0%
Customer cost sharing rate - underperformance	45.0%	45.0%	45.0%	45.0%
Customer share of totex - outperformance	0.000	0.000	0.000	0.000
Customer share of totex - underperformance	0.000	0.000	0.000	0.000
Company share of totex - outperformance	0.000	0.000	0.000	0.000
Company share of totex - underperformance	0.000	0.000	0.000	0.000
Increase / decrease in shadow RCV	0.000	5.038	0.000	6.189
In period funding	0.000	0.578	0.000	0.578
Net increase / decrease in shadow RCV	0.000	4.460	0.000	5.610

Section 5 – additional regulatory information (water resources)

The Cambridge Water data can be found here.

The South Staffs Water data can be found here.

Section 6 – additional regulatory information (network plus)

The Cambridge Water data can be found here.

The South Staffs Water data can be found here.

Section 9 – additional regulatory information (innovation competition)

9a) Innovation competition

	Current year £m
Allowed	
Allocated innovation competition fund price control revenue	2.339
Revenue collected for the purposes of the innovation competition	
Innovation fund income from customers	1.323
Income from customers to fund innovation projects the company is leading on	-
Income from customers as part of the inflation top-up mechanism	-
Income from other water companies to fund innovation projects the company is leading on	-
Income from customers that is transferred to other companies as part of the innovation fund	0.635
Non-price control revenue (e.g. royalties)	-
Administration	
Administration charge for innovation partner	0.018

The cash balance of £43.122m reported in table 1c includes £1.323m of revenue collected for the purposes of innovation competition offset by payments to winning bidders of £0.635m.

Section 11 – additional regulatory reporting (greenhouse gas emissions)

11a) Operational greenhouse gas emissions reporting for the 12 months ended 31 March 2023

	Water tCO2e	Wastewater tCO2e	Total tCO2e
Scope one emissions			
Burning of fossil fuels (location-based)	18,386.940	-	18,386.940
Burning of fossil fuels (market-based)	18,386.940	-	18,386.940
Process and fugitive emissions	1,142.314	-	1,142.314
Vehicle transport	**1,581.392**	**-**	**1,581.392**
Emissions from land	-	-	-
Total scope one emissions (location-based)	21,110.647	-	21,110.647
Total scope one emissions (market-based)	21,110.647	-	21,110.647
Scope one emissions; GHG type CO_2	19,869.885	-	19,869.885
Scope one emissions; GHG type CH_4	627.250	-	627.250
Scope one emissions; GHG type N_2O	557.382	-	557.382
Scope one emissions: GHG other types	20.266	-	20.266
Scope two emissions			
Purchased electricity (location-based)	20,279.615	-	20,279.615
Purchased electricity (market-based)	**-**	**-**	**-**
Purchased heat	-	-	-
Electric vehicles	0.979	-	0.979
Removal of electricity to charge electric vehicles at site	-	-	-
Total scope two emissions (location-based)	20,280.594	-	20,280.594
Total scope two emissions (market-based)	0.979	-	0.979
Scope two emissions; GHG type CO_2	20,053.016	-	20,053.016
Scope two emissions; GHG type CH_4	83.899	-	83.899
Scope two emissions; GHG type N_2O	143.678	-	143.678
Scope two emissions: GHG other types	-	-	-
Scope three emissions			
Business travel	101.211	-	101.211
Outsourced activities	-	-	-
Purchased electricity; extraction, production, transmission and distribution (location-based)	7,148.937	-	7,148.937
Purchased electricity; extraction, production, transmission and distribution (market-based)	1,855.140	-	1,855.140
Purchased heat; extraction, production, transmission and distribution	-	-	-
Purchased fuels; extraction, production, transmission and distribution	3,656.215	-	3,656.215
Chemicals	7,652.075	-	7,652.075
Disposal of waste	996.506	-	996.506
Total scope three emissions (location-based)	19,554.944	-	19,554.944
Total scope three emissions (market-based)	14,261.147	-	14,261.147
Scope three emissions; GHG type CO_2	1,935.623	-	1,935.623
Scope three emissions; GHG type CH_4	7.386	-	7.386
Scope three emissions; GHG type N_2O	13.339	-	13.339
Scope three emissions: GHG other types	**129.115**	**-**	**129.115**
Gross operational emissions (Scopes 1,2 and 3)			
Gross operational emissions (location-based)	60,946.184	-	60,946.184
Gross operational emissions (market-based)	35,372.773	-	35,372.773
Emissions reductions			
Exported renewables	-	-	-
Exported biomethane	-	-	-
Insets	-	-	-

Other emissions reductions	-	-	-
Total emissions reductions	-	-	-
Net annual emissions			
Net annual emissions (location-based)			
Net annual emissions (market-based)			

	Water	Wastewater	
	kgCO2e/Ml	kgCO2e/Ml	
GHG intensity ratios			
Emissions per Ml of treated water	405.242	-	-
Emissions per Ml of sewage treated			

	Water	Wastewater	Total
	tCO2e	tCO2e	tCO2e
Other			
Green tariff electricity	-	-	-

	Embedded emissions		
	Water	Wastewater	Total
	tCO2e	tCO2e	tCO2e
Capital projects			
Capital projects (cradle-to-gate)	-	-	-
Capital projects (cradle-to-build)	-	-	-
Purchased goods and services			
Purchased goods and services	-	-	-

We have produced a SWOT analysis of our carbon emissions. This can be found within our supplementary regulatory information.

Internal independent assurance of reputational outcome delivery incentives and other regulatory information

Aligned with the agreed risk and assurance framework for data and information produced by South Staffordshire Water PLC, an independent internal audit assurance review was undertaken to identify, trace and verify the accuracy and completeness of source input data, calculations and output produced to support APR23 reported results for the following bespoke, reputational performance commitment and other regulatory information.

Retailer measure of experience (R-MeX)	PR19SSC_A3
Supporting water efficient housebuilding	PR19SSC_C6
Employee engagement	PR19SSC_E3
Treating our suppliers fairly	PR19SSC_E4
Trust	PR19SSC_F1
Value for money	PR19SSC_F2
WINEP delivery	PR19SSC_NEP01
WRMP annual reporting on delivery – non-leakage table	Proforma table 6F
Meters and optants	–

These have been confirmed by internal audit.

S Simpson
Group Head of Risk, Control and Assurance

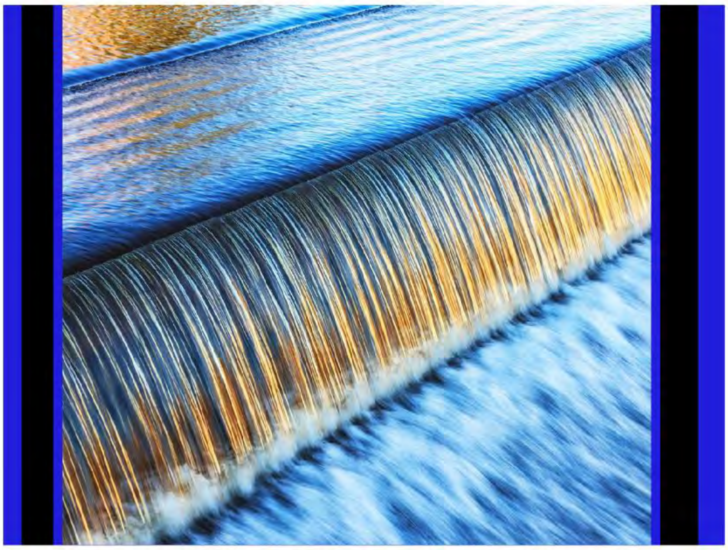
External assurance of financial outcome delivery incentives

APR23 Technical Assurance Report

Revision no: 4
14 July 2023

South Staffordshire Water

Independent Assurance Provider



APR23 Technical Assurance Report

Client name:	South Staffordshire Water		
Project name:	Independent Assurance Provider		
Client reference:	–		
Project no:	B2443000	**Project manager:**	Zac Alexander
Revision no:	4	**Prepared by:**	Zac Alexander
Date:	14 July 2023	**File name:**	APR23 Technical Assurance Report - South Staffs

Document history and status

Revision	Date	Description	Author	Checked	Reviewed	Approved
1	15/06/23	Initial draft for client comment	ZA	AKM	AKM	ZA
2	19/06/23	Revised draft following client comment and updated audit findings	ZA	AKM	AKM	ZA
3	14/07/23	Revised final following further audit work	ZA	AKM	AKM	ZA
4	14/07/23	Revised final following clarification from client	ZA	AKM	AKM	ZA

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Important note about your report

APR23 Technical Assurance Report

Contents

1. Introduction

This Technical Assurance Report gives the main findings from Jacobs' work to assure certain non-financial data within South Staffordshire Water's 2022-23 Annual Performance Report (APR).

This was a limited assurance engagement. Our scope and approach are set out in Section 2. In essence we have sought to form an opinion on the adequacy of the methods adopted by South Staffs to report the data in scope in accordance with the appropriate definitions, and to check that the source data supports the figures reported. Due to limitations on time and budget, in most cases we did not perform independent checks that information contained in corporate systems is an accurate reflection of the truth. We considered to a limited extent how effective South Staffs' controls on the corporate systems data are likely to be.

Our audits ran April – July 2023 for information reported on a financial year basis. Most audits took place remotely via Microsoft Teams with a few taking place in person on South Staffs' premises. For the Water Treatment Works Delivery Programme audit we visited the site, visually inspected the assets, interviewed staff and viewed raw performance data.

This report focuses on the risks that we have found. For an overview of the risk score distribution showing the many areas we deemed risk to be low, see Appendix A.

South Staffs' reporting teams have been flexible at working remotely with collaboration throughout the process.

2. Scope and approach

South Staffordshire Water asked us to undertake combined process and data audits across a range of reporting data. Our assurance activities comprised:

- Audits of 22 out of the 30 Performance Commitments contained in Ofwat's Final Determination and reported in Part 3 of the APR. The calculation of any rewards or penalties was outside the scope of our audit.
- Audits of selected data reported in Parts 4 – 9 of the APR.

The following data were in scope.

Audit	Scope
Abstraction Incentive Mechanism & Biodiversity	PC: Environmentally sensitive water abstraction – 3A – C5 Line 10 PC: Protecting wildlife, plants, habitats and catchments – 3A – C7 Line 11
Average pumping head	Average pumping head – raw water abstraction – 5A – Line 23 Average pumping head – raw water transport – 6A – Line 6 Average pumping head – water treatment – 6A – Line 31 Average pumping head – Treated water distribution – 6B – Line 28
Carbon emissions & energy consumption	PC: 3E – C8 Line 8 11A Lines 1 – 38 – Operational greenhouse gas emissions 6B Line 27 – Energy consumption – treated water distribution (MWh) 5A – Line 24 – Energy consumption – water resources (MWh) 6A – Line 7 – Energy consumption – raw water transport (MWh) 6A – Line 32 – Energy consumption – water treatment (MWh)
CMEX & Complaints	PC: 3C – A1 Lines 1– 8 CCW complaints data
CRI (ODI) & ERI	PC: 3A – D1 Line 1 6C – Lines 22– 23 Compliance Risk Index & Event Risk Index
Distribution input	No line reference. This is a component of the water balance.
D-MeX	PC: 3D – A2 Lines 1– 5, 3D.W1– 28
Education activity	PC: 3A – 3 Line 9
Financial flows – table 1F	Process review only. Table 1F – review of the calculations and outputs from financial flows model and consistency with final data table. Table 4C (Impact of price control performance to date on RCV). LTVS assurance – review of the basis and logic of the scenarios tested.
Financial support	PC: 3A – B1 Line 7
GHG Historical Submission	Table 11A – Lines 1 – 48 All years 2018– 19 through 2021– 22.
Mains lengths, profiles, CPs	Total length of raw water abstraction mains and other conveyors – 5A – Line 22 Total length of raw water transport mains and other conveyors – 6A – Line 5 Water network+ – Mains, communication pipes and other data – 6C – Lines 1 – 21
Mains repairs	PC: 3A – D4 Line 5

Audit	Scope
Production operational data	Water resources asset and volumes data – 5A Lines 1 – 21 Raw water transport, raw water storage and water treatment data – 6A Lines 1 – 5, 13 – 28 Treated water distribution – assets and operations – 6B Lines 1 – 3, 12– 26
Properties & population	4R Lines 1 – 32
PSR & Extra Care	PC: Priority services for customers in vulnerable circumstances– PSR reach – 3E – B4 Line 2 PC: Priority services for customers in vulnerable circumstances– Attempted contacts – 3E – B4 Line 3 PC: Priority services for customers in vulnerable circumstances– Actual Contacts – 3E – B4 Line 4 PC: Extra Care Assistance – 3A – B2 Line 8
Risk of severe restrictions in a drought	PC: 3E – D3 Line 1 5A Line 29 – Water resources capacity
Supply interruptions	PC: 3A – D2 Line 2
Unplanned outage inc. PWPC	PC: 3A – D5 Line 6
Visible leak repair time	PC: 3A – D7 Line 13
Voids and gap sites	PC: 3A – E2 Line 15
Water balance (leakage & PCC)	Leakage (SST) – 3A – C1 Line 3 Leakage (CAM) – 3A – C2 Line 3 PCC (SST) – 3A – C3 Line 4 PCC (CAM) – 3A – C4 Line 4 RAG compliance – old methodology 22/23 number Treated water distribution – assets and operation – 6B – Lines 4 – 11, 29– 32 6A – Lines 33– 36 – Water treatment 5A – Lines 25– 28 – Water resources 6A – Lines 8 – 11 – Raw water transport
Water Quality Customer Contacts	Reporting process only
Water treatment works delivery programme*	PC: 3A – D8 Line 14

* In accordance with South Staffs' request we provided a separate report on the water treatment works delivery programme Performance Commitment. We found that this measure was low risk.

We used the same audit approach as for our work to assure South Staffs' APR 2021-22 data. We reviewed the processes, procedures, systems, data and analysis in place to gather and report Performance information in line with the prescribed definitions from the Regulatory Accounting Guidelines (RAG 4.11) and South Staffs' PR19 Final Determination.

We read South Staffs' documented procedures and methodologies which describe the data sources, systems and processes in place. We held audit meetings with the data owners in which they demonstrated the methodology and answered our questions about the process. We sample checked data and traced it back to source to confirm that the stated processes were being followed and that internal checks were in place to verify the information.

We applied the following 11 audit tests for each data audit. The result of our approach is a risk–based assessment of A, B, C or D, with A being low risk and D being high risk for each test (see Section 3.3).

1. Is the methodology compliant with external requirements including compliance with definitions from final determination and RAG 4?
2. Is the methodology adequate to provide reliable data, including assumptions?
3. Are the data stated in the tables supported by audit trails which are reliable, accurate and complete?
4. Have any changes to the methodology been signed off?
5. Does the reporting process include sufficient opportunity to challenge classifications and exclusions?
6. Have findings from internal checks and assurance been addressed?
7. Have the recommendations been addressed from the previous audits?
8. Have changes from trends in previously-reported data been adequately explained? Required for data audits only.
9. Is data for publication in the correct format (e.g. hard coded with correct level of rounding as specified in the final determination appendix / Ofwat table)? Required for data audits only.
10. Is the commentary accurate and suitable for publication? Required for data audits only.
11. Does data combine South Staffordshire Water and Cambridge Water appropriately?

We also provided other observations and comments which did not fit into these categories.

3. Observations and findings

3.1 Identification of risks for Audit Committee attention

We regard the following as potentially meriting attention by the Audit Committee:

- Common themes across the audits.
- Audits with findings rated medium to high risk or high risk.

Full details of our findings for each audit including lower-risk items have been set out in the individual feedback documents provided to the Regulation team after each audit.

3.2 General observations and common themes

The cyber security incident which occurred in August 2022 has presented challenges for South Staffs' reporting this year. Several teams informed us that they had difficulty obtaining the data for their lines but that they were able to find alternative ways to complete the data. For example, the six missing monthly figures for Properties and Populations were interpolated and are in line with previous trends. The overall effect of the cyber security incident on the quality of reported data is small. The leakage and supply interruptions teams reported that the incident might also have had an effect on performance through preventing them from having time to implement initiatives.

The audit plan was to complete work by 9th June, with most audits planned to be completed by the end of May. However, in part due to the cyber incident and staff changes, several of the audits slipped back in the timetable and approximately half of our work was completed in the first two weeks of June. The Average Pumping Head, Carbon and Energy and Historical Greenhouse Gas data audits were completed in July. The delays did not affect the quality of our audit work, but it reduced the ability of teams to respond to our findings in a timely way.

Most line owners applied our recommendations from last year.

For some data the detail and quality of documented methodologies is still not sufficient. Voids and Gap Sites does not have a written methodology at all, and several areas have methodologies which are not sufficient to allow handover of the reporting process. We recommend that the writing of high-quality methodologies is prioritised to mitigate the adverse effects of changes in staff.

We traced data back to source on a sample basis in almost all audits. Exceptions to this are detailed in this report. Where we found issues indicative of problems with the methodology these were mostly addressed by the teams promptly. Where this was not the case it is highlighted in this summary report.

We found very few issues with methodological alignment across the two regions, which were in leakage and water quality customer contacts. This is an improvement on previous years, when more lines had divergent methodologies for the two regions.

There was variation in how teams approached the writing of commentaries, with some providing detailed slide decks, some providing a few lines suitable for publication to Ofwat, some relying on the Regulation Team to write the commentary, and some having little awareness of the need or benefit of commentaries. We recommend that expectations for commentaries are set out and communicated to all reporting teams, including when they are required and what form they should take.

We did not witness the final completion of the Ofwat data tables as this was out of our scope. We recommend that in future years this is added to our scope.

3.3 Explanation of risk ratings

We provide an opinion on reporting risk. An elevated risk rating of medium to high or above does not necessarily indicate that the reported figure is incorrect. An item can also be medium to high risk or above if, for example, we identified a latent weakness such as complete lack of a documented methodology or a reporting failure which did not appear to influence the final number but which could have done.

Our assurance is risk and sample based and intended to complement South Staffs' own internal assurance. Our findings should be considered alongside the findings of South Staffs' own internal governance processes.

Our risk ratings are shown in Table 1.

Table 1 Summary of scoring framework for our assurance

Score	Definition
A	Low risk – no weaknesses in the methodology and no weaknesses or deviations from methodology in production of data.
B	Low to medium risk – no material weaknesses in the methodology and no material weaknesses or deviations in production of data.
C	Medium to high risk – material weakness in the methodology (or number of minor ones with material effect) and material weakness or unjustified deviations (or number of minor ones with material effect).
D	High risk – multiple material weaknesses in the methodology and material weakness or deviation (or number of minor ones with material effect).
I	Incomplete – we did not form an opinion of risk.
-	Not applicable – the test did not apply for this audit.

3.4 Performance Commitment audits with elevated risk findings

South Staffs has adopted definitions for two Performance Commitments which are different to those in the Final Determination. The non-compliant definitions for these Performance Commitments (Financial Support and Risk of Severe Restrictions in a Drought) have persisted since the start of the AMP.

- The Financial Support performance has been calculated using two schemes which have not been approved for inclusion by Ofwat and CCW and therefore the performance South Staffs proposes to report is not aligned to the Final Determination definition.
- Risk of Severe Restrictions in a Drought has been estimated as zero, which is not aligned to the reporting guidelines. The Regulation team has explained that this is in line with how the performance baseline was calculated.

C-MeX and Voids and Gap Sites are subject to latent risks which do not appear to have affected the reported figures this year.

Table 2 Performance commitments rated medium to high risk and above

Risk	PC	PC Code	Summary of audit findings
C	**C-MeX**	A1	Since the introduction of the new billing system, an error in the automated report is causing a proportion of contacts to be flagged as not coming from a customer when they in fact could be. Therefore, the proportion of contacts

Risk	PC	PC Code	Summary of audit findings
			excluded from the Customer Service Survey submission is too high. We looked at the categories of contact affected and could see no evidence that these would be disproportionately dissatisfied customers, therefore there is no reason to believe that the Customer Service Survey score will have been artificially inflated by this issue. In addition to this, cross checks and sign off of the derivation of this data were not sufficiently documented.
C	**Financial Support**	B1	The performance data have been reported in accordance with the guidance, except that CCW and Ofwat approval to add the DWP and Step Change Referral schemes has not been obtained. This is a continuing issue from previous years this AMP. We were not able to trace the number of customers supported on a financial year basis back to source data because of the change in billing system from Rapid to Aptumo. As well as these issues, we recommended improvements to the methodology including to document internal data checks and version control.
C	**Risk of Severe Restrictions in a Drought**	D3	The reporting approach for Risk of Restrictions in Severe Drought does not align with the reporting guidelines. As reported, the calculation assumes that all planned interventions to reduce risk have been implemented. These interventions have not been completed so the risk is greater than the zero reported. We understand that it is reported in this way because this is how the baseline was calculated.

3.5 Other audits with elevated risk findings

We did not find any other data issues rated medium to high risk or above. Average Pumping Head data have been reported reliably but for the Cambridge region the reporting process is complex, insufficiently documented and reliant on a single knowledgeable individual, so there is a risk for reporting in future years.

There is a risk to Carbon and Energy and the Historic Greenhouse Gas data reporting in future years because the team is new and inexperienced, and there is a need to build reporting capability. We considered that the data were reported reliably this year.

4. Statement of Assurance

In this report we have recorded our scope and approach and noted the areas we have identified as medium to high or high risk.

Within our scope, other than where indicated in our findings:

- The reporting methods used are in line with Ofwat's guidance.
- The data are substantially supported by reliable, accurate and complete audit trails.
- Data have been obtained from suitable sources.
- Data have been appropriately combined between the two regions.

Appendix A. Supplementary information

Performance Commitments not in scope

We did not audit the following PCs:

Table 3 Performance Commitments out of audit scope

	AMP7 PC Code	Performance Commitment Title
1	PR19SSC_A3	Retailer measure of experience
2	PR19SSC_C6	Supporting water efficient house building
3	PR19SSC_E1	Bad debt level
4	PR19SSC_E3	Employee engagement
5	PR19SSC_E4	Treating our suppliers fairly
6	PR19SSC_F1	Trust
7	PR19SSC_F2	Value for money
8	PR19SSC_NEP01	Delivery of Water Industry National Environment Programme requirements

Distribution of risk ratings

Table 4 overleaf shows the ratings for each finding for our scope.

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Table 4 Distribution of risk ratings

Audit	Methodology compliance	Reliability of methodology	Completeness of audit trails	Methodology change control	Classifications and exclusions	Internal checks and reviews	Previous audit findings	Deviation from trend	Data format	Commentary	Alignment between company areas	Other observations	Summary
AIM & Biodiversity	A	A	A	A	A	B	A	B	A	B	A	A	A
Average pumping head (CAM)	A	B	A	B	A	B	B	A	B	A	B	C	B*
Average pumping head (SSC)	B	B	B	B	A	B	B	B	B	A	B	A	B
Carbon emissions & energy	B	B	B	B	A	B	A	A	A	B	A	C	B*
CMEX & Complaints	B	B	B	A	C	B	B	A	A	A	A	-	C
CRI (ODI) & ERI	A	A	A	B	A	B	B	A	I	A	A	A	B
Distribution input	B	B	A	A	B	B	B	A	A	A	B	B	B
DMEX	A	A	A	A	A	A	A	A	A	A	A	A	A
Education activity	A	B	A	A	A	A	A	A	A	A	A	A	A
Financial flows - table 1F	A	A	B	-	-	-	-	A	A	-	A	B	B
Financial support	C	B	C	B	B	B	B	B	A	A	A	B	C
GHG Historical Submission	B	B	B	B	A	B	A	A	A	B	A	C	B*
Mains lengths, profiles, CPs	B	B	A	B	B	A	A	A	A	A	A	A	B
Mains repairs	A	B	B	A	B	A	A	A	I	A	A	A	B
Production operational data	B	B	B	B	B	A	B	A	B	B	A	A	B
Properties & population	B	B	B	A	A	A	A	A	A	A	A	A	B
PSR & Extra Care	B	B	A	B	B	B	B	B	A	B	A	B	B
Risk of severe restrictions	C	I	I	I	I	I	I	I	I	I	I	C	C
Water Resources Capacity	A	A	B	A	A	B	A	A	B	A	A	A	B
Supply interruptions	A	A	A	A	A	A	A	A	A	A	A	A	A
Unplanned outage inc PWPC	B	B	B	A	A	A	B	A	A	B	A	A	B
Visible leak repair time	A	B	A	A	B	B	A	A	A	A	A	A	B
Voids and gap sites	B	A	A	A	A	B	B	A	A	A	A	A	B
Water balance (leakage & PCC)	B	B	A	A	A	A	B	A	A	B	B	A	B
Water Quality Contacts	A	A	A	A	A	A	A	A	A	A	B	A	B
WTW delivery programme		*Not applicable*											A

*These audits identified risks which could affect reporting in future years.

Our response to Jacobs' technical assurance report

Our technical assurer, Jacobs, is tasked with reviewing our processes and audit trails for a range of performance commitments and other tabular reporting data in the APR submission, to identify any risks with our processes that could compromise the robustness of reported data.

We are grateful to Jacobs for the rigour with which it conducts its assurance; its feedback each year helps us strive for process improvement and helps ensure our high standards of reporting do not slip. As a smaller company that sometimes experiences resource constraints, we try to empower our employees to take ownership of data and processes to which they are assigned.

However, in some cases this can mean that risks are identified by our third party assurer on some data. While we clearly hope that audits run smoothly in all cases, we still very much see identification of risks by Jacobs as a valuable outcome of our assurance and shows the process has continued to offer value in improving the robustness of our reporting, which is our overall goal.

Financial support

Jacobs expressed a potential risk that the Ofwat PR19 final determination definition for the performance commitment PR19SSC_B1 (Financial Support) does not explicitly list all the types of support we offer customers, which we count within this measure. The Ofwat definition states that we should liaise with CCW when any new support measures are added.

However, we can be clear in stating that we have not added in any new support measures into this performance commitment since our Assure tariff in 2016, and that the measures we include have been unchanged since this time and were those on which our PR19 performance commitment were based. Primarily due to the huge success of our Assure social tariff, we are significantly outperforming our performance commitment for financial support, and we are extremely pleased with the level of help we are able to offer customers both in this measure and through our Priority Services Register (PSR) offerings, which we have accelerated significantly since 2020.

C-MeX and complaints data

We implemented a new billing system in February 2023 and, as part of this, we migrated all customer data and reporting over to the new system and new reporting tools. As part of this process, a selection of data related to customer contacts was incorrectly excluded. A manual workaround has been applied for 2022/23 reporting, so the missing contacts are included in the data. Going forward, a report update is required to ensure the missing criteria are captured, which we are actioning currently.

Risk of severe restrictions in a drought

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

Succession planning and methodology production

As well as data audits, Jacobs' wider role in our audit process is to examine wider and longer-term reporting risks. We have been extensively working on improving written reporting methodologies over recent years, making substantial progress. However, during their audit work Jacobs identified a small number of areas where these can be improved, and we will work towards these goals further in 2023/24. There are also some areas where we have had substantial turnover of staff in 2022/23, and while this did not impact the final data, it did in some cases delay the audit processes as we worked to ensure the new teams had sufficient time to understand the processes they had adopted. The specific areas highlighted by Jacobs will be addressed this year, and Jacobs has confirmed that the data is still reliable.

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

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

Opinion

We have audited the sections of South Staffordshire Water's Annual Performance Report for the year ended 31 March 2023 ("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), the financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of grants and contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H), the revenue analysis & wholesale control reconciliation (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), residential retail social tariffs (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited the Outcome performance tables (3A to 3I) and the additional regulatory information in tables 4A to 4W, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10E and 11A.

In our opinion, South Staffordshire Water PLC's Regulatory Accounting Statements have been prepared, in all material respects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.14, RAG 4.11 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement (as defined in RAG 3.14, appendix 2), set out on page 49.

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

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement, as defined in RAG 3.14, 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. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP 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 [xx] to [xx] have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK GAAP. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter

Conclusion relating to going concern

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

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

- We confirmed our understanding of the Board's going concern assessment process and engaged with management to ensure key factors were considered in their assessment. Management have performed their going concern assessment to 31 March 2025, being the end of the AMP 7 cycle.

- We obtained the Board's going concern assessment, including cash flow forecasts, liquidity requirements and forecast covenant calculations and tested these for arithmetical accuracy. The Board prepared "base case" and "downside case" cash flow forecast models and forecast covenant calculations.

- We engaged our specialists to assess the ability of the Company to raise additional finance and to assess the status of the ongoing discussions with existing lenders.

- We discussed and challenged the potential legal and regulatory costs associated with the cyber-attack, including the quantum and timing thereof, and the associated legal processes available to management with management's external specialists. We also critically evaluated whether the legal process outlined by management's external specialist was within the control of management.
- We considered the appropriateness of methods used to calculate the cash flow forecast models and forecast covenant calculations and determined, through inspection of the methodology and testing of the calculations, whether the methods used were appropriate to make an assessment for the Company. We also confirmed the arithmetical accuracy of management's scenarios. Where applicable, we corroborated data used in the scenarios to appropriate third party support.
- The Company has an agreed business plan with Ofwat for the five-year price period from 1 April 2020 to 31 March 2025, setting out the basis of allowed tariff changes. We have compared the key assumptions in the company forecasts to the agreed business plan for consistency.
- We have tested key assumptions in the Board's scenarios including revenue growth, operating cost inflation including chemical and energy costs, capex and IRE programme spend and future cash outflows related to claims associated with the cyber-attack by comparing to the work performed as part of our audit.
- We have validated the maturity dates and covenant requirements of the Company's facilities assumed in the models to facility agreements.
- We obtained the Board's forecast covenant calculations for facilities assumed in the models. We tested inputs into the covenant forecast calculations back to the base case and downside scenarios to identify whether there were any forecast covenant breaches in the GC review period.
- We performed sensitivity analysis on the downside scenarios assuming a severe but plausible level of payment of regulatory penalties and civil claims related to the cyber-attack and no additional financing during the going concern period. This assessment included consideration of mitigating factors within the control of the Company which include the ability to reduce dividend payments, defer expenditure and follow a legal process that would take a significant amount of time and extend payment of civil claims well beyond the going concern period.
- We read the Company's going concern disclosures included in the Regulatory Accounting Statements in order to evaluate whether the disclosures were appropriate and in conformity with the applicable reporting standards.

Our key observations

A key assumption in the forecast and severe, but plausible downside scenarios is the quantum and timing of legal and regulatory costs arising from the cyber-attack. The Directors believe that, should such costs be significantly greater than those assumed in the downside scenario, the legal process would take a significant amount of time and extend well beyond the going concern period. The Directors are confident this would allow the Company to raise sufficient additional funds.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern over a period to 31 March 2025.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Other Information

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

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

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 34, 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 statements as defined in RAG 3.14, appendix 2).

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

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

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

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

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

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

We obtained an understanding of the legal and regulatory framework[s] that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WRSA, UK Companies Act, pensions legislation, tax legislation etc]; and

- do not have a direct effect on the Regulatory Accounting Statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence, regulatory solvency requirements and environmental regulations

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

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

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

- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC and WSRA.

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

Use of this report

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

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2023 on which we reported on 20 July 2023, 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.

Ernst + Young LLP

Ernst & Young LLP

24 July 2023

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