Portsmouth Water Limited

Preliminary results for the year ended 31 March 2019

Portsmouth Water Limited, a supplier of water to Hampshire and West Sussex, announced its results for the year to 31 March 2019.

Company Number: 2536455

Highlights

- Lowest bills in the industry with an average bill of £103, against an industry average of £190
- Lowest level of written complaints in the industry
- RoSPA Presidents Award winner for the fifth successive year
- Significant customer engagement to shape future plans, with views invited from over 10% of our customers
- Submission of our PR19 Business Plan to Ofwat
- Significant progress made with our Havant Thicket Winter Storage Reservoir Plans

Turnover

£42.2m

Adjusted cash generated from operations[1]

£11.8m[1]

Capital expenditure

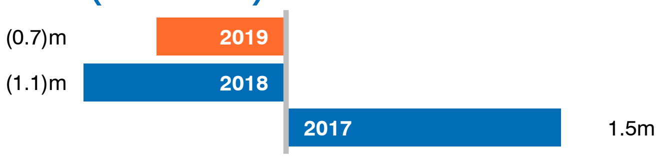
£14.8m

Operating profit[2]

£7.9m[2]

(Loss)/profit before tax

£(0.7)m



[1]*After adjusting for cash movements relating to sale proceeds (note 31)*
[2]*Before loss on disposal of fixed assets and before other exceptional items*

Chairman's Statement

I have great pleasure in presenting the Annual Report and Accounts for what has been a busy and important year for the business. Much of the business' focus has been on preparing for the next 5 year regulatory review period 2020-25. This has included both the significant work needed to submit the Company's Business Plan and in preparing to deliver the stretching performance challenges that we have committed to. We have also undertaken important planning activity supporting the development of Havant Thicket reservoir project. This has included extensive environmental survey work and the commencement of habitat mitigation work.

During the year we also saw the retirement of two executive Directors – Neville Smith our Managing Director and Rod Porteous our Engineering Director – and a Non-executive director – Heather Benjamin. I should like to take the opportunity, on behalf of the Board, to thank Neville, Rod and Heather for their significant contribution to the business. We also welcomed Bob Taylor who was appointed as CEO in January 2019, after originally being appointed as Engineering Director in November 2018 and Mike Coffin as a Non-executive director.

Operationally we have continued to deliver excellent customer service, the lowest household bill in the country and a solid financial performance. We have invested an additional £2m during the year to improve our leakage position and I am pleased to report that this has shown positive results – delivering a significant reduction in leakage during the year.

Our Customers

We were pleased to continue our excellent customer service record, being ranked second for customer satisfaction in the Independent Service Incentive Mechanism (SIM) survey conducted for Ofwat. The survey contributes 75% of the overall SIM score, with the remainder relating to quantitative measures such as complaints and supply interruption. We are members of the Institute of Customer Service who conducted a satisfaction survey of our customers for the second time this year which, once more, produced a strong score. The number of complaints per 10,000 households is exactly the same as 2017/18 at 10.3, less than half the industry average. We were industry leaders last year and it is likely this will be the same this year.

Through our social tariff, for those customers with low household incomes, we continue to support those who have genuine difficulty paying bills. In the year we signed up an additional 1,600 customers, which was ahead of our target. This is part of our range of services to assist those in society that need help or support.

In the fourth year of the current regulatory period, we achieved all but three of our Outcome Delivery Incentives (ODI's). Water quality contacts for colour, taste and appearance was over our target, but at a level which is the lowest in the Industry. Per capita consumption at 153l/h/d has, unfortunately, continued to increase and was adversely impacted by the long, dry summer in 2018. With a low level of meter penetration at 32% and an inability to compulsory meter customers, we have an increasing challenge to influence customer behaviours in relation to water usage. This will be an area where we will face challenges in the next regulatory review period and we are currently developing an innovative strategy to influence a reduction in water use by customers.

Finally it was disappointing that in the early part of the year we had three accidents causing an individual to be off work for over 7 days. We reinforced health and safety messages and procedures as a consequence and had no further such events in the year.

We continue to work with local developers to understand both their expectations and their experience of working with us. In our annual developer survey 95% indicated they were satisfied with our performance.

Our Infrastructure

Over many years we have invested in the resilience of our infrastructure and have a robust network of pipes and treatment works. We are able to move water across our region through a central spine and we are capable of providing water from more than one source to almost all of our customers. This year we replaced or repaired 20km of pipes at a total cost of £4.4m. A further 12km of new pipes were also delivered.

We have continued to focus on improving leakage levels. We invested an incremental £2m during the year to improve leakage detection and we committed to a challenging 20% reduction in leakage during the next regulatory period.

Planning and preparation work for the delivery of a new winter storage reservoir at Havant Thicket commenced with an investment of £2.4m. This reservoir will support the resilience of the region and enable a bulk supply of water to be provided to our neighbour – Southern Water.

We had a significant increase in spend on "non-infrastructure" assets of £2.5m. We also replaced the membrane filters at 3 of our plants at a cost of £0.8m. We began work to develop plans to install eel screens at our river Itchen works to protect eels under the EU habitats directive.

Our Business

We have committed significant resource to preparation and submission of the PR19 Business Plan. Our broad PR19 strategy leverages the Company's strong water resources position with plans to deliver increasing volumes of bulk water supply to our neighbouring water company, Southern Water. This will be delivered through an ambitious combination of reduced leakage, lower demand and the development (over 10 years) of the new water resource: Havant Thicket Winter Storage Reservoir. We have committed to a range of stretching service levels to customers including a 20% reduction in leakage, increasing support for vulnerable customers and lower interruptions to water supplies. We will deliver this for a lower bills at £97 in today's prices. Customer acceptance levels of our Business Plan, at 84%, was extremely high.

Our People

We were delighted, for the fifth consecutive year, to receive the President's Award from the Royal Society for the Prevention of Accidents (RoSPA). This recognises 13 consecutive years of winning 12 Gold Awards and one Industry Sector Award. Healthy and safety is our number one priority and we are immensely proud of this achievement.

This has been a busy year for our staff, achieving high levels of customer service, successfully improving our leakage position and preparing the PR19 Business Plan submission. On behalf of the Board I would like to thank our staff for the hard work and dedication that has made this possible.

Our Environment

During 2018/19 we continued our focus on the ambitious "catchment management" programme aimed at influencing land users to reduce the risk of nitrate pollution. As part of this work we began a collaborative European Union Interreg project to trial 'payments for ecosystems services'.

There were no restrictions to customer supplies in 2018/19. The very dry summer period resulted in a dip in groundwater levels to below the long-term average. Whilst levels recharged quickly over the winter, following a wet November & December, the exceptionally dry January caused another dip in groundwater levels. However, spring rainfall has once more recharged the aquifers and we end the financial year with groundwater levels slightly above the long-term average. We do not anticipate any restrictions to water supply over the forthcoming summer period.

We have also undertaken a range of activities throughout the year to support and enhance biodiversity including restoration of chalk grassland, removal of invasive non-native species and woodland management.

Financial Results

The results for the year show an operating profit of £7.9m (2018 - £6.5m) before exceptional items. These results benefited from £1.2m lower infrastructure renewals expenses. In addition Turnover grew by £1.7m primarily due to £0.8m higher measured supplies and £0.6m third party work (primarily developer services). Staff costs charged to the income statement fell by a total of £1.8m primarily due to Employee Benefit Trust payments made in 2017 which ceased following the sale of the business. These were offset by increased leakage control expenditure of £1.7m together with Business Plan professional fees (£0.5m) and higher power costs (£0.5m) driven by increased demand over the long dry summer.

Consistent with 2017/18 an exceptional item of £2.4m (2017/18 £3.0m) arose in relation to exceptional employer's NIC and related charges in connection with the distribution of the second tranche of sale proceeds to employees (see note 31).

Net interest payable of £7.4m (2017/18 £7.6m) fell slightly due to a small reduction in RPI.

The significant increase in gross capital expenditure of £14.8m (2017/18 £7.5m) reflects, the activities explained under "Our Infrastructure" above.

Cash flow

Cash generated from operations of £9.8m (2018 - £23.6m) remained consistent with long term out-turn. The 2018 position of £23.6m was positively impacted by £11.0m of atypical cash flow in connection with the sale of the business reflecting an adjusted balance of £12.6m.

The significant £6m increase in spend on purchase of tangible fixed assets was offset by an additional £7m of borrowing under the revolving credit facility.

Gearing

Gearing has been calculated on both an adjusted and unadjusted bases to reflect the atypical cash held at the year end of £9.0m (2018 - £11.0m) in connection with the distribution of proceeds from the sale of the business (note 31).

	2018/19 £m	2017/18 £m
Adjusted	**60.3%**	55.9%
Unadjusted	**66.3%**	63.6%

On both bases gearing has increased as a consequence of the growth in Capex (and associated borrowing) in the year.

Ratios

The cash interest cover ratio of 1.54 times (2018 - 2.20 times) remains comfortably above that required for the covenant of >1.4 times. At 6.06% Return on Regulatory Equity (RoRE) is consistent with expected out-turn. The 2018 position of 7.03% benefited from the gain generated on disposal of our non-household retail business.

Mike Kirk
Chairman
23 May 2019

Financial Performance

Gearing and liquidity

Net debt to regulatory capital value is a key covenant defined by the Company's loan documents. Gearing at 60.3% (2018 - 55.9%) increased as a result of slightly lower operating cash flow and higher capital expenditure. As explained in note 31, cash balances are positively impacted by £9m (2018 - £11m) of cash held in relation to the distribution of sales proceeds. After adjusting, to remove this atypical cash, gearing is 66.3% (2018 - 63.6%). Gearing remained comfortably within the 86% ceiling imposed by the bond covenants on both adjusted and unadjusted basis.

As a result of higher capital expenditure the Company increased the level of the revolving credit facility to £15m and utilised £10m of this at the end of the year. The £0.5m overdraft facility was unused at the year end. These facilities, both with Lloyds Bank, are used to manage day to day working capital and the expected working capital peaks driven, primarily, by the profile of spend in connection with significant capital programmes. They are renewable in May 2022 and annually respectively.

The Company is planning to raise additional financing during the year in order to meet working capital needs and support the planned capital investment programme for the remaining year and into the next regulatory review period.

Interest Cover

The interest cover ratio, defined by the covenants associated with Company's index linked loan, of 1.54 times (2018 - 2.20 times) remains comfortably above the 1.4 times covenant required.

Return on regulatory equity (RoRE)

RoRE, based on adjusted gearing, at 6.06%. (2018 - 7.03%) reduced slightly. 2018 RoRE reflected the benefit of the gain on disposal of the non-household business.

Review of trading performance

Operating Profit

Operating profit at £7.9m shows an increase on the prior period of £6.5m. This was offset by a number of one off costs and is discussed further below;

Revenue

Turnover of £42.2m (2018 - £40.5m) shows a £1.7m increase from 2018.

This increase is driven by a combination of new properties, increased measured demand and a modest tariff increase.

In total there were 2,153 new properties (1,979 household and 174 non-household). The wholesale tariffs increased by 2.2%. In addition the atypically long dry summer in 2018 drove increased measured income.

Revenue from the Southern Water bulk supply increased during the year and this offsets lower deferred meter reading income.

Finally, income from chargeable work to third parties grew by £0.6m. This primarily relates to work for developers.

Operating costs

Operating costs increased by £0.1m as a result of a number of net movements, the most significant of which are as follows;

Increased leakage detection costs of £1.7m together with £0.5m of Business Plan professional fees and £0.5m electricity costs (driven by increased demand) resulted in higher costs. These were offset by lower staff costs of £1.8m primarily due to cessation of Employment Benefit Trust (EBT) payments of £1.3m together with other lower infrastructure renewals charged to the income statement (£1.2m).

Other exceptional items

One exceptional item in terms of size and nature was charged to the income statement.

As a result of the distribution of sales proceeds to employees, which was deemed to be by virtue of their employment, an exceptional charge of £2.4m arose relating to employers national insurance contributions and apprenticeship levy. To offset this charge share capital and share premium of the same value was injected by our investors. This is explained further in note 31.

Interest payable & other finance income

Total interest payable for the period is £7.444m (2018 - £7.603m), with the slight decrease relating to the movement in RPI rates year on year. Other finance income is driven by net returns on the pension scheme asset of £0.762m (2018 - £0.346m) for the year.

Taxation

The tax charge in the period of £7k includes a prior year adjustment for current tax (credit) of £0.140m which has been offset by deferred tax charges of £0.147m.

The deferred tax charge is driven by a change in corporation tax rate which has been offset by R&D tax credits claimed.

Dividends

The dividends paid during the year totalled £3.1m (2018 - £1.1m). Dividends are paid up to the parent company with part of the payment being used to service interest payments on an inter-company loan with the balance being paid as a dividend to the Group's shareholders. It should be noted that, prior to the sale of the business, part of the distribution was paid to employees and therefore classified as employment costs. Thus in 2018 a further £1.3m distribution to employees under the EBT arrangement was included in staff costs. The Company's dividend policy was carefully reviewed following acquisition of the Group. It was agreed to implement a dividend policy consistent with that proposed for the PR19 Business Plan. This is based upon 5% of opening equity Regulatory Capital Value. The final dividend of £1.9m is proposed to be paid in August.

Capital investments

Gross capital investment in the year was £14.8m (2018 - £7.5m). Further information on the capital programme is set out in the Engineering Report on page 25.

Mains activity

	2018/19 **£m**	2017/18 £m
Renewals charged in the income statement	**1.6**	2.8
Mains capitalized	**2.8**	2.7
Total mains investments	**4.4**	5.5

During the year the Company renewed 7.9km of mains (2018 - 13.8km) at a cost of £1.6m (2018 - £2.8m) charged to the income statement. A further 12.1km (2018 - 16.8km), of new mains and enhancements to the network were capitalized at a cost of £2.8m (2018 - £2.7m).

Capital contributions

The Company receives capital contributions, primarily in connection with new mains for housing developments, which amounted to £1.4m (2018 - £1.1m). In accordance with the requirements of FRS 102 these contributions are deferred and amortised to the Income Statement.

A reclassification in the year of capital contributions received during 2018 from Southern Water (third party contribution) of £1.04m occured. This is in respect of the Hampshire Bulk Supply Asset.

Pensions

The Company is the principal employer of the Brockhampton Pension Scheme, a defined benefit scheme. The latest actuarial valuation as at 31 March 2018 was carried out in accordance with FRS 102 and shows a net pension asset (after asset ceiling restrictions and deferred tax) of £23.8m (2018 - £24.8m). The overall reduction in the surplus on actuarial valuation has largely been driven by the asset ceiling restriction as set out in note 25.

Income Statement

For the year ended 31 March 2019

	2019	2018
	£000	£000
Turnover	**42,161**	40,489
Cost of sales	**(23,111)**	(22,643)
Gross profit	**19,050**	17,846
Net operating expenses	**(11,124)**	(11,384)
Operating profit before loss on disposal of fixed assets and exceptional items	**7,926**	6,462
Loss on disposal of fixed assets	**(494)**	(16)
Exceptional items:		
Exceptional staff costs relating to sale of business	**(2,422)**	(2,988)
Gain on disposal of non-household business	**-**	1,843
Operating profit after loss on disposal of fixed assets and exceptional items and before interest	**5,010**	5,301
Investment income	**957**	841
Other finance income	**762**	346
Interest payable and similar charges	**(7,444)**	(7,603)
Loss on ordinary activities before taxation	**(715)**	(1,115)
Taxation of (loss)/profit on ordinary activities	**(7)**	(41)
Loss for the financial year	**(722)**	(1,156)

The accompanying notes form an integral part of these accounts.
The income statement has been prepared on the basis that all operations are continuing operations.

Statement of Other Comprehensive Income

For the year ended 31 March 2019

	2019	2018
	£000	£000
Loss for the financial year	**(722)**	(1,156)
Remeasurement of net defined benefit asset	**(1,170)**	16,602
Movement on deferred tax relating to pension asset	**199**	(2,822)
Total comprehensive (loss)/income for the year	**(1,693)**	12,624

Statement of Financial Position

For the year ended 31 March 2019

	2019 £000	2019 £000	2018 £000	2018 £000
Fixed assets				
Intangible fixed assets	**1,116**		1,674	
Investment properties	**325**		440	
Tangible fixed assets	**136,136**		126,936	
Investments	**55,484**		55,484	
		193,061		184,534
Current assets				
Investments	**2**		2	
Stock	**419**		608	
Debtors	**8,933**		8,164	
Cash at bank and in hand	**27,210**		26,744	
	36,564		35,518	
Creditors: Amounts falling due within one year	**(36,773)**		(31,080)	
Net current (liabilities)/assets		**(209)**		4,438
Total assets less current liabilities		**192,852**		188,972
Creditors: Amounts falling due after more than one year		**(106,709)**		(103,294)
Accruals and deferred income: Capital contributions		**(27,138)**		(25,493)
Provisions for liabilities		**(6,919)**		(6,764)
Net assets excluding pension asset		**52,086**		53,421
Pension asset		**23,782**		24,794
Net assets including pension asset		**75,868**		78,215
Capital and reserves				
Called up share capital		**1,078**		1,078
Share premium account		**6,949**		4,527
Capital redemption reserve		**3,250**		3,250
Profit and loss account		**64,591**		69,360
Shareholder' funds		**75,868**		78,215

The accompanying notes form an integral part of these accounts.

The accounts were authorised for issue and approved by the Board on 23 May 2019 and signed on its behalf by

H. M. G. Orton
Director

Company Number: 2536455

Statement of Changes in Equity

For the year ended 31 March 2019

	Called up share capital £000	Share Premium account £000	Capital redemption reserve £000	Retained earnings £000	Total £000
Balance as at 1 April 2017	1,078	1,539	3,250	57,826	63,693
Loss for the year	-	-	-	(1,156)	(1,156)
Remeasurement of net defined benefit asset	-	-	-	16,602	16,602
Movement on deferred tax relating to pension scheme	-	-	-	(2,822)	(2,822)
Effect of change to corporation tax rate on pension asset	-	-	-	-	-
Total comprehensive income for the year	-	-	-	12,624	12,624
New share capital/share premium issued	-	2,988	-	-	2,988
Dividends	-	-	-	(1,090)	(1,090)
Balance at 31 March 2018	1,078	4,527	3,250	69,360	78,215
Loss for the year	-	-	-	(722)	(722)
Remeasurement of net defined benefit asset	-	-	-	(1,170)	(1,170)
Movement on deferred tax relating to pension scheme	-	-	-	199	199
Effect of change to corporation tax rate on pension asset	-	-	-	-	-
Total comprehensive profit for the year	-	-	-	(1,693)	(1,693)
New share capital/share premium issued	-	2,422	-	-	2,422
Dividends	-	-	-	(3,076)	(3,076)
Balance at 31 March 2019	1,078	6,949	3,250	64,591	75,868

The retained earnings balance represents accumulated profits and losses, including unrealised profits on the remeasurement of investment properties, net of dividends paid and other adjustments. As at 31 March 2019 £64.418m (2018 - £69.072m) was distributable in accordance with company law and £0.173m (2018 - £0.288m) was not distributable.

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

The accompanying notes form an integral part of these accounts.

Statement of Cash Flows

For the year ended 31 March 2019

	2019 £000	2019 £000	2018 £000	2018 £000
Cash generated from operations		**9,797**		23,601
UK corporation tax refund/(paid)	-		494	
		-		494
Net cash inflow from operating activities		**9,797**		24,095
Cash flows from investing activities				
Purchase of tangible assets	**(13,896)**		(7,884)	
Purchase of intangible fixed assets	**(112)**		(83)	
Capital contributions received	**1,404**		1,120	
Sale of tangible fixed assets	**-**		36	
Interest received	**957**		840	
Net cash used in investing activities		**(11,647)**		(5,971)
Cash flows from financing activities				
Receipts from borrowings	**10,000**		3,000	
Repayment of borrowings	**(3,000)**		(4,000)	
Equity dividends paid	**(3,076)**		(1,090)	
Equity payment received	**2,422**		2,988	
Interest paid	**(4,030)**		(3,922)	
Net cash generated/(used in) financing activities		**2,316**		(3,024)
Net increase in cash and cash equivalents		**466**		15,100
Cash and cash equivalents at beginning of year		**26,744**		11,644
Cash and cash equivalents at end of year		**27,210**		26,744

Notes

1. The financial information included in this announcement as regards the Company has been prepared in accordance with United Kingdom accounting standards and does not constitute statutory accounts for the relevant periods within the meaning of Section 434 of the Companies Act 2006.

2. Statutory accounts for the Company for the financial year ended 31 March 2018, upon which the Auditors of the Company have given an unqualified report, have been delivered to the Registrar of Companies. Statutory accounts for the Company for the financial year ended 31 March 2019 will be delivered to the Registrar of Companies as soon as practicable after approval at the next Annual General Meeting.

For further information, please contact:

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